



Characteristics of the Economic Development of the Multi-Ethnic Regions of Russia

Svetlana Panikarova¹, Maxim Vlasov²

¹ Professor, Ural Federal University named after the first President of Russia B. N. Yeltsin, Ekaterinburg, Russia, E-mail: Panikarova_s@mail.ru

² Docent, Ural Federal University named after the first President of Russia B. N. Yeltsin, Ekaterinburg, Russia, Senior Fellow at the Centre of Economic Theory Institute of Economics, Ural Branch of the Russian Academy of Sciences, Ekaterinburg, Russia, E-mail: mvlassev@mail.ru

ARTICLE INFO

Received May 27, 2015
Received in revised form -
Accepted October 16, 2015
Available online 30 Dec. 2015

JEL classification:

R11, R58

DOI:

10.14254/1800-5845.2015/11-2/6

Keywords:

Economic development,
Multi-ethnic regions,
Competitiveness differentiation of
regional development

ABSTRACT

Authors some features socially - economic development of multi-ethnic regions of the Russian Federation presented in article. Based on the analysis of regional statistics data authors showed that multiethnic regions lag behind the average Russian level on the main socio-economic indexes. Results of research also proved that traditional and agricultural types of economic activity prevail in these regions for the reason that endogenous and exogenous factors work. The author's statement about unacceptability of application of industrial methods of regional economic development to multiethnic regions is proved.

1. INTRODUCTION

The high level of inter-regional differentiation in all key economic and social characteristics, which is so distinctive of Russia, is largely due to natural differences, the geographical evolution of the Russian state, the stage of economic development of the country and the outcomes of the preceding period. The socio-economic differentiation of regions manifests itself as differences in the quality of life, determined by the competitiveness of the regional economy (internal factor) as well as transfers from other regions and the central state (external factor). The question of increases or decreases in the heterogeneity (or differentiation) of the socio-economic space of Russia is of great importance since it has a significant impact on the evolution of economic institutions, structure and efficiency as well as the strategy and tactics of social and economic policy. In recent years, differences in the socio-economic situation of the regions have increased across almost all statistical indicators.

Researchers distinguish between economic and social inequality while emphasising the close relationship that exists between them (Zubarevich, 2008).

A certain degree of differentiation of the economic space of a region is natural and even beneficial. It carries a certain “dynamism” into the economy, creating a necessary tension. The primary cause of economic differentiation is the process by which economic activities are concentrated in areas that offer advantages that allow businesses based there to reduce their costs. Among these advantages P. Krugman highlighted factors of a “first nature” (wealth of natural resources, advantageous geographical location) and factors of a “second nature” (agglomeration effect, high human capital, better institutional environment), which are related to the activities of the company (Krugman, 1991). While the Russian economy is oriented towards geographical factors of the “first nature”, the economic inequality of regions will continue to grow. According to N. V. Zubarevich, there are three kinds of advantage obtainable in contemporary Russia: the agglomeration effect (economies of scale), the availability of mineral resources demanded by the world market, and, to a lesser extent, a prime location on the main global trade routes, predominantly coastal. These advantages manifest themselves in superior growth accruing to the territories: the largest agglomerations of federal cities, the oil and gas and metallurgical regions and the southern and western coastal regions. As a consequence, economic inequality between regions is growing (Zubarevich, 2008).

The situation is reversed when it comes to the differentiation of social space, in particular, the quality of life of the population. Here any deviation from socially acceptable standards is not only contrary to the fundamental law of development of human society but also fraught with serious consequences for the economy. Injustice and inequality lead to incomplete use of human potential; elimination of accumulated social imbalances in the future will require not only high material costs but also of time; such disparities can lead to social explosions (Kuznetsova, 2009). The persistence of these trends would entail the actual differentiation of the social and economic rights of citizens, irrespective of their place of residence, possibly leading to mass migration from depressed regions and the emergence of ethnic conflicts, including the manifestation of various forms of intolerance, nationalism and xenophobia.

There are more than 100 ethnic groups in the Russian Federation. The number of members of Russian indigenous ethnic group is about 19.7 million, and from them 9.5 million indigenous people live in rural areas. In Russia territories are accommodated by indigenous people have the status of the republics, or autonomous region, national territories or without any special status. The current socioeconomic circumstances of the Indigenous people in Russia are poor. For example, according to the 2010 census (compared with the 2002 census), in 19 out of the 26 indigenous regions, the socioeconomic situation of the indigenous population is showing a numerical decline.

The aim of the present paper is to find out peculiar characteristics of the economic development of the multi-ethnic regions of Russia that are predetermined by social – economic and political changes at different stages of development of the country.

