

**CDSSES 2020****IV International Scientific Conference "Competitiveness and the development of socio-economic systems" dedicated to the memory of Alexander Tatarkin****EXPERIENCE OF INSTITUTIONAL TRANSFORMATION IN THE FAR EAST**

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**Abstract**

This article examines whether the hopes for accelerating the Transbaikal Territory and the Republic of Buryatia development are justified in connection with the decision taken in 2018 to include them in the Far Eastern Federal district. This means that these regions became the subjects of an innovative institutional environment. For this purpose, an empirical analysis of economic growth dynamics, investment flows, and regional wage funds are being conducted from 2011 to 2018. It is time when the factors related to the development Program of the Far East and the Baikal region until 2030 have already started to work. It is shown that the dynamics is not always marked by significant positive changes that could be associated with the presence of the "Far Eastern preferences". A similar conclusion can be drawn concerning the legal income of citizens. Thus, we have no grounds to conclude that the Far East's institutional transformation during the period of high instability associated with economic shocks after 2014 played a positive role in terms of economic growth and welfare. However, the observed dynamics of investment in fixed capital and foreign direct investment in the Far Eastern border regions are more favorable than in the Baikal region. This factor leaves hope for a positive impact of the "Far Eastern status" for the Republic of Buryatia and the Transbaikal Territory.

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*Keywords:* Institutional innovations, investment, per capita income, regional development

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## **1. Introduction**

The inclusion of the Transbaikal Territory and Republic of Buryatia in the Far Eastern Federal district (FTFD) at the end of 2018 is assessed ambiguously by experts. This is caused by expectations of additional transfers from the Federal budget, and favorable investment conditions, the growth of the regional economies, and welfare (Izotov, 2017; Minakir & Prokapalo, 2018), contribute to the achievement strategic goals (Zubarevich, 2019). The prospects for participation in national projects also support these hopes. However, national projects are related to medium-term goals, and the corresponding plans are being developed until 2024. Even if a significant "breakthrough" can be achieved during this period, the stability of positive trends must create conditions for a long-term endogenous growth, including an institutional environment of appropriate quality. Therefore, it is doubtful that the inclusion in the FEFD "automatically" will bring fast and significant advantages.

## **2. Problem Statement**

The analysis proposed in this paper is intended to assess the comparative dynamics of development of the Eastern regions after 2011, after the formation of new development institutions in the Far East. Perhaps its results will make it possible to avoid, on the one hand, the repetition of old mistakes, and to show the necessary directions for institutional transformation in the future, on the other. The analysis was carried out not only for Republic of Buryatia and Transbaikal Territory, but also for Irkutsk Region, which is part of the Baikal region. It was important to make a comparison with the regions of the Far Eastern Federal district, which are located in more or less comparable socio-economic and natural-geographical conditions, so its Southern border regions were chosen: Amur Region, Jewish Autonomous Region, Primorye and Khabarovsk territories.

## **3. Research Questions**

In this paper we consider and analyse the level and dynamics of important indicators that reflected the character of regional development in 2011-2018: per capita GRP in the East of Russia; per capita investments in fixed capital; growth of the total number of employed population; legal income.

## **4. Purpose of the Study**

The purpose of the work is to conduct a quantitative analysis that would allow us to conclude how much the transformation of the institutional environment in the Russian Far East contributes to the successful development of regions.

