REVIEW OF ECONOMIC RELATIONS
BETWEEN RUSSIA AND JAPAN,
IN PARTICULAR FUTURE RELATIONS BETWEEN
THE RUSSIA FAR EAST AND THE ASIA-PACIFIC REGION

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Review of economic relations between Russia and Japan, in particular future relations between the Russian Far East and the Asia-Pacific Region

1. The current situation of economy in the Russian Far East.

a) Analysis of socio-economic situation and main problems.

The Far Eastern economic region of Russia includes 10 subjects of the Russian Federation: Primorye and Khabarovsk territory, Republic Saha (Yakutia), Amur, Magadan, Kamchatka and Sakhalin regions, Evreisk autonomous region, Koryak and Chukotka autonomous districts. It’s total square is 6.2 mln. sq. km., it’s population is 7.6 mln.

Together with Transbaikalya (Republic Buryatia, Chita region and Aginsky Buryat district) the Far Eastern region occupies 40% of a Russian territory (7 mln. sq. km.). Total population of the Far East and Transbaikalya by the beginning of 1996 was 9.9 mln., or 6.7% of Russian population. About 6% of industrial production of Russia is produced in this region.

The economic significance of Far East and Transbaikalya for Russia is stipulated by its row materials and industrial potential and by geopolitical situation.

The region disposes significant natural resources. There are large stocks of coal (more than 15 billion tons) and oil (9.6 billion tons), natural gas (14 trillions m³), iron ore, diamonds, gold, silver, copper, zinc, lead, tin, wolfram, rare metals and other in the region. According to preliminary valuations coastal shelf of the seas of the Far East contains not less than 29 billion tons carbo-hydrogens. There are large stocks of a wood and hydraulic power. More than 60% fish and seaproducts of all Russia is extracted here.

Frontier location and nonfreezing seaports of Russian Far East create favorable conditions for economic cooperation with countries of Asia-Pacific region. Transsiberian and Baikal-Amur railways produce conditions for large-scale international transit transportations.

Alongside with above mentioned favorable economic-geographical conditions of the Far East and Transbaikalia, there are also some negative factors to be named.
First of all, difficult, sometimes extreme natural-climatic conditions, remoted location of the region from developed industrial regions of the country, difficult access to a greater part of this territory, dispersal of industrial centres, low density, instability and outflow of the population.

Incompleteness of industrial complex of the region can be seen also in absence or weak development of final stages of recycling of initial raw materials and also in interbranch disproportions (such as between branches of specialization and their service branches, between production and industrial infrastructure, insufficiency of a social infrastructure etc.).

Nowadays, alongside with the factors, common for all Russia, the most negative effect on socio-economic situation in the region is produced by the following circumstances:

a) fall of demand in the Russian market on many kinds of production of local manufacture (especially on production military-industry complex):

b) low competitiveness of the majority of branches of manufacture in new market conditions; it is aggravated by advancing growth of the transport tariffs and prices for local and imported (from other regions) power resources;

c) remarkable reduction of the centralised investments, grants, subsidies with the absence of sufficient internal financial sources;

d) weak development of a market infrastructure.

For a number of years there was no success achieved in stabilizing of situation with energy-and fuel supply of the region. Mining of coal, main kind of a consumed fuel in the region, has sharply reduced.

Production of the majority of raw materials in ore-mining industry decreases, resulting in local unemployment.

Timber and fishery complexes are also in critical condition.

In 1995 share of the unprofitable enterprises in the Far Eastern region has came up to almost 47% in comparison with 30% on the average in the Russia. In January—March of 1996 accordingly it was 42% in the Far East and 32% on the average.
The sharp rise in price on local and brought in energy resources had a negative effect on all industrial and social spheres of a region (table 1, 2).

