The main drivers and dynamics of Russian regions development

Does business climate matter?

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Russia's economic development drivers: objective competitive advantages are the leading

**Objective competitive advantages**
- Resources (oil&gas, fertile soils etc.)
- Geographical location
- Human capital
- Agglomeration effect

**Institutions**
- Business climate
- State spatial policy
Does business climate matter for petro-state with "vertical" & authoritarian system of governing?

Russia's industrial output structure, %

- The main trend is the huge growth of fuel and electric power industries share
- Mechanical engineering share was halved

### Отраслевая структура производства (%)

<table>
<thead>
<tr>
<th>Year</th>
<th>Fuel</th>
<th>Metallurgy</th>
<th>Chemistry</th>
<th>Mec. Engineering</th>
<th>Electric Power</th>
<th>Others</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990</td>
<td>38.6</td>
<td>13.2</td>
<td>8.1</td>
<td>7.3</td>
<td>10.3</td>
<td>4.3</td>
</tr>
<tr>
<td>2014</td>
<td>40.3</td>
<td>21.9</td>
<td>10.3</td>
<td>6.2</td>
<td>13.2</td>
<td>7.6</td>
</tr>
</tbody>
</table>

- Fuel
- Metallurgy
- Chemistry
- Mec. Engineering
- Electric Power
- Others
Geographical location for most Russia's regions is disadvantageous. The big cities and rural population density.
Human capital: problems of depopulation and labor force shrinking due to the age structure (-8 mln people in working ages by 2025)
Russia's age structure 2015
Agglomeration effect matters! But institutional barriers for the big region's capitals are huge (low budget revenues and dependence on regional budget transfers)

Spatial structure of Russian population, %

Population
- cities 1 million more
- 500 thous.-1 million
- 250 – 500 thousand
- 100 – 250 thousand
- 50-100 thousand
- 50 thousand less
- small urban settlements
- rural settlements

Russia-1 big cities
- 31% (31-35%)

Russia-2 medium sized industrial cities
- 10

Russia-3 small towns and rural periphery
- 20
- 11
- 9
- 8
- 5
- 12

Population distribution:
- 31-35% for big cities
- 26% for medium sized cities
- 20% for small towns and rural areas
State policy priorities do not provide development
Total spendings (federal, regional, municipal budgets and off-budget funds),
% to GDP

Расходы бюджета расширенного правительства
по отдельным функциональным размерам

% ВВП
4,5
4
3,5
4
3
3,5
3
2,5
2,5
2
2
1,5
1,5
1
1
0,5
0,5
0
0

ИСТОЧНИК: РАСЧЕТЫ АВТОРОВ НА ОСНОВЕ ДАННЫХ ФЕДЕРАЛЬНОГО КАЗНАЧЕЙСТВА
* Предварительные оценки
Huge drop of direct foreign investment
Direct foreign Investment $ bln

2017 first half

TNK-BP / Rosneft

CNPC + ONGC
There are few developed regions in Russia

Dominance of semi-developed regions (2/3 of Russian regions)

GRP per capita (adjusted for prices differentiation), % to Russia average

Leaders
Sakhalin, Tumen, Moscow

More developed

Median group

Outsiders

1999
2008
2015
The new crisis socio-economic trends
Decline was rather slow and gradually turned into stagnation excepting population real money incomes
Dynamics to the same quarter of the previous year, %
The main problems of the new crisis

- Regional and federal budgets destabilization. Federal budget revenues strongly depend on oil prices unlike regional ones.
- Investment drop from 2013 till the second (-12%) 
- Real money incomes declain from the end of 2014 till now (-12%) and consumption drop (-15%) till first quarter of 2017
There is no "turn to the East" in the industrial development. Far East industrial output – 5% of Russia total, population share - 4.5%
Share of federal districts in the total Russia's industrial output 2016 г., %
Industrial output drop in 2015 has been replaced by slow growth in 2016-2017 nearly in the all regions

Regions industrial output dynamics Jan-Oct 2017, % (Russia total +0,9%)
Investment spatial share. Competitive advantages are the main factors. The share of Far East – only 7.5%.

Regions share in the total investment in Russia (Jan-Sept 2017), %
Investment drop -12% (2016 to 2013)
Leaders are the biggest agglomerations and the main oil&gas extracting regions

