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To cite this article: Stephen K. Wegren, Alexander M. Nikulin & Irina Trotsuk (2015) Russia's tilt to Asia and implications for agriculture in the Far East, Eurasian Geography and Economics, 56:2, 127-149, DOI: [10.1080/15387216.2015.1066263](https://doi.org/10.1080/15387216.2015.1066263)

To link to this article: <http://dx.doi.org/10.1080/15387216.2015.1066263>



Published online: 24 Jul 2015.



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## Russia's tilt to Asia and implications for agriculture in the Far East

Stephen K. Wegren<sup>a\*</sup>, Alexander M. Nikulin<sup>b</sup> and Irina Trotsuk<sup>c</sup>

<sup>a</sup>*Department of Political Science, Southern Methodist University, 3300 University Blvd., Carr-Collins Hall, Rm 220, Dallas, TX 75275-0117, USA;* <sup>b</sup>*Russian Presidential Academy of National Economy and Public Administration, Moscow, Russian Federation;* <sup>c</sup>*Department of Sociology, People's Friendship University of Russia, Moscow, Russian Federation*

(Received 2 April 2015; accepted 22 June 2015)

As part of Russia's strategic tilt to Asia, Russian policymakers hope to increase food exports to the Asia-Pacific region. This article analyzes prospects for increasing Russia's penetration of Asian food markets by surveying initiatives to increase local food production in the Far East and efforts to attract investment into agriculture. Obstacles to increased market penetration are examined, including contradictory policy goals.

**Keywords:** Russian Far East; agriculture; Asia; strategic tilt; food exports

### Introduction

For the third time in the past 50 years, Russian policymakers have identified the Far East as a priority for development.<sup>1</sup> The first concerted effort to develop the Far East occurred from the 1960s to the 1980s. During this time, the Far East was transformed by the influx of labor and financial resources, but the region remained economically isolated from European Russia, a function of the Soviet planned economy (Greene 2014; Hill and Gaddy 2003). The second attempt was initiated in July 1986 when General Secretary Mikhail Gorbachev spoke in Vladivostok, where he urged a rapid development and modernization of the Far East (Gorbachev 1987, 9–34). The following year, the Central Committee of the CPSU approved a plan for the comprehensive development of the Far East, allocating R198 billion for the period 1988–2000 (Rogers 1990, 4). Gorbachev's plan to 2000 for development of the Far East was terminated, of course, by the collapse of the USSR in 1991. The 1990s were the lost years, characterized by corruption, economic decline, and out-migration from the Far East (Hanson et al. 2000, 226–250; Heleniak 2001, 137–148).

Russia's tilt to Asia received Western attention in the wake of the Ukrainian crisis, when Russia had to turn east to replace markets and financing that was shut off by sanctions. The reality, however, is that Russia's turn to Asia can be dated to 2008 (Mankoff 2015, 65–88). Since 2008, top policymakers have spoken about the development of the Far East as a national priority for the twenty-first century. Russia is especially interested in attracting Chinese investment in the Far East, just as it is doing in other regions. In the Trans-Baykal region in East Siberia, for example, China is investing more than R20 billion in agriculture (“Kitayskaya kompaniya” 2015). Economic

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\*Corresponding author. Email: [swegren@smu.edu](mailto:swegren@smu.edu)

development, it is hoped, will transform the Far East into a regional hub of technological and infrastructural development (Kozyrev 2014, 28). Russia's tilt is intended to take advantage of Asian capital and technology markets and its need for energy as well as to strengthen regional security.

The tilt also has importance for the agricultural sector. Gone is the Soviet period when the USSR imported massive amounts of grain from the West. Gone too are the 1990s that witnessed dependence upon Western food exports when domestic food production in post-Soviet Russia declined precipitously. Grain production reached a nadir in 1998 when the harvest was the worst since the 1950s. The consequence was that by the end of the 1990s, Russia required Western food aid to prevent mass hunger. When Vladimir Putin took office in 2000, Russia was still receiving food aid. Today, Russia is a major grain-exporting nation, exporting an average of more than 20 million tons of grain since the 2011/2012 agricultural year.<sup>2</sup> In normal harvest years, Russia ranks second or third annually in the world in wheat exports, trailing only the United States and Canada, and ahead of Australia. Fortunately for Russia, the 2014 harvest was so large (105 million tons after cleaning) that it was able to meet the requirements of the food security program, fulfill domestic demand, and have ample supplies for export. During the 2014/2015 agricultural year, Russia exported 28.7 million tons of grain by the end of May 2015 ("Podvedeny itogi" 2015). This level of export was reached, despite the introduction of a grain export tariff in February 2015. The tariff was intended to ensure that too much grain was not exported as a result of the decline in the ruble. The export tariff bolstered domestic food security (Wegren 2013), but was unpopular with grain exporters, who lobbied against the tariff because it complicated the fulfillment of futures contracts and cost them money.<sup>3</sup>

Asia represents a great opportunity as an export market for Russian food. As far back as June 2009, former President Dmitry Medvedev argued that an important priority for Russia's food policy is to "widen the geographical distribution of grain, including new markets in Southeast Asia" for which Russia's Far East would be a "corridor of development" ("O razviti" 2009, 3). Since returning to the presidency, Vladimir Putin has reiterated that the Asian food market is a strategic priority for Russia (APEC CEO 2013; "Meeting with Valdai" 2012; "Poslaniye Prezidenta" 2013). In early 2013, the Chairman of the Committee on Agro-Food Policy in the Federation Council, Gennadiy Gorbunov, stated that, "Russia is making and will make a significant contribution to stable deliveries of food to the markets of the Asia-Pacific region." (Gorbunov 2013, 2). In the September 2014 APEC (Asia-Pacific Economic Cooperation) meeting in Beijing, former Minister of Agriculture Nikolay Fedorov noted that food security was one of the key problems in the Asia-Pacific region, where nearly 60 percent of the global hungry reside. He argued for joint efforts by APEC members to innovate in agriculture, develop rural infrastructure, and create a wide base of cooperation in investment and the stimulation of food trade. Fedorov promised that Russia will make "maximum effort not only to fully meet our own needs in food, but also to help interested APEC economies" do the same ("Vektor" 2014).

Our purpose is to analyze the prospects for realizing greater market penetration for Russian food exports to Asia. The article addresses the following questions: (1) What are the trends that facilitate increased agricultural production in the Far East? (2) What are the obstacles that affect the prospects for success? Comprehensive modernization of the agroindustrial complex goes hand in hand with other economic development initiatives in Russia's Far Eastern federal district (Minakir 2014). The government's effort to improve agricultural performance in the Far East encompasses food production, foreign

investment, infrastructure, and other measures.<sup>4</sup> The premise is that increased local food production supports broader economic development, and that food exports from the Far East to Asia are cheaper than transporting food from other regions because of the great distance involved and bottlenecks in transportation. In May 2015, the Ministry of Transportation issued a statement that it preferred to see monetary subsidies for agriculture in the Far East, rather than a reduction in railway tariffs (“Podderzhat’ APK” 2015).<sup>5</sup>

