

The Baikal Economic Forum in Irkutsk: Good Intentions and Modest Outcomes

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The Baikal Economic Forum was held in Irkutsk from September 19-23, 2000. Attended by several hundred Russian and foreign participants, this event was organized under the auspices of the Federation Council of the Federal Assembly of Russia. Regional associations such as the "Siberian Agreement" and the Association for Economic Cooperation of the Far Eastern and Trans-Baikal Provinces were also involved.

It was expected that President Vladimir Putin would speak at the plenary session. Instead, a message from the President was read at the opening ceremony and Egor Stroev, Speaker of the Upper House of the Russian parliament, delivered a keynote speech. The main concern expressed in this speech was the declining or stagnant population in the provinces of Eastern Russia and lack of appropriate federal economic policy to help the Eastern regions to emerge from economic crisis and industrial degradation.

As was stressed by Mr. Stroev, market economy development and links among Russian regions, more trade with CIS neighbors and the economies of the Asia-Pacific region must be initiated to achieve economic and social recovery. There were three main areas identified for cooperation: (1) cross-border energy projects; (2) transportation projects, including trans-continental projects; and (3) science and advanced technologies. There was also a proposal to use contracted foreign labor in the region, albeit "under strict federal regulations."

The keynote speech was followed by remarks from Leonid Drachevskiy a presidential representative in charge of the newly created Siberian Federal District. He proposed that national development plans, such as the one for the period until 2010 recently adopted by the Federal Government, must be complemented by regional development programs. The problem, however, is the lack of investment resources and new technologies.

Boris Govorin, the Governor of Irkutskaya Oblast, emphasized in his presentation the significance of the economic links with the Asia-Pacific markets and new "dividing lines" between Eastern provinces and Western Russia created by liberalization. Also, he mentioned that development programs adopted for Siberia and the Far East fail to arrest negative demographic trends because these programs are severely under-financed.

Professor Mikhail Titarenko, Director of the Institute of Far Eastern Studies of the Russian Academy of Sciences, diverted main attention to the problem of human resources development in Eastern Russia, the future of Russia in Northeast Asia and its limited participation in trade and economic links in the Asia-Pacific region, despite its unique geo-strategic stretch from the Atlantic Ocean to the Pacific Ocean.

Minister of Finance Alexei Kudrin was upbeat: a

strong trade surplus in 1999, record-high rates of economic recovery in January-September 2000, balanced budget and increase in investment mark the first such change in a decade. An improved investment climate and prospects for simpler and lower taxes promise improved performance for Russian enterprises and will attract foreign investors.

The list of speakers also included Mikhail Nikolaev President of Yakutia, Leonid Potapov President of Buriatia, Victor Kress Governor of Tomskaya Oblast, Stanislav Smirnov President of the Russian Chamber of Trade and Industry, Professor Evgeniy Velikhov and others. There were several speakers from the neighboring countries of Northeast Asia, including Mongolia, China, Japan, and the Republic of Korea.

The presentation by Professor Masaru Hirata, Vice President of the Northeast Asian Gas and Pipeline Forum (Gas Forum, as this conference was called in Irkutsk) was one of the most informative and relevant to the needs of both Eastern Russia and the entire Northeast Asia region. Professor Hirata informed the plenary session about the activities of this organization since its establishment.

The Northeast Asian Gas and Pipeline Forum grew out of a conference held in Tokyo in 1995 attended by representatives from Japan, China, Russia (Yakutia), and South Korea. The second conference, on prospects for the Northeast Asian natural gas pipelines, took place in Beijing in 1996. Representatives from Australia, Canada, the US, the UK and other countries also joined.

The National Pipeline Research Society of Japan, serving as a coordinator for these two conferences, proposed to establish the forum to promote regional cooperation in expanding natural gas in the region. The third conference, held in Seoul in 1997, adopted the statute of the proposed forum and established a non-profit organisation for international cooperation.