2. METHODOLOGY

The article takes an eclectic methodological approach to piece together extant literature and to discover new empirical knowledge about socioeconomic circumstances of the Russian multi-ethnic regions. The data source of our research is data of Rosstat (Federal State Statistics Service) and data of Expert RA (International group of rating agencies). Such indicators as GRP, Unemployment Rate, Subsistence Level, Poverty Rate were taken from a database of Rosstat.

In Russia, GRP is measured in basic prices, i.e. net of taxes including subsidies on products. GRP is determined by using the production approach, i.e. as a difference between the re-

gion's gross output and intermediate consumption, or as a sum total of all the values added by all the economic activities in the region.

Rosstat considered unemployment as defined by OPNZ using the criteria of the International Labor Organization (ILO). According to ILO, an unemployed person is one above the age of 15 without revenue, who is able to work and actively searching for job.

Regional subsistence level are calculated on the basis of consumer baskets and Rosstat price data. The region's consumer basket is set by its legislature on the basis of federal methodological recommendations with regard to local natural, climatic, social and demographic specifics.

To compute the poverty rate, Rosstat draws on the subsistence rate determined by the regional authorities on the basis of the nation-wide consumer baskets for working age population, pensioners and children.

Such indicator as Investment Climate Rate was taken from a database of Expert RA. In terms of the components of the investment climate, two relatively independent characteristics are used: investment potential and investment risk. The evaluation of the investment climate of regions generally consists of the following steps: 1) calculation of the proportion of each region in Russia in terms of 9 types of investment potential and indexes of 7 types of private investment risk; 2) all regions ranked by size of total investment potential or integral investment risk; 3) to each region is assigned a rating of investment attractiveness, with the index defining the ratio between the cumulative level of investment risk and the amount of total investment potential of the region. Each region of Russia belongs to one of 12 rating categories according to the ratio of the value of the aggregate potential and integral risk: 1A – High potential / minimum risk; 1B – High potential / moderate risk; 1C – High potential / high risk; 2A – Average potential / minimal risk; 2B – Average potential / moderate risk; 2C – Average potential / high risk; 3A – Low potential / minimal risk; 3B1 – Low potential / moderate risk; 3C1 – Reduced potential / high risk; 3B2 – Slight potential / moderate risk; 3C2 – Slight potential / high risk; 3D – Low potential / extreme risk.

3. RESULTS AND DISCUSSION

The multi-ethnic regions, in the system of regional organisation of the Russian economy, are highly heterogeneous. Statistical analysis permits the basic parameters of social and economic development to be differentiated and demographic and resource potentials to be expressed.

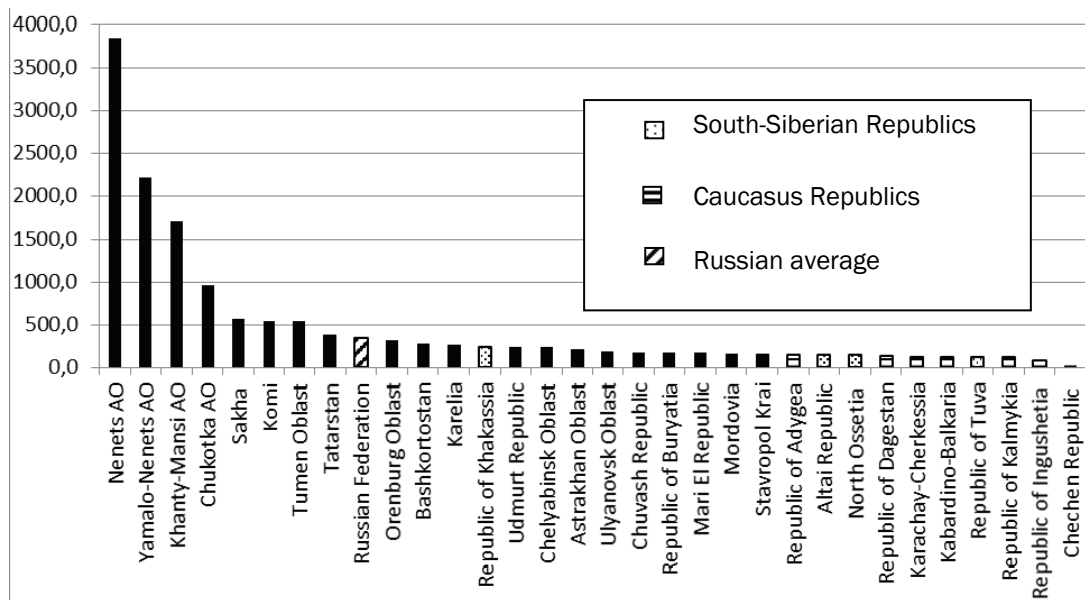
Out of all geographic regions in the multi-ethnic groupings, it is undoubtedly the case that to the economically backward and high-problem areas pertain two in particular: the Caucasus and South-Siberian Republics. In Fig. 1 it can be seen that all these regions have a per capita GRP significantly below the Russian average.