### The strategic turn to Asia

One of Putin’s earliest actions upon election in 2012 was creating the Ministry for the Development of the Far East (Minvostokrazvitiya), which has offices in the city of Khabarovsk (the capital of the Far East federal district), Vladivostok (the largest city in the Far East), and Moscow. The ministry and its head, Alexander Galushka, are responsible for coordinating and implementing state programs and managing state property. Following up at the International Economic Forum held in St. Petersburg in June 2013, Putin said that Russia would boost its growth only if it redirected its exports to Asian markets (Bordachev and Kanayev 2014). The priority to develop the Far East is evidenced by the resources being directed to it. In 2013, the Russian Government approved a R100 billion annual allotment to develop the Far East and Eastern Siberia. In 2013 and 2014, federal and regional laws came into effect that give tax incentives to companies that start investment projects in the Far East and some regions of Eastern Siberia. In early 2014, Prime Minister Dmitry Medvedev announced that he would have personal supervision over financial incentives and improving the business climate in the Far East. In October 2014, Medvedev announced further plans for the socioeconomic development in the Far East, including support for the development of agriculture (“Socioeconomic Development” 2014). That same month, a draft law on territories was approved that indicated priorities for development in the Far East and other regions. According to this draft, prioritized areas will receive a number of tax and administrative benefits to encourage entrepreneurship. Primorskiy Krai was specifically identified for priority development, including Zabubino port (USDA FAS 2014a, 2). In April 2015, Medvedev issued a series of governmental measures to facilitate economic development in the Far East.

Russia’s tilt to Asia is marked by high-level official meetings with major Asian trade partners in both bilateral and multilateral settings.<sup>6</sup> As president, Medvedev visited Japan in 2010, including a stop at a disputed island that sparked protests and anger directed at Moscow by nationalist groups in Japan, but ironically, the trip had been meant to reflect Moscow’s interest to develop the Far East with Japanese partnership (Akaha and Vassilieva 2014, 6). President Vladimir Putin visited China in June 2012. In November 2012, Russia hosted the APEC summit in Vladivostok, hoping to use that forum to raise capital from foreign investors into the Far East. The summit adopted resolutions on trade liberalization and drew up a list of 54 goods to be sold at reduced tariff rates. In May 2014, Russia and China signed a \$400 billion gas deal that delivers Russian gas for the next 30 years, and in November 2014, they signed another energy deal. At the November 2014 APEC meeting in Beijing, Putin commended the Chinese Government for its proposal to create an Asia-Pacific free trade zone, noting that trade with Asia accounts for 26 percent of Russia’s trade turnover (“APEC Economic” 2014).

During the Soviet period, the Russo–Japanese trade relationship was affected by lingering issues from World War II, including land disputes, the detention of Japanese prisoners of war after the war, and Japan’s alliance with the United States. As a result,

trade turnover during the Soviet period was minuscule by comparative standards (Ogawa 1987, 158–162). Today, Japan is the largest investor in Russian Far East and is especially interested in Russia's natural gas resources following the Fukushima nuclear reactor accident in 2011. Since 2012, both Japanese Prime Minister Shinzo Abe and Russian President Putin have expressed mutual interest for better relations. In June 2015, Putin visited Japan in order to discuss economic cooperation and their territorial dispute involving Russian occupation of four islands from the waning days of World War II. The context for the meeting was contradictory, however, as Russia has increased its military presence on the southern Kuril islands, and Abe visited Ukraine prior to the June 2015 G-7 summit and talked about the importance of the rule of law and territorial integrity (Johnson 2015).

### **Agriculture in the Far East**

Historically, agricultural production in the Far East has been limited to southern basins where fertile chernozem soils are found with warmer temperatures and growing seasons that support hay, grain, and soybeans. The two main agricultural producing regions were, and continue to be, Primorskiy Kray and Amurskaya Oblast. In the Soviet period, Amurskaya Oblast produced 50–60 percent of the region's total grain output. However, the livestock sector was constrained by limits on suitable agricultural land for feed crops. Animal husbandry could only be sustained through the planned economy whereby feed, vaccines, energy, and other inputs were heavily subsidized by the state (Tikhomirov 1997, 157). Despite significant state subsidies, the Far East was a food-deficit region (producing only about 40–60 percent of its food needs), and depended upon food deliveries from the western USSR (156).

The 1990s brought structural reform to agriculture in the Far East as former state and collective farms privatized their land and reorganized.<sup>7</sup> Similar to the rest of the nation, state and collective farms reorganized into large farm enterprises. In Khabarovskiy Kray from 1990 to the beginning of 1998, the number of state farms declined from 66 to 27, but the number of collective farms fell by only 2.<sup>8</sup> As Soviet-era farms reorganized, new agricultural enterprises emerged. In 1997, for example, of the 89 agricultural enterprises operating in Khabarovskiy Kray, 37 emerged from farm privatization and reorganization (“Khabarovskiy kraevoy komitet” 1998b, 91).

Reform also gave birth to a private farm sector, but it did not become a significant food producer. In contrast, the household sector became an increasingly important source of food (see below). The Far East was somewhat unique, in that average land holdings for all three categories of producers were larger due to an abundance of land and low population density (although not all land was suitable for agricultural production). By the latter 1990s, despite privatization, large farms continued to own and use the majority of land. In Khabarovskiy Kray, for example, agricultural enterprises used 62 percent of arable agricultural land and private farms used less than 4 percent. Households used about 3.5 percent of arable agricultural land for their subsidiary gardens, and 7 percent was used for collective fruit and vegetable gardens (“Khabarovskiy kraevoy komitet” 1998a, 6).

During the 1990s, the structure of food output changed considerably as the number of large farm enterprises decreased, similar to other regions in the country. As output from the large farming sector declined, households increased their production. In Khabarovskiy Kray, for instance, the share of agricultural enterprises' output declined from 62 percent in 1992 to 35 percent in 1997 (based on ruble value). In contrast, production

from the household sector grew significantly, from 37 percent in 1992 to 64 percent in 1997 (“Khabarovskiy kraevoy komitet” 1998a, 7). Household production increased for a variety of reasons: privatization and leasing of land brought an expansion in land used for household production; more time was invested in household production; and more people turned to household plots as a survival strategy during the turbulent 1990s. Today, the household sector is the dominant agricultural producer, accounting for 76 percent of the ruble value of agricultural output in Khabarovskiy Kray and 58 percent in Primorskiy Kray in 2013. (Data for Amurskaya Oblast were not available.)

That said, the Far East consistently ranks last among federal districts in the ruble value of agricultural production, reflecting unfavorable conditions for agriculture. In 2012, the Far East produced less than 4 percent of the nation’s agricultural production based on ruble value (Rosstat 2013a, 13). The two main producing regions, Primorskiy Kray and Amurskaya Oblast, ranked 40th and 51st out of 83 regions, respectively, in ruble value of agricultural output in 2013 (Rosstat 2014a, 498).