The government of Mongolia hosted the fourth conference in 1998, which attracted 110 participants from 11 countries, including representatives of North Korea and Taiwan. Highlights of the meeting included the presentation made by a representative of Gasprom on the feasibility of natural gas supplies to China and a decision to begin joint research activities. The fifth conference took place in July 1999 in Yakutia, with more than 200 participants from 12 countries. In Irkutsk, the Gas Forum held its sixth conference and an announcement was made that the Russian side would form a national coordinating committee to participate more effectively in the activities of this non-governmental organization.

In Irkutsk, Professor Hirata reported to the opening session of the Baikal Economic Forum about the proposal to establish an international organization to facilitate cross-border gas pipeline projects in Northeast Asia. This

was a very timely initiative, considering that only two years ago in October 9, 1998, APEC energy ministers endorsed their Natural Gas Infrastructure Initiative.¹

This initiative appears timely, but also difficult to implement without multilateral concerted effort. Indeed, there are large discovered resources of natural gas in Eastern Russia and huge potential markets in China, including Taiwan, Japan and the Koreans. It is also technically feasible to build a cross-border pipeline infrastructure. However, to mobilize financing for the resources development, cross-border pipelines and distributing networks, political cooperation is the key.

The "policy component," in addition to favorable political climate, also includes domestic economic and administrative issues. The absence of legal and regulatory frameworks in the region for gas pipeline projects is complicated by the absence of fiscal regimes that can reduce investment risks. Moreover, the energy markets in the region, including, first of all, Russia, China, and North Korea, are not sufficiently open or transparent. The pricing mechanisms are often inefficient and include government price intervention and tax distortions.

In order to deal with these impediments the Northeast Asian countries must establish stable and transparent regulatory regimes that will integrate the interests of all participants in future natural gas projects. In Russia, the first steps were taken to permit private, domestic and foreign ownership of natural gas facilities.

Similar to the Sakhalin oil and gas projects, only private and commercial entities should lead the large-scale investment and development programs in Northeast Asia to ensure their efficiency. On the other hand, the production-sharing mechanism must be further refined to protect the property rights of private investors and operators, ensuring the contracts and the needs of the recipient country. The PSA approval processes are complex, but stable, transparent and non-discriminatory. This approach permits capital transfers and does not restrict repatriation of earnings. It provides equal treatment for domestic and foreign companies and ensures recovery of and return on investment in natural gas projects. Finally, it sets out environmental standards.

However, there are numerous technical, financial, and other unnecessary barriers to using natural gas in Northeast Asia. The environmental benefits of using natural gas compared with other fossil fuels, coal in particular, are yet to be fully taken into account. It is unclear how the countries of the region will foster competition among all the different sources of energy, including imported and domestic sources, and among energy providers. There is no certainty with regard to a pipeline infrastructure in Japan or the Korean peninsula. All these make prospects for Sakhalin natural gas uncertain in terms of market access.

Therefore, to implement the APEC's Natural Gas Initiative a special and concerted effort should be made, including establishment of a formal consultative mechanism among the economies of Northeast Asia.

Most critically, a long-term and comprehensive strategy for the development of these resources has yet to be drawn up. This strategy must accommodate various issues and interests, including the resource base enlargement, markets to be covered, delivery options, sources and mechanisms of financing the projects, and also the cost-effective and policy-sustainable "geography" of the proposed gas pipeline network. In this respect the Gas Forum in Irkutsk made another step forward through a publication of the special report entitled "A Long-term Vision of Natural Gas Trunkline in Northeast Asia." This report is the result of a multilateral and long-term effort by the coordinators and key members of the organization.

The Gas Forum was indeed a comprehensive and well-focused discussion, involving experts, government officials, business leaders and local administrators from Northeast Asia and other regions, including North America and Europe. It seems that it was extremely appropriate to coordinate the timing for the Gas Forum and the Baikal Forum, assisting the latter in developing a truly international outreach.