While in other multi-ethnic regions (except the autonomous regions of Sakha, Komi and Tatarstan), GRP per capita is lower than average for the Russian Federation, in the Republic of the Caucasus and South Siberia it is significantly lower in terms of manufacturing output. At the same time, almost all regions of the Caucasian and South Siberian Republics (with the exception of Ingushetia, Chechnya and Tuva) are characterised by high levels of per capita agricultural production (Fig. 2).

The multi-ethnic regions can be divided into three groups according to the volume of extractive industries per capita: 1) regions in which the volume of extractive industries per capita of population comprises 600,000 rub. and above (Yamalo-Nenets, Khanty-Mansi, Nenets and Chukotka Autonomous Districts and the Sakha and Komi Republics; 2) regions in which the volume of extractive industries is compared with average Russian indices (67,900 rub. in 2013)

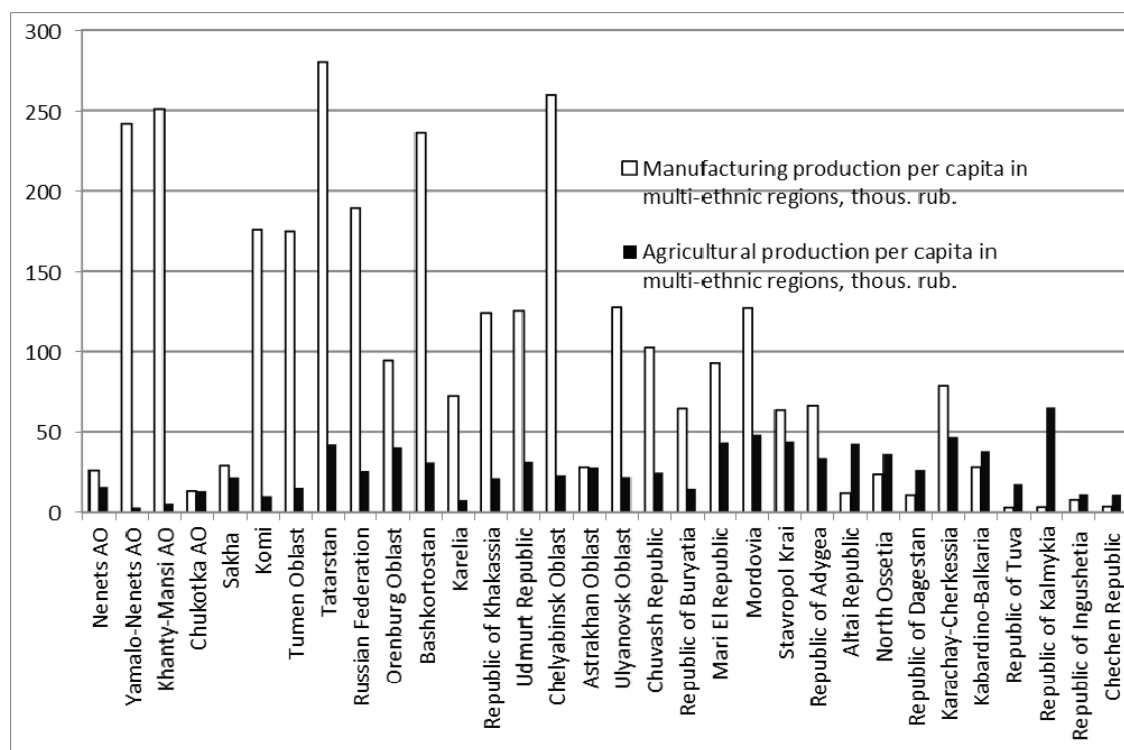
and from 40,000 rub. to 150,000 rub. (Karelia, Bashkortostan, Tatarstan, Udmurtia, Khakassia and Orenburg oblast); 3) regions in which the volume of extractive industry output is insignificant (less than 40,000 rub. per capita).