Unfavorable natural conditions make it unlikely that the Far East will ever transform into a major grain-growing region. Low levels of grain production among regions of the Far East and frequent transportation bottlenecks lead to limited grain exports.<sup>9</sup> Since 2008, ports in the Far East have accounted for less than 1 percent of total grain exports. Compared to other federal districts, the Far East has the second lowest sown agricultural area and the second fewest hectares used for grain production – just 5 percent of its total acreage is devoted to grain cultivation. Amurskaya Oblast has by far the largest sown area and number of hectares devoted to grain production in the Far East. But even in Amurskaya Oblast, the quantity of hectares used for grain pales in comparison to the rich chernozem areas in European Russia, such as Stavropol’, Krasnodarsk, and Rostov. Moreover, the sown area for grain in Amurskaya Oblast is almost 20 times smaller than in Altayskiy Kray, 12 times less than in Omskaya Oblast, and 9 times smaller than in Novosibirskaya Oblast, all located in the Siberian Federal District that is contiguous to the Far East (Rosstat 2014a, 514–517). In addition, the Far East has lower average yields per hectare for vegetables and potatoes than other federal districts, and its yields are below the national average (Rosstat 2014a, 523–526). In 2013, the Far East ranked fifth among the eight federal districts in grain yield per hectare, but among Far Eastern regions that produced grain, only Primorskiy Kray had a yield above the national average of 22 centners/ha (Rosstat 2014a, 518–519). The Far East is not self-sufficient in vegetables, potatoes, and fruits and berries, and produces less than any other federal district.

That said, the government’s strategy places emphasis on the export potential for wheat and soy (Ministry of Agriculture 2014, 34, 2015a). In 2014, acreage devoted to soybeans in Primorskiy Kray totaled 205,000 ha, 7 percent higher than planned. The last time Primorskiy had as much sown area for soybeans was in 1965 (USDA FAS 2014b, 2). The area planted with corn, potato, and vegetables also exceeded original targets.

In animal husbandry, the Far East produces the least milk, poultry meat, and beef. The Far East also has the fewest number of cattle, pigs, sheep, and goats, as shown in Table 1. It is estimated that only about 50 percent of the population’s demand for beef is met by local production. The Far East is, however, a producer of reindeer meat, particularly in Yakutiya, where 30 of 35 rayons raise reindeer and sheep (“Voyna sanktsiy” 2014).

Russia ranks in the top 10 in fish catching, and the Far East has a strong fish industry (the fishing industry was merged into the Ministry of Agriculture in May 2012). Russia’s wild catch increased to more than 4 million metric tons in 2011, 2012, and 2013 (Muran 2014, 2); an improvement from a decade earlier when the volume was less than 4 million tons (Eurofish 2005, 11). The overwhelming majority of Russia’s fish

Table 1. Agriculture in the Far East.

Product	Russia-2012	Far East-2012	Far East as % of Russia-2012	Far East as % of Russia-2014
Grain	70.7 million tons	488,900 tons	<1	<1
Number of cattle	20 million	453,000	2	2
Number of pigs	18.8 million	324,000	<2	<2
Beef and poultry meat production (slaughter weight)	11.6 million tons	196,400 tons	<2	<2
Milk production	31.9 million tons	582,700 tons	<2	<2

Notes: We used 2012 because 2013 witnessed catastrophic floods in the Far East that destroyed 627,000 ha of cultivated agricultural land. Overall, the loss to agriculture in the region exceeded R20 billion (\$613 million at 2013 exchange rates).

The 2014 data are from first nine months (January–September), except for grain harvest, which is for entire year.

Production data include all categories of farms.

Source: Rosstat (2013a); Rosstat (2014b); authors' calculations.

production comes from Russia's own waters, and the Far East Basin is Russia's main fishing area. In 2013, the Far East provided almost 70 percent of Russia's overall wild fish catch (Muran 2014, 3). The Far East also accounts for 60 percent of processed fish in the country (Konstantinova and Hansen 2014, 2). The primary catch continues to be pollock, followed by cod and herring. The fishing industry plays a very important role in the economy of the Far East, generating exports of 1.2 million tons; a level that has remained stable since 2000. During 2012–2014, the value of Far Eastern fish and seafood exports nearly doubled, explained by the export of higher value fish such as salmon (Konstantinova and Hansen 2014, 2; Muran 2014, 7; "Rossiya narastila" 2015). Major export markets are the Republic of Korea, China, Japan, Norway, and the United States.

### State support programs

Because government funding is so central for agricultural development, this section begins with an overview of government programs. Federal funding channeled through relevant federal programs leads the way to economic development in the Far East.<sup>10</sup> The basic approach today is to provide financial resources for investment, encourage innovation and modernization, and subsidize a range of activities related to the production cycle (inputs, production, transportation). State programs also create conditions for attracting private investment. Funding for the development of agriculture consists of production subsidies, investment loans, and short-term credit. Investment loans are long-term and compensate the interest rate on loans for 2–10 years, depending on the use. Short-term credit is subsidized for up to one year.

### *The main federal program*

Goals and funding parameters are provided in the State Program for the Development of Agriculture and Regulation of Markets; the current version runs 2013–2020. The original version of the program (adopted in July 2012) envisioned federal expenditures of R1.5 trillion during the period to 2020. The state program, however, is subject to change as a result of economic conditions. In December 2014, federal expenditures were

raised by R640 billion over the original amount as the government introduced an import replacement program in response to Western sanctions and Russia's own food embargo ("countersanctions") in August 2014. The amended version of the program totaled more than R2.1 trillion in federal expenditures. In February 2015, former Minister of Agriculture Nikolay Fedorov announced that federal allocations had been increased again to a total of R700 billion over the original sum (Fedorov 2015). A slowing economy and low price of oil put a strain on the Russian economy and budget, and the government looked for ways to cut back. In May 2015, the Ministry of Finance suggested a reduction in the agricultural budget of nearly R487 billion during 2016–2018 ("Minfin predlagaet" 2015). These additional reductions, if enacted, would come on top of budgetary cuts of R25 billion for 2016 and R62 billion for 2017 that have already been approved.

The 2013–2020 federal program for development of agriculture is designed to meet the goals of the food security doctrine, which guides agrarian policy (Wegren 2013). Further, the program aims to increase the competitiveness of Russian food products in domestic and foreign markets, stimulate growth in the production of basic food products, accelerate import replacement, increase the financial stability of agricultural enterprises, help develop rural regions, and improve the use of agricultural land ("Postanovleniye ot 19 Dekabrya" 2014). To meet these objectives, the program provides a range of subsidies for the purchase of pedigree livestock, agricultural machinery, and high-quality seed. There are also subsidies for the transportation of grain along rail lines, for the purchase of mineral fertilizer, for crop insurance, and to subsidize interest rates for credit used on construction materials and modernization of facilities.

In addition to the main program for agricultural development, federal programs have been adopted for land reclamation, social development of rural areas, and the fish industry as shown in Table 2.

Table 2. Federal programs related to development of agriculture.

Name of federal program	Duration	Federal expenditures
Program for development of agriculture and regulation of markets <sup>a</sup>	2013–2020	R2.1 trillion
Land reclamation of agricultural land <sup>b</sup>	Phase 1: 2014–2016 Phase 2: 2017–2020	R75 billion
Development of rural areas to 2020 <sup>c</sup>	Phase 1: 2014–2017 Phase 2: 2018–2020	R139 billion
Development of rural areas to 2030 <sup>d</sup>	Phase 1: 2015–2020 Phase 2: 2021–2030	To be announced
Development of fish farming <sup>e</sup>	Phase 1: 2013–2017 Phase 2: 2018–2020	R92.4 billion

Notes: <sup>a</sup>When originally adopted, this program had six subprograms and four special purpose programs. The program was originally adopted in July 2012 and revised in December 2014. In its revised version, there are 11 subprograms and four special purpose programs. Two of the special purpose programs became federal programs of their own; one on rural development of regions, the second on land reclamation.