Strong negative influence on situation in economy of Far East and Transbaikalya is also rendered advancing growth of transportation tariffs, especially because of extremely long range of interregional and intraregional transportations. The subjects of the Russian Federation, which forms the region, are remoted from the markets of Eastern Siberia on the average on 4.8 thousands km, Western Siberia-on 6,500 km, Ural industrial zone-on 7,300 km, from European part of Russia-on 9,700 km. Average distances of transportations inside the region, territorially the largest economic region of Russia also are long. The share of transport costs in a gross domestic product of the region exceeds 20% (and in northern regions of the Far East it is up to 60% and more) and at average on Russia—about 9%.

Taking into account this situation Government of Russian Federation took series of measures for regulation railway’s tariffs on transportation of goods to the Far East and from this region (for instance in this year tariff on transportation of fish is decreased to 50%).

Signs of crisis in economy of the Far East are especially displayed in a investment sphere. In 1994 total volume of capital investment reached only 26% from a level of 1990, and in 1995 this tendency has proceeded. Data about volume of investment and sources of it’s financing is contained in table 3.

The recession of manufacture and investment activity had a negative effect on a social sphere and level of life of the population. Proportion between the money income of the population and the level of living minimum in the region is considerably worse, then in Russia on the average (table 2).

All this, as well as natural calamities have called migrational outflow of the population, as a result of which the Far East together with Transbaikalia has lost in the last years more than 500 thousand inhabitants, basically of labourable age.
At the same time the formation of market environment and elements of a market infrastructure creates new opportunities for economic development, which should be implemented to the full with attention to specific features of the region.

As a whole key-point to understanding the situation in the region now is that, having largely experienced the deficiencies of peripheral location in Russia, this region could not yet take advantage of its nearness to Asia-Pacific Region.

Economy, oriented on raw materials, high capital consumption of economic development of a territory, high energy and transportation costs in modern conditions put the region in an obviously unprofitable situation, result in a passive payment balance in the interregional relations, extremely limit opportunities of its self-development (table 4).

Character of problems of the Far East and the ways of their solving are largely determined by its specifics. It may be is the most specific region of Russia—most remote from a centre, most severe on natural conditions, most large on a territory and least populated, with the economy, formed with the highest share of state support and therefore most dependent on connections with other regions of country. On all these parameters the Far East radically differs from common Russian conditions. That is why, in “Guidelines of a regional policy in Russian federation”, recently approved by President Eltsin, the necessity of carrying out special policy for Northern and Far Eastern regions is especially emphasized.

b) The current situation of economic linkage with the Asia-Pacific Region, including Japan

Development of foreign economic relations and other forms of cooperation with APR countries even now allows in certain degree compensate the negative consequences of the remoted location of the Far East from the most advanced and populated regions of the country, to provide for saturation of the regional market with the goods, including food, to expand sales of production of the region, to preserve and increase working opportunities.
Russian trade with APR states makes about 20 billion dollars (according 1995 valuation of Ministry of foreign economic relations of Russia) of which share of export-import operations by Far Eastern region cover 2–3 billion dollars.

80–90% of export and 60–80% import there are concentrated has on Japan, China, Southern Korea and USA.

In a commodity structure of Far Eastern export main positions are occupied by fish, timber, coal, petroleum and its derivatives, metal scrap.

Almost 85% of the total export from the Far East and Transbaikalya are provided by Primorye and Khabarovsk territory, Kamchatka and Sakhalin regions (the first two more than 60%) (table 5). For different regions of the Far East a various structures of export based on their industrial structure and specialisation is characteristic. For instance fish take dominant and even exclusive place in export from Primorye, Sakhalin, Kamchatka and Magadan regions. The export of fish and marinery from Russia to Japan has increased in the terms of cost in 2 times and has reached 1.3 billion dollars in 1995, though remaining in quantitative expression at an annual level 150–180 thousands tons. In export from Khabarovsk region the main positions are taken by wood and production of its processing, in export Saha-Yakutya it will be a coal, other mineral resources.

As a whole Far Eastern imports are mainly machinery, equipment, means of transport, foodstuff, matters of everyday consumption.