Fig. 1 GRP per capita, thous. rub., in the multi-ethnic regions of the RF (2013)



Source: research of the author

Fig. 2. Manufacturing and agricultural production per capita in multi-ethnic regions, thous. rub. (2013)



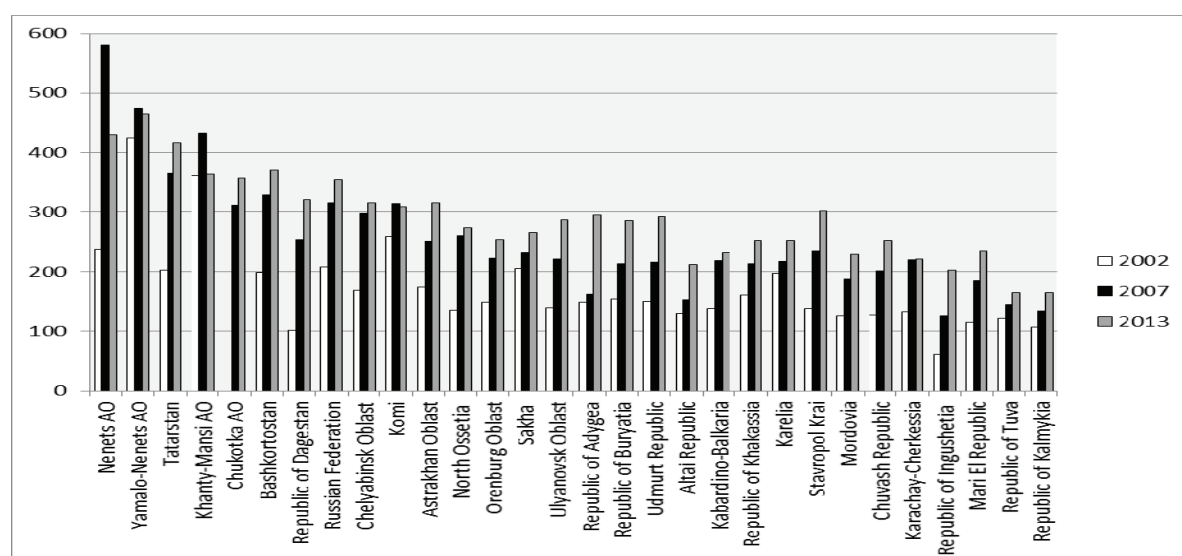
Source: research of the author

In general, these groups of regions consist of economically backward areas. This is reflected in the income levels of the population. In Russia, the income level of the population must be measured with an adjustment to the regional minimum subsistence level, since prices across the regions can vary more than three-fold. The highest per capita income among the multi-ethnic regions is in the raw materials autonomous districts (Yamal-Nenets AD, Nenets AD, Khanty-Mansi AD, Chukotka AD) (on average four times higher than the subsistence minimum). In the group with incomes above the average, in addition to the raw materials regions, are the three Republics – Tatarstan, Bashkortostan and Dagestan (Fig. 3).

For Tatarstan it is in part a consequence of the artificially low level of subsistence due to the long-term subsidies applied to basic foodstuffs and socially important services. Dagestan has the highest rate of income growth of the population in 2002-2013, outrunning incoming purchasing power (ratio of per capita money income to the subsistence level in the region) not only compared with other North Caucasus Republics, but also other Russian regions. The purchasing power of the population for the years 2002-2013 increased in Dagestan by 3.2 times (while the average increase for Russia overall was 1.7 times). Notwithstanding, it should be noted that in most of the North Caucasian Republics, the pace of income growth was higher than in the others. Keeping pace with Dagestan, incomes were also growing in Ingushetia (3.2 times) and North Ossetia (2 times). This can be explained by non-economic factors, primarily in terms of Federal government policy.

The remaining Republics are divided into groups with middle and low income; moreover, this distribution is not always linked to the level of economic development. Statistics show that incomes were lowest in the Republics of Tuva and Kalmykia both in terms of their level and dynamics. Very slow income growth characterised the Republics of Karelia, Sakha and Komi, while falling purchasing power occurred in the Khanty-Mansi and Yamalo-Nenets Autonomous Districts (Fig. 3). There is no common trend (lead or lag) for the Republics.