There were also two other separate conferences conducted under the auspices of the Forum. From September 21-22, another international conference on "Power Integration in Northeast Asia: Prospects for Developing the Inter-State Integrated Power Grids" took place, also as a part of the Baikal Forum. It was smaller than the "Gas Forum," but its main goal was to propose a comprehensive strategy that took into consideration both the agreed policy for electric power industries and concrete electric power projects.

Formation of interstate electricity infrastructure in the region will lead to a decrease in energy costs and improvements in energy supply reliability and will make the solutions of environmental problems easier. In the same way as the leaders of the Gas Forum, the conference organizers rightly believe that such a strategy of cross-border power integration in Northeast Asia can only be created through the collective effort of all the interested countries and organizations.

Yet another conference on the "Problems of Youth Employment and Occupational Training in Siberia and the Far East" took place under the umbrella of the Baikal Forum. In general, the Baikal Forum was a huge event with more than 1,600 registered participants, including 125 guests from Western Russia and 276 from other countries. The Baikal Forum's program included the three main sections, 11 roundtable discussions, other seminars and workshops.

It should be noted that from the preparatory stage in November last year, Egor Stroev and the Federation Council were the frontrunners in organizing the Baikal Forum. The main idea was to apply both the philosophy and the methodology of the economic forum in St. Petersburg on Russia-CIS relations to Eastern Russia. However, it seems that the Baikal Forum organizers failed to integrate different interests in the planning process, although formally speaking it was a collective exercise,

¹ "Recommendations Concerning Accelerating Investment in Natural Gas Supplies, Infrastructure and Trading Networks in the APEC Region."

involving the names of many prominent people.

Indeed, both the deliberations during the opening ceremony and the main document prepared for the forum² represent a set of foreign policy prescriptions, rather than a pragmatic vision of economic opportunities for Russia in East Asia. Moreover, the entire discussion during the opening plenary session was rather inward looking, making international participants wonder why such a conference focused on domestic issues was called “international.”

The stated objective of the Baikal Forum was to provide a well-balanced view on the role and position of the Siberian and Far Eastern Russian provinces in both inter-regional exchanges and international economic integration in the 21st Century. In reality, however, even the goals of the mid-term economic strategy announced by the new Russian government, including prospects for overseas trade and foreign investment, were neither listed in the report nor linked with the current economic trends in the Asia-Pacific region.

Furthermore, the Baikal Forum was expected to give recommendations to the legislative and executive bodies to take concrete steps ensuring favorable investment conditions in Siberia and Far East to implement large-scale investment projects of primary importance for these regions and Russia. However, the principle report was paying attention mostly to the conceptual diversity of special economic zones, mentioning only in passing leading and most promising investment projects in Eastern Russia such as oil and gas ventures in Sakhalin and the Kovykta natural gas project, near Irkutsk.

Also, in cooperation with neighboring countries the Forum was expected to provide practical proposals for the sustainable use of natural resources, energy and

transportation infrastructure development in Eastern Russia. According to Stroevev, the Baikal Forum was designed to provide a venue for “practical business contacts” between Russian and foreign businessmen this is exactly what did not happen during the meeting in Irkutsk, except for the conference on natural gas and gas pipelines in Northeast Asia.

There is no doubt that the Baikal Economic Forum became an important event for Eastern Russia. However, what its real impact on these regions and the current and emerging problems will remain to be seen. It is unclear what, if any, lesson the federal government in Moscow learned or what recommendations of the Baikal Forum it is willing to accept. It is also highly questionable that the Baikal Forum served its declared role to be an “integrative” event for all eastern regions. The governors of the Far Eastern provinces were less enthusiastic about this gathering compared with their counterparts from Siberia.



The Baikal Economic Forum

² Development Strategy for Russia in the Asia-Pacific Region in the 21st Century, ATP Publishers, Irkutsk, 2000. See also Egor Stroevev, “Eastern Direction in the Strategy of Russia,” *Nezavisimaya Gazeta*, Dipkurier no. 13, (September 14,) 2000, p.4.