In the structure of the direct foreign investments in the Far East, as well as in the external trade dominate Japan, China, South Korea and USA. Their total volume, as well as in Russia at all, is low, however, in per capita terms is almost twice higher, than Russian average (80 dollars against 44 dollars, on a data for 1993–1995 years). This index also differs inside the region from 19 dollars in Yakytya, 37 in Primorye, 46 in Khabarovsk territory up to 100–116 on Kamchatka and Sakhalin and sharply 800 dollars in Evreisk autonomous region) (table 6).
In trade and economic relations of Russia with China, volume which has in 1995 totaled 5.6 billion dollars, the share of frontier and interregional trade goes up to 80% of trade turnover, including that with participation of regions of the Far East.

In the Joint report of the Russian and Japanese parties of subcommittee on perfection of conditions of bilateral trade and economic relations development, of a Russo-Japanese intergovernmental commission on trade and economic issues (March 1996) it is said, that in 1995 turnover of mutual trade between Russia and Japan has increased 27% in comparison with previous year and has made 5.9 billion dollars, coming close to a maximum level of 1989. But the share of bilateral trade with Russia in the foreign trade turnover of Japan is only 0.8%. This fact is regarded in the document as one, pointing out that the potential of complementary character of economies of the two countries is not used sufficiently.

Besides foreign trade other directions of cooperation are also developed. Japan assists Russia, especially the Far Eastern region and Siberia, in the spheres of gratuitous humanitarian aid, target credits (the total sum of announced financial aid makes 4.6 billion dollars) and is providing technical assistance to Russian reforms. The tripartite agreement between Russia, Japan and USA on the huge “Sakhalin—1” project of developing oil and gas on the Sakhalin shelf on terms of production sharing was also signed.

The relations between Russia and Japan in the field of fishery are marked with stability of cooperation, which is based on three intergovernmental agreements (1975, 1984, 1985) and several agreements at a departmental level.

2. The directions of economic development in the Russian Far East.

a) Basic concepts and measures of economic policy, provided for in the federal target Program of economic and social development of the Far East and Transbaikalya for 1996—2005 years.

Federal organs are constantly taking measures, aimed at solving problems of socio-economic development of the region.
However these measures have not allowed yet to achieve radical improvement of a situation. First, they are not connected parts of a united system, second, their significant part is directed on fulfilment of current need though and vitally important. They do not yet increase self-reproductive potential on the region, does not permit to earn enough means to solve complex of socio-economic problems by its own forces.

All this has determined the necessity of the program approach to the decision of large and sharp problems of the region, which are simultaneously also significant for Russia as a whole.

Federal target program of economic and social development of Far East and Transbaikalya for 1996—2005 years was approved by the decree of Government of Russian Federation of April 15, 1996, N 480. By decree of the President of Russian Federation dated 23 April 1996 N 601 it was given status of Presidential Program.

The general state customer-coordinator of the Program is Ministry of economy of the Russian Federation, state customers on major directions of the program are Ministry of labor, State committee on industrial policy, Ministry of foreign economic relations, Committee on fishery, Ministry of a transport, Ministry of ways of communication, Committee on metallurgy, Russian state timber industry company (“Roslesprom”), State committee on defensive branches of industry and State committee on development of the North.

Head developer of the Program was Council on location of productive forces and economic cooperation attached to Ministry of economy. The general management over development of the Program was executed by Ministry of economy, and its Departments took part directly in development of sections of the Program. The active work was also conducted by interregional association “Far East and Transbaikalya”, by executive authorities of the subjects of the Russian Federation, Ministry of foreign economic relations, Ministry of labor, State committee on industrial policy, some other ministries and many scientific organizations.

The general purpose of the Program is to ease maximally the influence of the factors, hindering the adaptation of region to new economic situation, and to realise
more completely existing preconditions of development, thus having created conditions for a fast recovery from crisis and accelerated development hereinafter.

The strategy of socio-economic development of the Far East and Transbaikalya proceeds from the following main preconditions:

1. The Far East and Transbaikalia in present, and in future remains the largest natural-resources base of the country. In foreseeable time its potential is enough to provide both needs of national economy also considerable income from export for the state, as well as for regional budgets.