<sup>b</sup>This program was originally adopted in October 2013 and revised in January 2015.

<sup>c</sup>This program was originally adopted in July 2013 and revised in January 2015.

<sup>d</sup>This program was approved by the government in February 2015.

<sup>e</sup>This program was originally approved in March 2013 and last revised in December 2014. The program has eight subprograms. The fishing agency was merged into the Ministry of Agriculture in May 2012.

Source: The programs may be found on the website of the Ministry of Agriculture, [www.mcx.ru](http://www.mcx.ru).

Table 3. Land reclamation in the Far East.

Region	Action	Expected result
Primorskiy Krai	Construct aqueducts; repair dams; reconstruct main reservoirs	Prevent losing 24,000 hectares (ha) of arable agricultural land
Kamchatskiy Krai	Repair drainage systems	Bring 967 ha into agricultural production
Khabarovskiy Krai	Repair dams; repair pumping stations; repair canals	Protect 9830 ha from water erosion; Prevent losing 10,628 ha of arable agricultural land;
Amurskaya Oblast	Repair drainage systems	Prevent losing 18,194 ha of arable agricultural land
Magadanskaya Oblast	Repair drainage systems	Prevent losing 188 ha of arable agricultural land
Sakhalinskaya Oblast	Repair drainage systems	Bring 160 ha into production
Jewish auton. region	Repair dams	Protect 11,200 ha from water erosion

Source: Postanovleniye ot 15 Yanvarya 2015 g. no. 13 (2015, 185–193).

### **Land reclamation**

The program for land reclamation to 2020 includes plans to expend R75 billion for the repair of dams and reservoirs, the repair of drainage systems, the construction of aqueducts on canals, and the repair of pumping stations.<sup>11</sup> Specific projects in the Far East are indicated in Table 3.

### **Social development**

The federal program for the development of stable rural communities combats rural depopulation by improving the rural standard of living and quality of life, as such this program does not entail direct food production subsidies. To 2020, the program provides R252 billion (R139 billion from the federal government, R74 billion from regional budgets) to build roads; subsidize rural housing construction, especially for young families; improve the availability of a wide range of services; and improve access to hot water, gas, and indoor plumbing in rural housing (“Postanovleniye ot 16 Yanvarya 2015 g.” 2015, 2).<sup>12</sup> The construction of modern rural housing is especially important because continued rural outmigration by young families exacerbates a shortage of workers and skilled workers (Belenets 2014, 84). In Primorskiy Krai, during the past 10 years, regional funding was used to build or remodel kindergartens, repair hospitals, and invest in other medical services. Outmigration continued nonetheless so that by 2013, foreign workers comprised more than 18 percent of the agricultural workforce (Belenets 2014, 87).<sup>13</sup>

To help make rural living more attractive, grants from the Ministry of Agriculture are available to rural residents for small-scale initiatives. A federal grant may not exceed R2 million or 60 percent of the cost of the project, with the remainder covered from the regional budget. In 2014, 174 projects were undertaken in 23 regions, with grants totaling R72 million. Grants may be used to build recreation parks and areas for sport or for children’s games, to maintain and restore natural landscape and historical-cultural monuments, and to support cultural traditions such as museums on peasant life, cultural festivals, and informational projects on cultural traditions. Of the 174 projects funded in 2014, 164 were oriented toward the construction of areas for sport and children’s recreation. The Republic of Yakutiya had five such projects, with funding totaling R3.4 million (Dmitrievich 2015).

### ***Fish program***

The fish program to 2020 posits an increase in the catch to 5.45 million metric tons, and by 2020, Russia's fish catch should meet 80 percent of the nation's demand ("Postanovleniye ot 18 Dekabrya" 2014, 5). Budgetary expenditures to realize these goals were increased from R83 billion in the original program to more than R92 billion in the December 2014 version.

In addition to increasing the fish catch and the processing of fish products, the Ministry of Agriculture is working with regional governments to stimulate demand for fish products. In Amurskaya Oblast, for example, an advertising campaign and exhibitions promote fish and fish products from local processing plants. In addition, special zones have been established for the sale of local fish products, for example, at bus stations. In Primorskiy Kray, a "made in Primorskiy" trademark is used to market fish and other food products that are produced in the region. The regional government offers subsidies to local fishing companies for the production and sale of fresh or frozen fish products. The goal is to increase annual per capita consumption to 33 kg by 2017. In Magadanskaya Oblast, local processing plants engage in small-scale wholesale and retail trade of fish by selling to restaurants; schools, hospitals, and other public enterprises; and directly to consumers. They also rent retail space to persons who have fish products of their own to sell.

### ***Regional programs***

The federal program for development of agriculture is mirrored by regional programs. Regional programs reflect local conditions and specify regional funding. For example, in Primorskiy Kray, the regional program to develop agriculture to 2020 envisions spending more than R16.8 billion.<sup>14</sup> Regional goals are to increase per capita consumption by 2020 in order to meet 80 percent of the demand for meat and meat products; to increase the ruble value of food output by nearly 67 percent and of processed food by 64 percent; to bring into production no fewer than 200,000 ha of unused arable land; to raise incomes for agricultural workers to 65 percent of the national average; and to increase the export of corn and soy by up to 200,000 tons. Even Sakhalinskaya Oblast, which is hardly considered a strong agricultural zone, spent R2 billion to support agriculture in 2014, including direct production subsidies as well as modernization and land reclamation ("2 mldr. rubley" 2015). That said, budget reductions and contraction in economic growth led some regions to reduce outlays to agricultural projects. In the Far East, where natural conditions for agricultural production are already unfavorable, reducing expenditures for agriculture may be the easiest budgeting choice. In the Republic of Yakutiya, for instance, the regional Minister of Agriculture, Alexander Artem'yev, announced that expenditures would be reduced by R1 billion in 2015 ("V Yakutii v. 2015 godu" 2015).

For 2015, the federal budget contains R46.6 billion rubles to subsidize investment loans to regions ("Mnogomilliardnyye vlozheniya" 2015). According to the original budget, 77 regions will receive R9.4 billion in order to subsidize interest rates for investments related to crop growing; 77 regions will receive R32.6 billion to subsidize interest rates for investments related to animal husbandry; and 38 regions will receive R4.5 billion to subsidize interest rates for investment used to construct or modernize cattle sheds ("Kabmin RF" 2015). As noted above, however, budget allocations are subject to change due to budget constraints and a slowing economy.

Russia's capital reserves are being spent at a rapid rate to combat recession. In this environment, politics are also involved in two ways. First, the Ministry of Finance is pushing to reduce federal outlays to agriculture, even after top political leaders pledged to fulfill originally promised spending in agriculture. The proposals by the Ministry of Finance are part of the normal budgetary process during which various proposals and counter proposals are made. But there is also an undercurrent of bureaucratic politics involved, in which different ministries compete for budgetary resources. Governmental decisions reflect policy priorities, the status of the claimants, and opportunity costs.