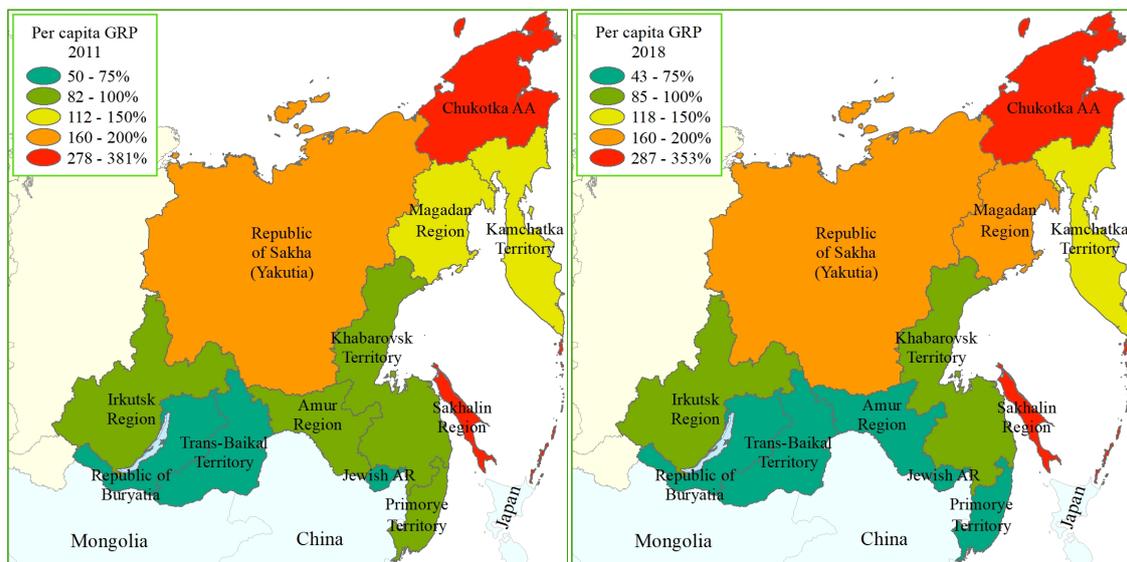
## **5. Research Methods**

The study was carried out using comparative analysis and economic and statistical methods based on free official statistical information from the Federal State Statistics Service (Rosstat) databases, the Federal Tax Service of Russia and the GIS technologies. In interregional comparisons and contrasts, all

the indicators are given in comparable prices, with 2011 as the base year. The presented indicators' calculations are performed using regional indices of physical volume of investments in fixed capital (FC investments), the indices of physical volume of gross regional product (GRP) and the Consumer price indices.

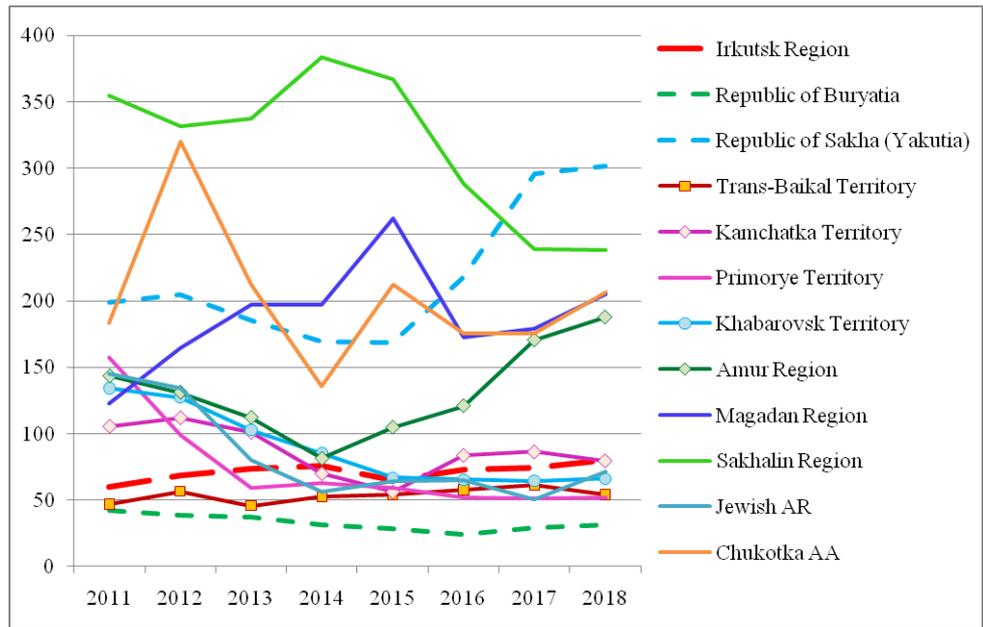
## 6. Findings

Russia's regions have been characterized by high differentiation in terms of gross regional product (GRP) since 1991. Figure 1 shows that the situation has not changed significantly over the period of 2011-2018. In the Southern regions in the East of the country (with the exception of Sakhalin Region), this indicator is consistently lower than the national average. With the average Russian growth of per capita GRP by 11.48% in 2011-2018, 5 Eastern border regions, as well as Buryatia and the Transbaikal Territory, are experiencing a recession. The decline in GRP in the Transbaikal Territory and Republic of Buryatia was 1.78% and 4.85%, respectively.