2. The economic-geographical location of the region favours to development of foreign economic relations with APR countries. This factor can be compensating drawbacks of the remoted location of the Far Eastern region from main russian markets and can also decrease negative impact of increased transportation costs.

For realization of these preconditions, as studies have shown at time of preparation of the Program, it is necessary to concentrate efforts and resources on following basic directions:

- structural reorganization of economy;
- maintenance of employment and settle down of the population;
- involvement of this region into a global economy through economic cooperation with APR countries.

These directions have determined the contents of three structural blocks of the Program.

Simultaneously with the beginning of realization of the measures, provided by mentioned above structural blocks, it is necessary to implement in 1996–1997 years a complex of urgent measures to lead out economy of the Far East and Transbaikalya from crisis and to improve socio-economic situation. This complex includes:

- fulfilling the needs of the region in fuel and energy resources and regulation of tariffs on electrical and thermal energy;
- regulation of the transportation tariffs;
- liquidation of consequences of nature calamities;
settlement of non-payment problem and current problems of interbudget relations (between regional and federal budgets and some others tasks).

The structural reorganization economy of the Far East and Transbaikalya is to be aimed creation of a economic complex with higher self-reproducing potential, which will answer the new conditions of market economy.

The decision of energy problem first of all is connected with an increase of a production of carbo-hydrogen resources, including:

- joint development of oil and gas fields on Sakhalin shelf and in Republic Saha (Yakutya) with participation of foreign investors;
- laying of gas pipelines into the regions with insufficient energy supply;
- completing of construction of large enterprises for open mining of coal (Urgal, Erkovets, Luchegorsk and others);

construction of relatively cheap coal cuts on small deposits; realization of measures on energy economising.

As a result the mining of coal will increase by the year of 2005 up to 85.4 mln. tons (in 1.7 time), mining of a gas on Sakhalin shelf and in Saha will rise about 6.7 times (up to 22 billion m³). About 9 billion m³ of Sakhalin gas are to be used for local needs of the Sakhalin region and Khabarovsk territory, and 10 billion m³ are to be exported.

Development of oil-fields on Sakhalin shelf will enable to increase oil-production up to 10 times and to rise it by the year of 2005 up to 20.8 mln. tons, that will create conditions for supply of Komsomolsk and partially Khabarovsk oil-refining plants with Sakhalin oil.

Besides, the input of modular installations, which is planned, will enable to begin in widely the processing of oil in Sakhalin and Saha (Yakutya).

In an electric power industry it is provided for reconstruction and expansion of acting power station, to finish previously begun construction of power stations and electricity transmission lines, to put under full capacity Bureya hydroelectric station.
Total output of electricity is to increase from 44.2 billion kWt/h in 1995 up to 70.7 billion kWt/h in 2005.

Thus, the structural reorganization will considerably improve the regional fuel and energy balance, in which significant share will belong to such an effective kind of a fuel, as a natural gas and this share will grow from 8% at present up to 20—25% in 2005. With the start of full-capacity operation of Bureya hydroelectric station share of hydroenergy also will increase. As a result dependence of the brought-in and, hence, expensive fuel will be reduced. The share of coal imported from other regions of Russia, making now more than by 25%, will be practically reduced to a zero and that of oil will go down from 92—93% to 40—50%.

In ore-mining industry there is a task to expand geological works with the purpose of improvement of resources base, first of all of gold, tin, polimetals, to create new and to reconstruct acting capacities on tin smelting on the base of Khrustalnensk and Solnechny enterprises, lead and zinc-on enterprise “Dalpolimetall”, to schedule measures under the approaches to organisation of construction of Udokan mining and enriching combinate.

In a timber industrial complex, taking into account the tendencies of internal demand, conjuncture on world timber market and the necessity of more rational use of wood resources, a main problem will be to increase of a share of deep processing technologies, that will help to increase export of sawn timber and production of a pulp and paper industry.