Second, after Nikolay Fedorov was replaced as minister of agriculture in late April 2015, numerous reports were published that alleged fraud and corruption in the budgetary distribution process. Federal funds were misused, and criminal charges were being considered ("SP obratitsya" 2015). The Ministry of Agriculture was called upon to make sure that monies were actually dispersed, and regions were called upon to spend the funds for their intended purposes ("Regionam" 2015). The new Minister of Agriculture, Alexander Tkachev, demanded that the system for distributing financial resources to regions be straightened out by 1 July 2015 ("Aleksandr Tkachev potreboval" 2015). Prime Minister Medvedev did the same and indicated persons who did not comply would be disciplined (Arsyukhin 2015; Medvedev 2015). The impression is that Tkachev is being held accountable in a way that former ministers Fedorov and Elena Skrynnik never were ("Fiktivnaya bor'ba" 2015). During Tkachev's first month in office, there were several high-level personnel changes in the ministry, which suggests a cleaning house of persons who may have been engaged in corruption or were negligent in overseeing the distribution of federal monies. Several regional ministers in charge of agriculture were also replaced. Federal allocations for the subsidization of investment credit in the Far East are indicated in Table 4.

Regions also receive federal monies to subsidize short-term credit. For example, Primorskiy Kray is to receive R82 million in 2015 to subsidize interest rates for short-term credit related to crop production, R18 million to subsidize animal husbandry loans, and R15 million to subsidize credit obtained by small forms of farming ("Primorskiye agrarii" 2015). In 2015, Khabarovskiy Kray is receiving R51 million from the federal government to subsidize short-term credit, R37.5 million is being used for animal husbandry, and R6.8 million is being provided to small farms (private farms, individual entrepreneurs, and households). Another R15.7 million for subsidization of interest rates is coming from the regional budget ("Khabarovskiy kray poluchit" 2015).

### **How to increase penetration of Asian food markets?**

One strategy for increasing food exports is to grow more food regionally. Historically, the Far East has been a net importer of food from western Russia and nearby foreign nations so increasing regional food production requires a comprehensive effort. The strategy to increase food production in the Far East (primarily in the southern regions of Primorskiy Kray and Amurskaya Oblast) necessitates support for local agriculture.

#### ***Increase local production***

The first strategy to increase food exports to Asia is to grow more food in the Far East. A number of measures are being adopted to increase regional food production, encompassing the expansion of production capacity, the purchase of pedigree livestock, the modernization of production and processing facilities, and assistance to the private sector.

Table 4. Federal subsidization of long-term investment in Far East.

Region	For crops	For animal husbandry
Republic of Sakha (Yakutia)	R1.3 million	R20.2 million
Kamchatskiy Kray	R889,300	R17,527
Primorskiy Kray	R28.8 million	R541.6 million
Khabarovskiy Kray	R4.7 million	R43.2 million
Amurskaya Oblast	R99.3 million	R25.0 million
Magadanskaya Oblast	R923,200	R2.0 million
Sakhalinskaya Oblast	R9.6 million	R508,200
Jewish Auton. Oblast	R1.4 million	R1.7 million

Source: Ministry of Agriculture (2015b).

Rusagro, one of the nation's largest holding companies, plans to buy 20,000 ha of land in Primorskiy Kray to grow soy and another 4000 ha to grow corn ("Krupneyshiy agrokholding" 2015).<sup>15</sup> Soy has traditionally been a major export commodity to Asian nations. Corn will be used to feed livestock. Both of these crops do well in the warmer temperatures and longer growing season found in the southern regions. Amurskaya Oblast has a growing season of 110–115 days, and Primorskiy Kray has 125 days (Khasbiullina 2015, 5). The company has its own processing capabilities for soy. The company is also interested in investing in pig farming as well as investment projects to produce margarine and butter in Primorskiy Kray. Rusagro's total investment in the region is estimated at R60 billion. In Khabarovskiy Kray, a new type of soy has been introduced that in 2014, contributed to a record harvest and may double yield per hectare. Up to 400 tons of high-yield soy seed were used for the 2015 spring planting, comprising about one-quarter of the total planted seed ("V Khabarovskom" 2015). In Sakhalinskaya Oblast, high-yield potato seed is being used in 2015.

During his visits to the Far East in 2014–2015, former minister Fedorov emphasized the development of animal husbandry.<sup>16</sup> Only about 50 percent of consumer demand is fulfilled by local producers, and the region is heavily dependent upon meat imports. The combination of low local production, high retail prices, and opportunity to increase market share creates incentives for Russian investors.<sup>17</sup> Accordingly, in October 2014, the animal husbandry complex "Grin Agro" in Primorskiy Kray announced an investment of R3.5 billion, which included the purchase of 660 pedigree cows from Germany for R260 thousand. Each cow can produce up to 10,000 kg of milk a year; three times the existing average ("660 plemennykh" 2014). The company plans to acquire another 900 pedigree cows during 2015. It is also completing the third stage of modernizing its milk-processing facilities that will produce up to 130 tons of milk and milk products a day. In 2016, the company will finish construction of a second milk complex that will hold 1800 dairy cows, producing not only milk, but also hard and soft cheeses ("V Zhivotnovodstvo Primor'ya" 2015). In another initiative, modern winter greenhouses and vegetable storage facilities are being built in Primorskiy Kray with the hope to fulfill 80 percent of the region's need for fresh vegetables (USDA FAS 2014c, 4).

In Kamchatskiy Kray, the main poultry farm was modernized in 2014, increasing its number of chickens by 20,000 and egg output by 5.5 million per year. By the end of 2015, the farm hopes to produce 51 million eggs, enough to meet 80 percent of demand in the kray (Glavnaya 2014). In Sakhalinskaya Oblast, a pig-breeding complex purchased 587 pedigree pigs. It is expected that 12,000 pigs a year will be available for

slaughter, with an average live weight of 110 kg. The goal is to produce 1.3 million tons of pork in live weight annually (USDA FAS 2014b, 4).

The private sector is getting a boost. The household sector already accounts for a high percentage of food production. Household food production is poised to expand under the terms of a new governmental initiative. In early 2015, the presidential envoy (*polpred*) to the Far East, Yuriy Trutnev, suggested that residents of the Far East and persons wishing to move there be given a free hectare of land to be used for agricultural production or private entrepreneurship. The distribution process would be done electronically and could be completed in “five to ten minutes” (Poluchit’ gektar 2015). Putin agreed with the proposal for the distribution of free land and stated,

we want to create a mechanism for free allocation of one hectare of land to every resident of the Far East and to every person who wants to move to the Far East, who may conduct agriculture, [or use the land] for the creation of business, forestry, or hunting. (“Putin odobril” 2015)

In March 2015, Trutnev indicated that the first certificates for household subsidiary farming and private farming would be made in Amurskaya Oblast. Current land legislation in Primorskiy Kray allows distribution of land of up to 10 ha for subsidiary agriculture and private farming, but limitations will be expanded by the end of 2015, thereby allowing land plots of up to 20 ha (from municipal land funds). Trutnev summarized the efforts by saying that, “we are trying to think of a system that maximizes the needs and requirements of the people” (“Poluchat’ uchastki” 2015). In mid-March 2015, Trutnev met with former Deputy Minister of Agriculture Andrey Volkov, who expressed support for the distribution of land plots for agricultural use (“Initsiativu” 2015).<sup>18</sup> Later in March, the Ministry of Agriculture reported that in Amurskaya Oblast, 20 plots had been distributed to private farmers, and 23 plots had been distributed for household subsidiary farming. Another 17 applications for land plots were being processed (“Besplatnyy gektar” 2015).<sup>19</sup>

Other private initiatives were begun with state support. In Kamchatkiskiy Kray, a privately owned dairy farm obtained a grant from the regional government in 2013 in order to modernize. The reconstruction process was finished in 2014, allowing the automated farm to produce up to one ton of milk and milk products in a 24-h period, including kefir, sour cream, cream, butter, cheese, and tvorog (“Na Kamchatke” 2014). In Amurskaya Oblast, the first family-owned mill opened in fall 2015. The mill cost R800 million to construct, R250 million of which came from state funding. The mill has 12 grain storage containers with 5-ton capacity, and another 12 with 1-ton capacity. The mill has one production line in operation that can produce 24 tons of seed an hour; a second line is planned to become operational that will prepare seed and grain for rail transport (“Pervyy” 2015). Also, in Amurskaya Oblast, private farmers expect the number of beef cows to increase by about one-third by 2016 (“Fernerov” 2014).