Fig. 3. Ratio of per capita incomes to subsistence level in the region, %

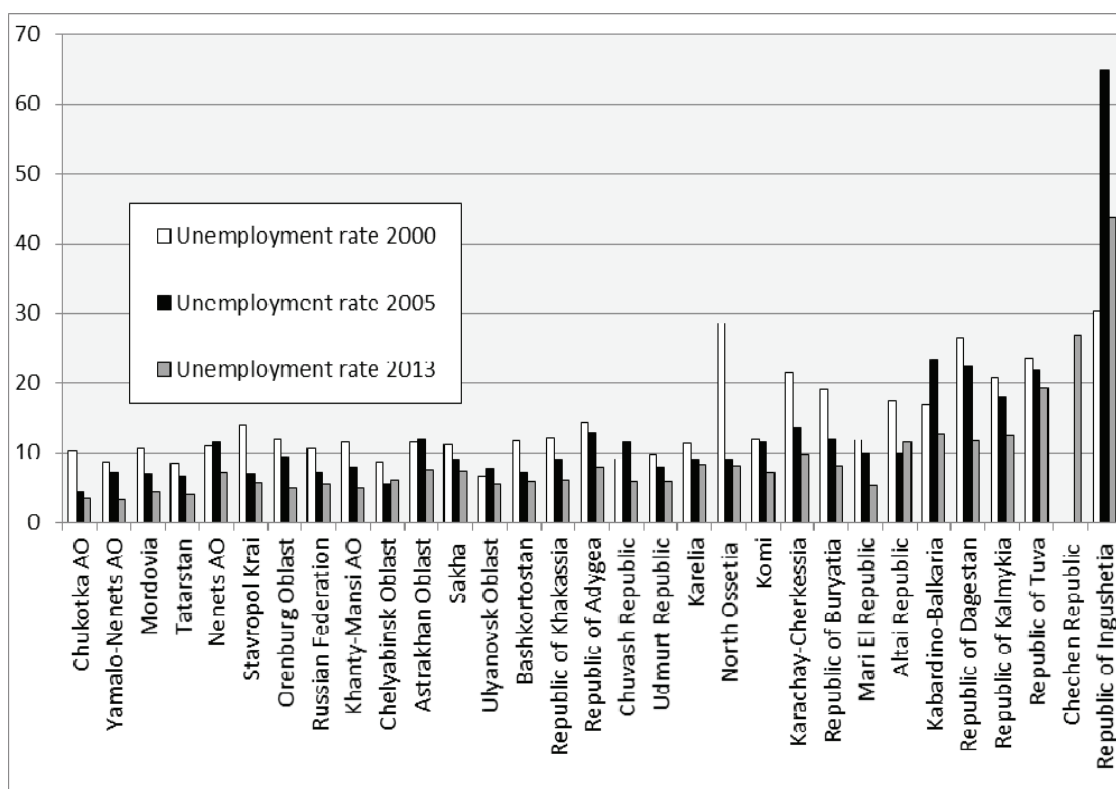


Source: research of the author

Of course, one should take into account the low accuracy of the measurement of standards of living in Russia, particularly in the Southern Republics, where the most significant proportion of shadow incomes are experienced. The "grey", "non-observed" economy is especially characteristic of those subjects of the Russian Federation that are considered to be the poorest regions.

The labour market is closely linked with the economic status of the region as well as with demographic factors. As a consequence, the problem of unemployment in the underdeveloped Republics showing a positive demographic trend is more acute than in the "Russian" regions. The Republics of the North Caucasus and South Siberia are especially highlighted in this respect. Every year, the labour markets in these regions receive a large influx of young working-age population, for which there are not enough new jobs as a consequence of the underdevelopment of the economy. In the North Caucasus, unemployment is somewhat mitigated by territorial mobility; nevertheless, the extent of labour migration is insufficient to relieve tension on the labour market. As a consequence, in these Republics, unemployment is maintained at a sufficiently high level (Fig. 4). A third of the Republics are among the problem areas (having unemployment rates above 15%); however, the data for Ingushetia, where unemployment affects around half of the economically active population, raises serious questions. A large proportion of the population is employed in the informal economy, which is not reflected in an employment status according to the labour market surveys. In the medium- to more-developed Republics, the problems of the labour market are little different from the overall Russian picture, with the exception of the northern resource-producing Komi Republic, where unemployment has increased due to the limited supply of jobs in non-diversified towns and extractive industry villages. Similar problems in terms of the labour market are experienced by the Siberian Republic of Buryatia.