<table>
<thead>
<tr>
<th>Region</th>
<th>Dynamics, % 2016 to 2013</th>
<th>Dynamics, % 2016 to 2015</th>
<th>Share % 2016</th>
<th>Dynamics, % 2016 to 2013</th>
<th>Dynamics, % 2016 to 2015</th>
<th>Share % 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Russia total</td>
<td>-11,7</td>
<td>-0,9</td>
<td>100</td>
<td>North-West Federal Dist.</td>
<td>-9,0</td>
<td>8,3</td>
</tr>
<tr>
<td><strong>Center Federal District</strong></td>
<td>-5,6</td>
<td>-1,3</td>
<td>25,9</td>
<td>St-Petersburg</td>
<td>1,8</td>
<td>12,4</td>
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<tr>
<td>Moscow</td>
<td>2,4</td>
<td>0,7</td>
<td>11,6</td>
<td>Leningrad region</td>
<td>-19,1</td>
<td>11,6</td>
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<tr>
<td>Moscow region</td>
<td>-14,5</td>
<td>-2,8</td>
<td>4,3</td>
<td>Komi Republic</td>
<td>-12,8</td>
<td>12,8</td>
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<tr>
<td>Voronezh region</td>
<td>8,4</td>
<td>0,1</td>
<td>1,9</td>
<td>Siberia Federal District</td>
<td>-23,2</td>
<td>-4,2</td>
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<tr>
<td><strong>Urals Federal District</strong></td>
<td>5,5</td>
<td>8,8</td>
<td>18,7</td>
<td>Krasnoyarsk territory</td>
<td>-15,0</td>
<td>0,9</td>
</tr>
<tr>
<td>Yamal-Nenets aut.district</td>
<td>20,0</td>
<td>22,5</td>
<td>7,5</td>
<td>Irkutsk region</td>
<td>-4,4</td>
<td>17,5</td>
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<tr>
<td>Khanty-Mansy aut.district</td>
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<td>2,6</td>
<td>5,5</td>
<td>Kemerovo region</td>
<td>-43,0</td>
<td>-13,4</td>
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<tr>
<td>Sverdlovsk region</td>
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<td>-8,9</td>
<td>2,4</td>
<td>Novosibirsk region</td>
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<td>-18,9</td>
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<td>Tyumen region</td>
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<td>1,8</td>
<td>South Federal District</td>
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<td>Chelyabinsk region</td>
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<td>-15,3</td>
<td>1,3</td>
<td>Krasnodar territory</td>
<td>-62,6</td>
<td>-29,3</td>
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<tr>
<td><strong>Volga Federal District</strong></td>
<td>-15,6</td>
<td>-7,7</td>
<td>16,6</td>
<td>Rostov region</td>
<td>-12,7</td>
<td>-12,2</td>
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<tr>
<td>Tatarstan Republic</td>
<td>0,0</td>
<td>0,0</td>
<td>4,4</td>
<td>Volgograd region</td>
<td>4,5</td>
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<tr>
<td>Bashkortostan Republic</td>
<td>8,7</td>
<td>4,2</td>
<td>2,5</td>
<td>Far East Federal District</td>
<td>-11,1</td>
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<td>Samara region</td>
<td>-27,2</td>
<td>-21,7</td>
<td>1,8</td>
<td>Yakutia Republic</td>
<td>32,3</td>
<td>28,8</td>
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<tr>
<td>Perm territory</td>
<td>-27,1</td>
<td>-3,3</td>
<td>1,6</td>
<td>Sakhalin region</td>
<td>-5,8</td>
<td>-18,8</td>
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<tr>
<td>Nizhny Novgorod region</td>
<td>-38,6</td>
<td>-14,2</td>
<td>1,5</td>
<td>North Caucasus Fed.Dist.</td>
<td>-2,0</td>
<td>-3,7</td>
</tr>
</tbody>
</table>
Russia's authorities & business priorities

Crimea is the leader (share of budget investment - 80-85%)

Investment growth in Jan-Sept 2017, % to 2016
Money incomes dynamics:
2015 -4.1%, 2016 -5.6%, Jan-Sep 2017 -0.8%
Slowdown to 2010 level is painfull for population but not extremely
Real money incomes dynamics, %
Huge retail (consumption) decline till 2017
2015 -10%, 2016 -5%, Jan-Oct 2017 +0,8%
Retail dynamics 2016 to 2014, %
Inter-budgetary relations keep regions under federal control

Nearly half of the regions strongly depend on federal budget transfers

Transfers share in region's budget revenues, %

2016

2015

Center
North-W
South
N.Cauc
Volga
Urals
Siberia
Far East
There are only 6 regions with the big per capita budget revenues allowing spend money for the regional economy's support. Budget revenues per capita after transfers redistribution in 2016 (thous.rub.)
Can regional authorities govern with population support? No!

Attitude to governors is nearly 50:50

Levada center opinion polls, %
Conclusion

• The biggest problems for all Russian regions are the drop of population in the working ages, real money incomes and consumption decline and nearly total and deep investment reduction

• Priorities of the state spatial development policy (Far East, Northern Caucasus and Crimea) are implemented in transfers and federal budget investment but have weak effect on spatial development

• Only a few the most rich regions have big enough budget resources to support economic development

• Business climate influences regional development much more weaker compared with objective competitive advantages

• Regional development forecast is obvious – federal cities and the main oil&gas extracting regions will grow faster. Spatial inequality will grow due to the shrinking oil rent.