Even non-commercial entities are mobilizing. In Yakutiya, the State Agricultural Academy announced plans to develop sheep breeding, with the goal to breed sheep that can endure temperatures that fall to  $-50^{\circ}\text{C}$ . In 2014, the herd stood at 40 head, with plans to acquire an additional 30 head in 2015, and the herd will eventually reach 500 (“V Yakutii planiruiut” 2015).

The fishing industry is also undergoing modernization. In March 2013, President Putin ordered the creation of a fish-processing cluster in Primorskiy Kray, covering 120 ha. A fish cluster is a complex that encompasses the complete processing chain,

including unloading docks, refrigeration and storage, processing, loading and transportation infrastructure, and trading/shopping centers. Investment in the project began in 2014 and will renovate refrigeration facilities, upgrade port and transport infrastructure, improve fish processing, develop modern fish ports, and construct other facilities. Private investors are expected to provide 60 percent of the financing, with state funding covering the remainder.<sup>20</sup> The new complex is expected to triple the value of fish trade in Primorskiy Kray by 2020 (Konstantinova and Hansen 2014, 7–9). The cluster will be a significant employer in the region and allow Russia to compete with fish processors in China and the Republic of Korea.<sup>21</sup> It is also expected to diversify the regional economy beyond mere fish catching and make Primorskiy Kray more attractive for international investors and exporters who use state-of-the-art technology and equipment.

### ***Financial incentives to attract investment***

A second strategy is to attract investment. Incentives to attract investment are directed at domestic and international investors. Priority investment projects in the Far East include farming, fishing, mining, processing, the chemical industry, and the generation of electricity. For domestic investors, the federal tax code was amended in September 2013 to create incentives for priority investment projects in the Far East and a few regions in Eastern Siberia (Konstantinova 2014a, 3, 2014c, 2). The amended code allows a lower corporate income tax (the exact rate to be determined by regional law). The maximum tax rate paid to regional governments is 10 percent for the first five years. The tax rate on profits paid to the federal government is 0 percent for the first ten years (Konstantinova 2014a, 3). In December 2013, the legislature in Primorskiy Kray adopted legislation that exempts investment projects in the categories above from income and property taxes for the first five years (Konstantinova 2014a, 3).<sup>22</sup>

For international investors, special economic zones to attract foreign investment are being created. For example, the port of Nakhodka, located in Primorskiy Kray, has been declared a free economic zone. In 2013, the Far East received a total of \$5.9 billion (R192.9 billion) in foreign investment, or about 6 percent of total foreign investment in Russia.<sup>23</sup> Several regions in the Far East experienced a decline in foreign investments compared to 2012, but Primorskiy Kray and Khabarovskiy Kray had increases. Sakhalinskaya Oblast is rich in oil and gas deposits (Bradshaw 1998, 2010). Today, thanks to its energy deposits, the oblast is the largest recipient of foreign investment, with about 49 percent of the total for the Far East. Turning to agriculture, foreign investment and joint projects are being encouraged, a strategy that is all the more important considering budgetary pressures in Russia. In 2013, Primorskiy Kray received \$45 million (R1.4 billion), Amurskaya Oblast received \$553 million (R18 billion) of foreign investment into their agricultural sectors.

Russia's Ministry of Economic Development indicated that Japanese companies are eligible for land and tax incentives if they invest in Far Eastern agriculture (Konstantinova 2014a, 2). Japanese interest in investment in the agricultural sector may be traced to October 2010 when a memorandum of understanding was signed between two Russian companies and a Japanese machine-building company to build agricultural machinery. In July 2012, another agreement was signed between Japanese and Russian companies to purchase and export grain to the Middle East, Africa, and long-standing clients in Japan and Asia. In April 2013, during a visit by Japanese Prime Minister Abe to Russia, a memorandum of cooperation was signed between the Bank of Hokkaido and the administration of Amurskaya Oblast. Under this initiative, a Russian–Japanese

joint company was created to grow corn, soybeans, and buckwheat. Following this agreement, Japanese companies made a successful trial planting of soybean and buckwheat in Amurskaya Oblast in 2013 (Konstantinova 2014a, 2). Another Japanese company started growing buckwheat on 170 ha in Primorskiy Kray. In addition, in 2013, a 1000-ha farm outside the city of Khabarovsk was opened to produce corn for livestock feed, milk, and other agricultural products (Konstantinova 2014a, 2).

Chinese investment is also of interest to Russia. In October 2014, Medvedev repeated that, “we are open to new possibilities. At the present time those opportunities are related to agriculture and food ... We are interested in attracting Chinese investment in agricultural projects in Siberia and the Far East” (“Rossiya khochet” 2014). The Russian Ambassador to China, Andrey Denisov, seconded that sentiment when he said that, “For us it is important not only to increase trade, but also in cooperation for investment in agriculture. Chinese projects play an important role in the growing of vegetables in the Russian Federation” (“Rossiya gotova” 2015). In June 2015, the Committee on Agrarian Policy in the State Duma supported a draft bill to allow Chinese companies to lease unused agricultural land in the Trans-Baykal area, the adjacent region to the Far East (“V Gosdume” 2015). The Chinese reportedly will lease 115,000 ha of agricultural land. If this bill passes, it will create an important precedent for the leasing of idle agricultural land in the Far East region.

In addition to Japan and China, other Asian nations are interested in the Far East because of its vast areas of unfarmed fertile land in contrast to many Pacific Rim countries where surplus agricultural land is in short supply. North Korea is undergoing a limited liberalization of its agricultural sector, experiments that allow smaller work teams, and a right to sell surplus production above the quota (“Spring Release” 2015). In November 2014, the Foreign Minister from North Korea, Ri Su Yong, said that his country planned to invest up to \$600 million (R33.7 billion) in greenhouses and livestock farms in the Far East (“North Korea” 2014). Included in that plan was leasing 10,000 ha of agricultural land in Khabarovskiy Kray using North Korean workers and machinery to produce grain and vegetables.