Fig. 4. Unemployment rate, %

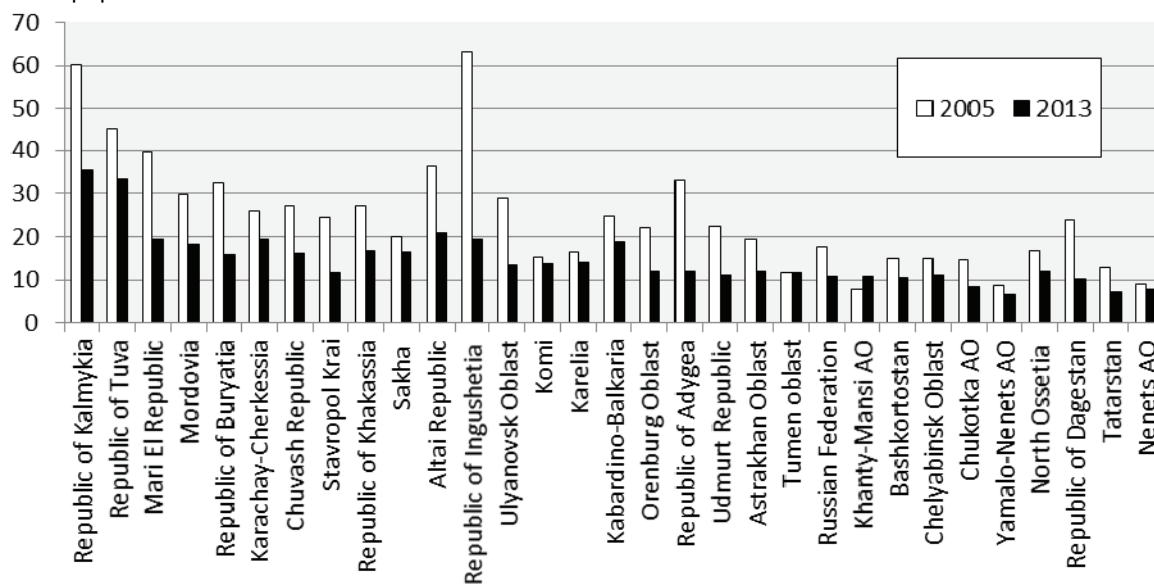


Source: research of the author

Varying significantly across the multi-ethnic regions is one of the most important social indicators – poverty. The better-developed Republics (such as Bashkortostan and Tatarstan) have low poverty rates (Fig. 5). This is a result of sustained economic growth and wage increases that

have lifted most working families out of poverty. The least developed Republics, with the exceptions of Tuva and Kalmykia, have rapidly reduced poverty through federal aid programmes. However, a comparison of the average poverty levels in Russia overall with those in the multi-ethnic regions shows that the latter differ markedly for the worse.

Fig. 5. Number of people with incomes below the subsistence level as a percentage of the total population



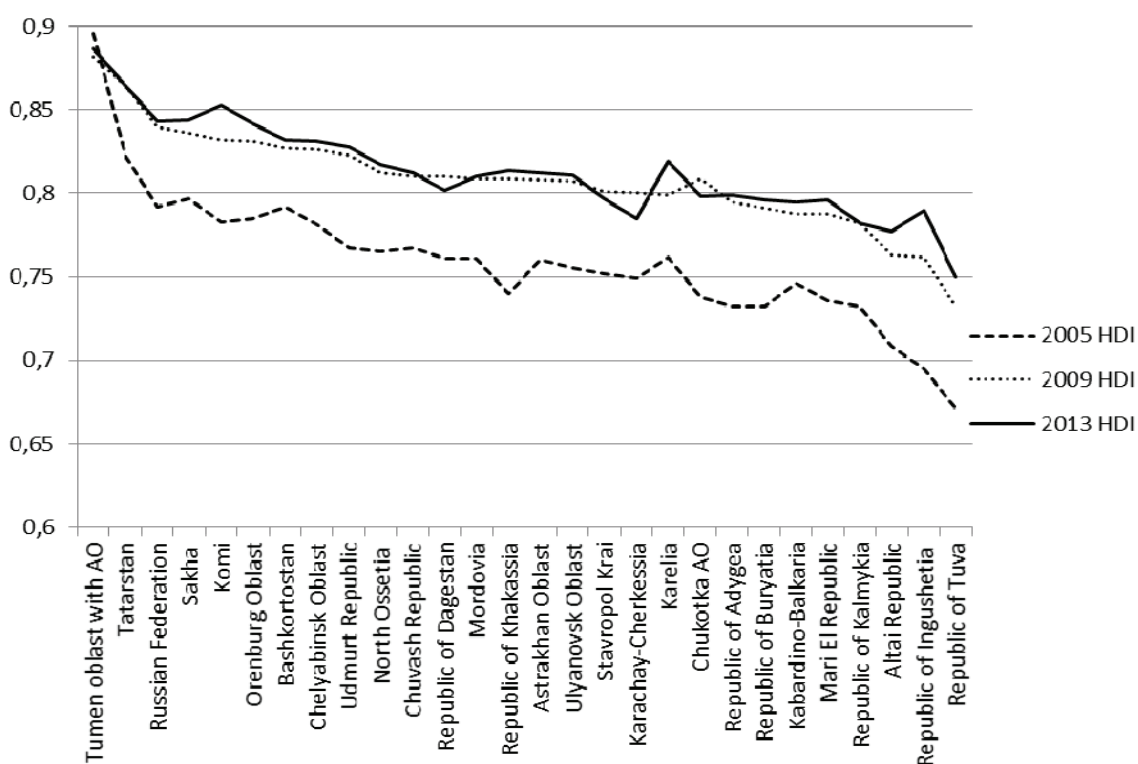
Source: research of the author

In some Republics, the poverty level decreased dramatically in the 6 years from 2005 to 2013; for example, in Ingushetia, where it dropped from 63.2% to 17.9%. Is it possible to discount all the bad statistics and assume that this is the result of an artificial understatement of the figure? Or has one single Republic been able to do what has not worked in all the other problem regions and bring all the most important social indicators up to a reasonable level? Moreover, the sharp improvement in income and poverty in Ingushetia has seemingly taken place against the backdrop of minimal progress in reducing unemployment. The real reason lies in the sharp increase in federal aid to Ingushetia over the last two or three years, resulting in a significant increase in social benefits paid to poor people (families with many children, and others). Therefore, the phenomenon of the success of the Republic has a non-economic basis: it is a consequence of the special support of the federal government.