**Figure 1.** Per capita GRP in the East of Russia in 2011 and 2018, % of the national average

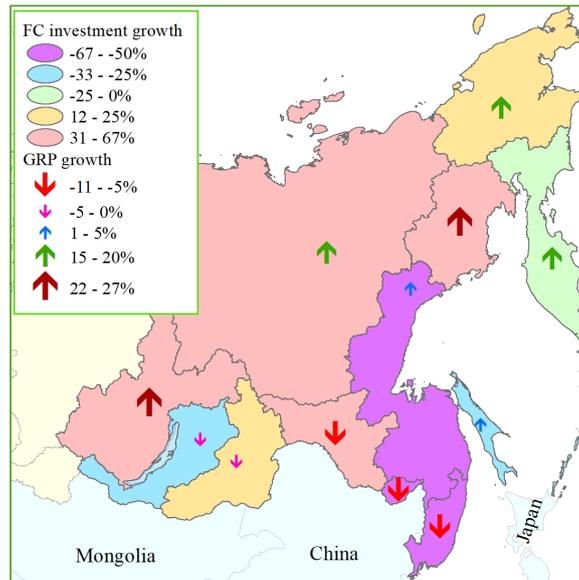
There is also the great difference between per capita investment in fixed capital (FC). Figure 2 shows that per capita FC investment in the Southern regions is significantly lower than in the Northern regions, with the exception of Sakhalin, where the lion's share is directed to the oil sector.



**Figure 2.** The per capita investments in fixed capital, thousand rubles / person, in 2011 prices

A comparative assessment of the dynamics of FC investment and GRP growth for the period of 2011-2018 is shown in figure 3. It shows that investment growth is not always accompanied by GRP growth. In the Transbaikal Territory, per capita investment increased, but in the same period there was a decrease in per capita GRP by 1.8%. Russia's GDP growth was slow, but still positive, despite the fact that in the period from 2011 to 2018. At the same time we are seeing an economic downturn in Republic of Buryatia, Transbaikal Territory and in all the border regions of the Far Eastern Federal district. The exception is Irkutsk Region, although it was practically not covered by the efforts of new development institutions and “Far Eastern preferences”, although the Baikal region as a whole was included in the scope of the “Program of socio-economic development of the Far East and the Baikal region”.

Despite the fact that the growth of the legal income of the working population (calculated by the authors according to the Tax Service of the Russian Federation on volumes of revenue personal income tax) in most regions is ahead of the national average, we cannot argue about improving the quality of life of the inhabitants of the Eastern territories of the country: in 2018 in 5 regions the level of legal income below the national average (75-95%). Significantly higher consumer prices and tariffs, which are growing at a faster rate than in the whole country, eliminate the relative nominal advantage of the Far East territories.