In December 2014, a delegation from the Republic of Sakha (Yakutiya) visited Mongolia to discuss joint projects in agriculture and the agroindustrial complex. The five-day meeting concluded with the signing of a memorandum of cooperation between the Ministry of Agriculture in Mongolia and the regional Ministry of Agriculture in the Republic of Sakha, including an exchange of experiences in the raising of reindeer and fur-bearing animals (“Yakutiya i Mongoliya” 2014).<sup>24</sup>

### **Obstacles**

The Far East has always been considered a region of enormous economic potential due to its rich natural resource base, but at the end of the 1990s, prospects for development were tenuous due to an array of policy and structural problems.<sup>25</sup> Fifteen years later, the prospects are more optimistic, even for agriculture. Thanks to its resource-rich base and proximity to trading partners, China and Japan, the federal government has identified the Far East as a priority for development. The government’s goal is to increase food exports to Asia, and so agriculture in the Far East is among policy priorities. Subsequently, as detailed above, numerous initiatives to increase regional food production are underway to modernize infrastructure, expand export capacity, and to encourage foreign investment. The optimism, however, is tempered by several obstacles.

Special economic zones, foreign and domestic investment, and various agricultural projects are not going to transform the Far East into a region as productive as the Kuban (a southern region in Russia that encompasses agriculturally rich Krasnodar Krai). Climatic and geographical conditions in the Far East will always constrain food production, no matter what policy initiatives are introduced. Moreover, population density is low and settlements are scattered.<sup>26</sup> Many villages have few full-time occupants. The household sector accounts for the largest percentage of food output measured in ruble value, but most households are not only non-commercialized, but are isolated from markets by distance and insufficient infrastructure.<sup>27</sup> Many villages do not have basic infrastructure such as running water, sewage, or electricity because of the cost and difficulty of installation. As a consequence, most household food production is consumed, reflected in the fact that the Far East ranks second nationally in the consumption of potatoes and third in the consumption of vegetables; two commodities that are commonly cultivated in household gardens (Rosstat 2014a, 185). The point is that an increase in household food production will not necessarily lead to a growth in food exports.

Aside from natural conditions, a second obstacle concerns political and bureaucratic hindrances that obstruct an expansion of food trade. Politics and political relationships can make or break a trading relationship. There is little doubt, for example, that Russian–Japanese trade could expand significantly if the political dispute surrounding the Kuril islands is resolved. Politics has also affected trade with China. There was a 10-year freeze during which China could not export pork to Russia, and China would not import Russian grain. Only recently, food trade has begun to increase and has great potential to expand further. Chinese food exports to Russia totaled about \$2 billion (R65.4 billion) in 2013 (“Kitay gotov” 2014). China is ready to fulfill Far Eastern demand for a wide variety of vegetables, up to 300,000 metric tons of agricultural products a year, and up to 25,000 tons of meat. Two Chinese meat processors were certified to export pork in fall 2014 (USDA FAS 2014b, 5). But bureaucratic problems complicate agricultural trade between the two countries. Russian inspectors who check sanitary conditions at Chinese food exporting plants must send their information about the products and the enterprises to Moscow. Moscow needs to confirm approval for the products to cross the border. The time difference between Moscow and the Far East, as well as holidays or other days off, can translate to a significant loss of time for trucks at the border. The Russian side lacks sufficient refrigerated storage for keeping Chinese meat exports while the paperwork gets sorted out (USDA FAS 2014c, 3).

A third obstacle is an infrastructural base that remains undeveloped, and this affects the fishing industry most of all. Although Russia ranks in the top 10 globally in volume of fish catch, the fishing industry is constrained by inadequate processing facilities, an aging and obsolete fleet, underdeveloped fish ports, a shortage of storage refrigerators, insufficient processing plants, underdeveloped distribution networks, and a shortage of floating processing stations (Konstantinova and Hansen 2014, 4).<sup>28</sup> Soviet-era large factory trawlers that allowed small and medium fishing boats to unload their catch for immediate processing were stolen and sold abroad in the early 1990s (“Ryby net” 2014, 2). Insufficient processing capacity afloat contributes to loss or spoilage. Further, refrigerated storage capacity at Vladivostok, Zarubino, and Nakhodka ports is insufficient – 4000 tons at Vladivostok and only 10,000 tons at the other two. The ports in Primorskiy Krai have a capacity of over 69,000 tons. In comparison, the fishing industry estimates that 350,000 tons of herring alone may be caught in 2015 from the Far Eastern basin (“Na Dal’nem” 2014). The development of port infrastructure has received

investment in recent years in order to facilitate exports, but the maritime terminals' export capacity has not been matched by the development of land logistics. Exporters complain of bottlenecks on land and a growing imbalance between port export potential and the difficulties encountered with rail traffic to the ports (USDA FAS 2014b, 3).

A fourth obstacle to expanded food exports is the contradiction between long-term development goals and short-term policy measures. The goal to produce more food for food security and achieve import replacement conflicts with the goal to export more food to Asia. The Far East never was, and still is not, food self-sufficient. Primorskiy Krai is actively aiming at import substitution and is trying to meet demand for poultry meat and pork from local production, but it is estimated that full import replacement will take from one to eight years (USDA FAS 2014c, 4). Thus, in the short term, choices have to be made between the Far East as an exporting region vs. one that is striving to meet more of its own needs.

### **Conclusion**

As a Eurasian nation, with some 31 percent of its land mass located east of Lake Baykal, Russia could not disengage from Asia, even if the Kremlin wanted to – a fact that Gorbachev alluded to in his 1986 Vladivostok speech. Thus, the twin themes of increasing regional production and orienting the Far East toward an export-led economy can be dated to the Soviet period (Dienes 1990, 271–272). Today's Kremlin does not want to disengage from Asia. The contemporary Russian Government has made economic development of the Far East a national priority and, along with it, an expansion of trade with Asian countries. Investment money is flowing into the Far East to increase food production. Despite a commitment to increase market penetration in Asia through development, significant obstacles raise reasonable questions about the ability to achieve policy goals, not the least of which is a culture of corruption that threatens to siphon off investment monies and derail development projects. In March 2015, the governor of Sakhalin Oblast, Alexander Khoroshavin, was fired by Putin for taking an estimated \$5.6 million (R291 million) in bribes. When his multiple homes were searched, more than \$16 million (R832 million) was found. He faces up to 15 years in prison (Spinella 2015).

Perhaps the most insurmountable obstacle to economic development flows from inescapable spatial relationships. Recognition of the spatial disadvantage is not new, as Hill and Gaddy (2003, 5) argued more than 10 years ago that,

Russia's greatest dilemma today is that it must connect an economy that is both physically vast in size and terribly misdeveloped. This is a costly endeavor, and it is also likely to be inefficient once accomplished if connections are pursued within the framework of Russia's current economy geography.

According to these authors, Russia must “shrink” its economic geography, concentrate its population, and connect its economy through mobility, which “means that people in Russia need to move to warmer, more productive places, closer to markets and away from cold, distant cities placed by GULAG and communist planners” (5–6). Their policy prescription is exactly the opposite of the path embarked upon by the Kremlin.

### **Disclosure statement**

No potential conflict of interest was reported by the authors.