The standard instrument for comparing the general standard of living in different countries and regions is the Human Development Index (HDI). This is an aggregated indicator, which is calculated annually to measure standard of living, literacy, education and longevity as the primary characteristics of the human potential of the studied territory. When calculating the HDI, three types of indicators are taken into account: life expectancy; the average number of years spent on education and school; life expectancy; standard of living, calculated by GDP per capita at purchasing power parity. Unfortunately, HDI is shown in most multiethnic regions to be below the national average (excluding, as has been repeatedly said, Tatarstan) (Fig. 6). The reason for the low HDI in the South Siberian Republics, besides the low standard of living, is the low life expectancy and mediocre level of education.

The locations of investment are the best indicator of development priorities (Table. 1). The highest levels of investment are received by the raw materials (especially oil and gas) producing regions. Tatarstan is among the relative leaders due to a combination of the two sources of investment – business (in oil production and other sectors) and Federal investments. These investments show precisely to what extent the underdeveloped Republics are unattractive to business, lagging behind the average by 2-5 times.

Fig. 6. The Human Development Index of the multiethnic regions of the RF



Source: research of the author

Table 1. Per capita investment in fixed assets,% of the Russian national average (national average = 100)

Federal Subject	2002	2007	2013	Federal Subject	2002	2007	2013
1	2	3	4	5	6	7	8
Karelia	105.5	58.6	51.1	Mordovia	68.9	68.7	71.3
Komi	177.8	137.3	200.8	Tatarstan	123.7	120.7	147.1
Nenets AO	2825.9	4595.8	1517.5	Udmurt Republic	60.1	61.4	51.2
Republic of Adygea	35.4	52.6	38.8	Chuvash Republic	51.4	62.7	51.6
Republic of Kalmykia	129.7	45.4	56.1	Orenburg Oblast	68.3	81.1	82.1
Astrakhan Oblast	109.1	106.0	123.2	Ulyanovsk Oblast	36.3	56.2	64.9
Republic of Dagestan	25.6	48.1	65.3	Khanty-Mansi AO	910.1	539.1	490.1
Republic of Ingushetia	12.5	32.7	31.8	Yamalo-Nenets AO	2126.6	1127.0	1166.8

Kabardino-Balkaria	42.8	30.4	28.1	Chelyabinsk Oblast	76.3	78.8	65.5
Karachay-Cherkessia	41.3	44.9	43.2	Altai Republic	52.4	61.2	60.3
North Ossetia	33.6	44.1	41.1	Republic of Buryatia	54.0	42.9	44.1
Chechen Republic	36.8	73.1	33.4	Republic of Tuva	17.6	16.3	44
Stavropol Krai	58.9	42.0	48.2	Republic of Khakassia	41.4	68.6	61.8
Bashkortostan	94.4	83.7	70.9	Sakha	224.9	266.7	219.7
Mari El Republic	33.2	51.6	70.8	Chukotka AO	762.6	235.0	222.6

Source: research of the author

The problem of low investment is either due to political or institutional risk (North Caucasus Republics) or to a very strong rise in the cost of economic activity due to remoteness and poor infrastructure (Republics of South Siberia).

Ratings for the investment climate of the multi-ethnic regions remain low. According to the evaluation by Expert RA, stable ratings in Tatarstan and Bashkortostan; in recent years, ratings have increased in the Khanty-Mansi Autonomous District and the Chelyabinsk Region (Table. 2).

The South Siberian Republics either demonstrate a negligible / low potential – moderate risk (3B1/2) like Buryatia and Khakassia, slight potential – high risk (3C2) like Altai, or low potential – extreme risk (3D), like Tuva.

Table 2. Ratings for the investment climate of the multiethnic regions (according to figures from Expert RA).