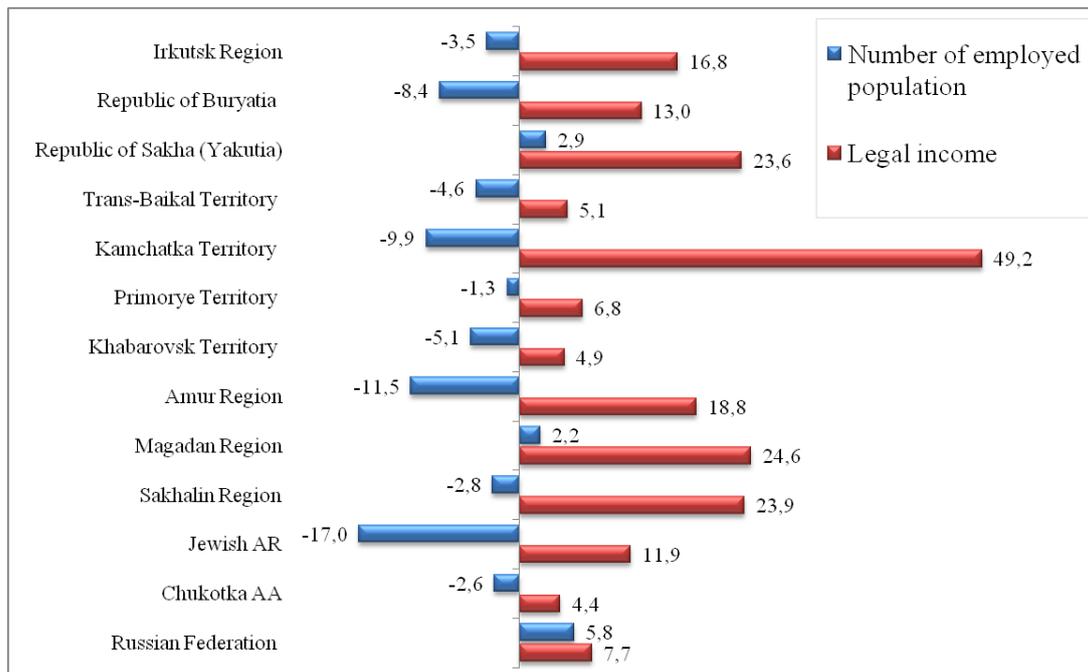
**Figure 3.** The growth of FC investment and GRP in 2011-2018, % to 2011

A more detailed analysis for the period of 2011-2016, including by industry, is presented in the articles (Antonova & Lomakina, 2020; Glazyrina et al., 2020; Kurbatova et al., 2019; Silvestrov et al., 2018). We can conclude that after 2016, when all the Southern regions in the East of Russia experienced a decline in the net income of citizens, the situation improved in 2018. However, the outflow of population has not stopped (Dets, 2019; Parfenova & Gurova, 2020; Shvorina & Faleychik, 2018). It seems that regional economies have already adapted to a certain extent to the new economic conditions after the shocks of 2014. However, the level of per capita GRP in the Eastern border regions has not yet reached the level of 2011 by 2018.

## 7. Conclusion

The results of our quantitative analysis show the presence of some positive processes from 2011 to 2018 in the “old” Far East that are ahead of the similar ones in the Baikal region. Partially it be explained by new development institutions and the specific Far Eastern investment conditions. However, there is no reason to explain this as a strong cause-and-effect relationship, because a number of development indicators of Irkutsk Region are no lower than the best ones in the Far East. The economy of this territory is historically more diversified and developed, and has significant oil sector. The conducted quantitative analysis shows that we have no grounds to conclude that the institutional transformation in the Far East during the period of high instability associated with the economic shocks after 2014 played a positive role in terms of economic growth and the welfare improvement. It is more reasonable to assume that the diversified economy of Irkutsk Region was more stable in relation to these shocks.

High rates of legal income during this period were achieved in the Kamchatka territory (+49.2%), Sakhalin region (+23.9%), Amur region (+13.8%), and Irkutsk region (+16.8%). At the same time, there is a continuing outflow of population in these regions: -9,9%, -2,8%, - 11,5%, -3,5% accordingly (figure 4). We see a population decline in 10 of the 12 regions under review over the period 2011-2018.



**Figure 4.** Growth of the total number of employed population and legal income for 2011-2018, %

However, the observed dynamics of investment in fixed capital and foreign direct investment in the Far Eastern border regions is more favorable than in the Baikal region, this factor leaves hope for a positive impact of the “Far Eastern status” for Republic of Buryatia and Transbaikal Territory. However, this requires a significant improvement in the quality of public administration institutions (North, 1990) and transformation from “extractive” to “inclusive” institutional environment (Acemoglu & Robinson, 2012; Libman, 2013; Natkhov & Polischchuk, 2018), taking into account trans-border challenges (Kolossoff & Scott, 2013).

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