## Notes

1. The Far East federal district includes the Republic of Sakha (Yakutiya), Kamchatskiy Kray, Primorskiy Kray, Khabarovskiy Kray, Amurskaya Oblast, Magadanskaya Oblast, Sakhalinskaya Oblast, Evreyskaya Avtonomnaya Oblast, and Chukotskiy Avtonomnyy Okrug.
2. An agricultural year runs 1 July–30 June.
3. Effective 15 May 2015, the government ended the original export tariff. But a new tariff on grain exports was announced that would take effect on 1 July, perhaps as a precaution, given warnings about a smaller harvest in 2015 due to drought in some regions of Russia as summer approached. The Ministry of Agriculture, however, remained optimistic that the harvest would total more than 100 million tons. Grain exporters resisted the new tariff as well and asked the government to reduce it (“Eksportery” 2015).
4. The list to be accomplished is not small: incomes of agricultural workers need to be raised, sustainable rural communities need to be created, processing plants need modernization, ports need updating and their capacity needs to be expanded, agricultural production needs to be increased, and infrastructure needs to improve in order to bring better connectivity (Shelepa 2013, 22–30). This list is hardly exhaustive.
5. Interestingly, the instructions issued by the government in April 2015 indicated that railway tariffs (transportation rates) were to be reduced in order to spur economic development in the Far East.
6. China is Russia’s largest trading partner in Asia, followed by Japan, and bilateral trade with each has increased significantly since 2000. Russia’s trade with China increased tenfold from 2000 to 2011 (Kuhrt 2014, 96). Trade with Japan grew more than fivefold during the same period (Takahashi 2014, 113).
7. See Duncan and Ruetschle (2002, 193–205) for a discussion of the problems related to land privatization and farm reorganization in the Far East. Several of these problems were found in other regions as well, but were not sufficient to stop the general direction of reform in the Far East or elsewhere.
8. For large farms, extensive land holdings made the shortage of farm machinery particularly acute. Large agricultural enterprises also suffered from inadequate storage capacity, which forced them to sell at harvest time when supply was highest and prices the lowest. Competition from Chinese farms, which had sufficient storage, aggravated the situation. Chinese traders bought Far Eastern production when prices were low and resold in the winter and late spring when prices were higher (Duncan and Ruetschle 2002, 209).
9. Consider, for example, that the Far East consistently produces <1 percent of Russia’s total grain crop.
10. The Law on the Development of Agriculture, first adopted in 2006 and subsequently amended several times, and the Doctrine on Food Security, signed into law in early 2010, provide the philosophical and legal foundation for agricultural policy, but are conceptualized in broad terms.
11. In 2013, the Far East was hit hard by historic flooding that enveloped more than 627,000 ha of cultivated agricultural land – the equivalent to 400,000 square miles – and covered more than 2635 km of roads. The floods necessitated the evacuation of tens of thousands of people, and the cost of the damage was estimated at R25 billion. In response, authorities in Khabarovskiy Kray announced plans to construct several new high-capacity dams on the Amur River at a cost of R15 billion (Konstantinova 2014c, 3).
12. The revised version of the program, issued in January 2015, actually decreased total expenditures from R299 billion in the original program to R252 billion.
13. In 2013, foreign workers comprised 44 percent of the workforce in construction. Almost 59 percent of foreign workers in Primorskiy Kray were from China, followed by 27 percent from North Korea.
14. The regional program has nine subprograms. Funding for the regional program also envisions R8 billion from the federal budget and R11 billion from other sources.
15. Rusagro is one of Russia’s largest producers of pork, sugar, margarine, and mayonnaise. The holding company consists of more than 35 agricultural enterprises, 6 sugar processing factories, and a series of trading offices.
16. In September 2014, Fedorov visited Russia’s Far East, where he consulted with agricultural leaders, visited food processing plants in Primorskiy Kray, attended an exhibition of food producers in Kamchatskiy Kray, and met with potential investors. While there, Fedorov

urged development of animal husbandry. In February 2015, Fedorov visited Sakhalinskaya Oblast, where meetings were held to discuss the development of the fish industry and expansion of animal husbandry. In particular, the sessions worked on removing administrative barriers to the expansion of fish production and processing for the domestic market by preparing rules and procedures to ensure that sanitation criteria are met (“I ryba, i myaso” 2015).

17. Retail prices for meat and meat products are significantly higher than in western Russia. Moreover, in the wake of the August 2014 food embargo, domestic suppliers have greatly increased their market share and occupy shelf space in retail stores that once was taken by imports (Hansen 2015, 2).
18. Volkov was replaced as Deputy Minister following the departure of Fedorov.
19. The expanded size of permitted land plots was already in use. Private farmers were given up to 20 ha and plots for household subsidiary farming were 2.5 ha from municipal land funds.
20. In early 2014, a division of Japan’s Nomura Group signed a contract to invest in the fishery cluster in the southern part of Primorskiy Krai (Konstantinova 2014b, 2).
21. Nationwide, the number of people employed in the fishing industry (fish farming and wild catch) declined from 172,000 in 2005 to 119,000 in 2012 (Rosstat 2013b, 87).
22. According to information from the regional administration, in 2013, Primorskiy Krai ranked second out of 30 Russian regions in a Forbes survey of “Best Russian Regions to Conduct Business.” The krai also ranked third out of 30 in “ease of registering private property.” In a World Bank analysis that looked at four key economic indicators, Primorskiy Krai ranked 15th out of 30, ahead of Moscow and St. Petersburg (“Investitsionnaya strategiya” 2013, 9).
23. For comparative context to domestic spending, foreign investment will also be converted into ruble equivalents using the exchange rate for that year. According to official sources, the 2013 exchange rate was R32.7 = \$1; and for 2014, it was R56.2 = \$1. The ruble equivalent will be indicated in parentheses following the dollar amount.
24. The memorandum of cooperation is set within an improving relationship between the two countries since 2006. After a troubled relationship in the 1990s, Putin’s diplomatic initiative to Mongolia and Russia’s writing off billions in Mongolian debt paved the way to the 2006 Moscow Declaration that outlined areas for political and economic cooperation. Former President Medvedev visited Mongolia in 2009, and Putin visited in 2014. Mongolia remains heavily dependent upon Russia’s oil and gas. In 2009, Russia provided funding to Mongolia to expand its rail system using Russian standard gage, thereby creating conditions for greater economic interconnectivity (Reeves 2015, 3–4). Mongolia imports more from Russia than any other country except China.
25. Policy problems included confusing and ill-defined federal laws, a budget and subsidy problem, the decline in defense spending that was an important part of the Far Eastern economy, and a political climate that allowed for the proliferation of corruption, theft, bribery, and contract killings. Structural problems included a small and declining population, deep poverty in northern regions, distant location and a lack of integration to European Russia, and widespread deficiencies in infrastructure (Davis 2003, 132–133).
26. The population of the Far East has contracted since the early 1990s, from over 8 to 6.2 million in 2014. Thus, population density has declined. Moreover, the size of the Far East and the small number of medium and large cities means that there are vast stretches of empty space between the largest cities. The two largest cities, Khabarovsk and Vladivostok, are separated by 755 km (by road); Khabarovsk is also 400 km from Komsomol’sk, 694 km from Blagoveshchensk, and 2354 km from Yakutsk. Vladivostok is even farther – more than 1152 km from Komsomol’sk, 1280 km from Blagoveshchensk, and 3111 km from Yakutsk. The Far East is dotted with small urban settlements that may not be economically connected to larger cities.
27. Overall, there are just 54.2 thousand km of hard-paved roads in the entire federal district. In contrast, the Far East federal district encompasses over 6.2 million square km, or approximately two-thirds the size of the entire United States.
28. In addition to infrastructure deficiencies, there are political barriers for foreigner investors, high taxes and customs, and high administrative barriers that regulate the fishing industry.

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