<i>Region</i>	2002	2007	2013	<i>Region</i>	2002	2007	2013
1	2	3	4	5	6	7	8
Astrakhan Oblast	3B1	3B2	3B1	Republic of Sakha (Yakutia)	2C	2B	3B1
Kabardino-Balkaria	3B2	3C2	3C2	North Ossetia-Alania	3B2	3C2	3C2
Karachay-Cherkessia	3C2	3C2	3C2	Republic of Tatarstan	2B	2B	1A
Nenets AO	3B2	3C2	3B2	Republic of Tuva	3C2	3D	3D
Orenburg Oblast	3B1	3B1	3B1	Republic of Khakassia	3B2	3B2	3B2
Republic of Adygea	3B2	3C2	3B2	Stavropol Krai	3B1	3B1	3B1
Altai Republic	3B2	3B2	3C2	Tyumen Oblast	3B1	3B1	3B1
Bashkortostan	2B	2B	2B	Udmurtia	3B1	3B1	3B1
Republic of Buryatia	3B1	3B2	3B1	Ulyanovsk Oblast	3B1	3B1	3B1
Republic of Dagestan	3C1	3C1	3C1	Khanty-Mansi AO	1C	2B	2B
Republic of Ingushetia	3D	3D	3D	Chelyabinsk Oblast	2C	2B	2B
Kalmykia	3C2	3D	3C2	Chechnya	3D	3D	3D
Karelia	3B2	3B2	3B1	Chuvashia	3B1	3B2	3B1
Komi Republic	3C1	3B1	3B1	Chukotka AO	3C2	3C2	3C2
Mari El	3B2	3B2	3B2	Yamalo-Nenets AO	2C	2B	3B1
Mordovia	3B2	3B2	3B2				

Source: research of the author

4. CONCLUSIONS

Thus, the conducted analysis leads to the following conclusions:

- The multiethnic regions form several geographically isolated groups. A low level of socio-economic development distinguishes the Volga-Vyatka region as well as the South Siberian and Caucasian Republics. These geographical groups do not have either the industrial capacity (as in the Ural-Volga region) or the natural-resource potential (both North and West Siberia).
- For the majority of the underdeveloped Republics it is characteristic that, while per capita GDP, manufacturing volume and extractive industrial output are well below the national average, agricultural output tends to be above the national average.
- In the underdeveloped multiethnic regions there is a worse labour market situation and more poverty than average for Russia as a whole; however, earnings growth rates vary, as does poverty reduction, with these being more dependent on non-economic factors (such as the federal policy).
- Unfortunately, HDI is shown in most multiethnic regions to be below the national average (excluding Tatarstan). The reason for the low HDI – besides the poor standard of living – is the low life expectancy and mediocre level of education.
- The highest levels of investment are received by the raw materials (especially oil and gas) producing regions and Tatarstan. The problem of low investment is either due to political or institutional risk (North Caucasus Republics) or to a very strong rise in the cost of economic activity due to remoteness and poor infrastructure (Republic of South Siberia).

To conclude, the multiethnic regions of the Russian Federation are generally lagging behind in terms of their socio-economic development. Development trends in the economic space of the Russian Federation suggest that this gap will only increase in the future. We can adduce the reason for this as being the heterogeneity of the economic space, in which a process of concentration of economic activity takes place in areas that already have a competitive advantage. In this connection, it is necessary to study the economic and social spaces of the regions from the perspective of a possible increase of competitiveness, i.e. the creation and development of competitive advantages.

Acknowledgment

The study was financially supported by the Russian Science Foundation, project No. 15-18-00049

REFERENCES

- Bortnik, V. M., Zinov, V.G., Kotzubinsky, V.A., Sorokina, A.V. (2013), "Indicators of economic development of the Russian regions for monitoring and management" *Innovations*, No. 11. 2-13.
- Krugman P.R. (1991), *Geography and Trade*. Cambridge. MIT Press, MA:.
- Kuznetsova O.V. (2002), *The Economic Development of Regions: Theoretical and Practical Aspects of State Regulation*, Pub.5, Editorial URSS Publ., Moscow.
- National Human Development Report 2013 for the Russian Federation (2013), LLC RS If.
- Panikarova, S. (2014). "Evolution of traditional economic institutions for Aboriginal Nations", *Conference Proceedings: 8th International Days of Statistics and Economics*, 1094-1105.
- Panikarova, S. (2015), "Status of the indigenous regions in Russia: The case of Khakas people", *Asia-Pacific Social Science Review*, Vol. 15, No. 1, 141-148
- Pilyasov, A.N. (2009), *The last will be the first. Northern periphery on the road to knowledge based economy*. Book House "Libricom", Moscow.

State Statistics Committee (Goskomstat), "Regions of Russia. Socio-economic indexes. 2012".
URL:http://www.gks.ru/wps/wcm/connect/rosstat_main/rosstat/ru/statistics/publications/catalog/doc_1138623506156
Zubarevich, N.F. (2008), "Socio-Economic Development: Myths and Realities of Balancing",
SPERO, No. 9. 7-22.