The realization of the subprogram “Fishery complex” will allow to increase fish catch and production of marinery in the region up to 3.5 mln. tons in 2000 and up to 3.8 mln. tons in 2005, that is respectively, 25% and 35% increase in comparison with 1995. Achievement of the scheduled purposes will be based on deep structural reorganization of branch in accordance with Federal program “Fish”.

In the Program of development of the Far Eastern region the arrangements with the Japanese side, concerning fish catches are completely taken into consideration.
The main purpose of long-term development of a machine-building complex of the Far East and Transbaikalya is preservation of socio-economic, technological and productive potential to satisfy the needs of the region, elimination of backwardness from of raw materials branches, development of export-oriented machine-building, conversion of military industry.

Accelerated development of instrument-making, electro-technics and machine-tool manufacture is provided. Development of manufacture of a engineering and equipment for needs of a region will promote to reduction of import of machinery from remote regions of Russia. There are also projects of creation of small enterprises on base of qualified (tied with science) manufactures, joint (with foreign participation) enterprises in instrument-making and machine-tool manufacture, assembly plants on base of details imported from the countries of APR.

The Program also includes projects in the field of conversion, promoted by enterprises of Primorie, Khabarovsk regions and Buryat Republic. There are aimed to manufacture of high-quality modern equipment, devices, furnishing products, new materials and consumer goods.

In an agro-industrial complex main problem is to increase self manufacture of food products, especially fresh and perishable. Now only 30% of the needs of the region in the foodstuffs is manufactured there. Strengthening of interregional ties and also perfection of import of the foodstuffs and development of economic junctions with countries APR is necessary too.

The target for production grain (3.2 mln. tons in 2005) will be achieved first of all at the expense of expansion of sowings, increase production of soya (up to 0.6 mln. tons)-basically by the increase of yield. Consumption of potato will be by 2005 completely supplied by regional production and vegetables-on 73%.

The realization of the program of measures in a cattle-breeding will allow to increase per capita consumption of meat in 2005 on 20%, as for milk and its processing products and eggs the increase is provided for too.
The structural shifts in other branches and interbranch production complexes of the region are also aimed at overcoming of raw materials bias of its economy step by step.

Thus, though the list of main branches of specialisation of the Far East and Transbaikalya will not change qualitative changes inside these complexes will occur. That is primary growth of competitive in the internal and external markets production of deep processing of natural raw materials.

At the same time, implementing a long-term course on structural reorganization of economy and overcoming its raw materials bias it is required to take into account, that at least in a intermediate term prospect the raw sector can become real base for stabilization of economic situation and accumulation of means for more significant structural transformations in the subsequent period.

The most large capital works are connected to development of fuel-energy and transport complexes. The significant means are required by social sphere and ecological programs.

The realization of the subprogram of structural reorganization and achievement of social purposes on the base of economic progress is closely interconnected with other structural block of the Program. That is measures on fastening of the population and maintenance of employment.

The growth of indicators of development of social sphere is predicted. Such as, the absolute volumes of retail trade pay services. In construction it's expected to build in 1996–2000 33.5 mln. sq. m of the common area of residence houses, schools on 167 thousand pupils, pre-school institution on 21 thousand places, hospitals on 10.3 thousand beds and policlinics on 16 thousand visits per shift.

Realization of the Program, in our opinion, will give essential results for social and economic development of the region.

The rates of growth of a gross domestic product on the Far East and in Transbaikalia for the expected period will exceed the some indicator for Russia as a whole, and this parameter per capita in the region will come up to appropriate
indicator for Russia in whole in 2005. It is expected, that the rates of growth of the national income in the region in comparison with 1995 will make 130% in 2000 and 164 in 2005 year.

Regional administrations of the Far East and Transbaikalia must fulfil important role in the Program realization. Policy of widening of rights and of advancement of independency and responsibility of regions is conveyed step by step in Russian Federation. So share of regional budgets in the budget of extended government has increased essentially. But there are important issues in this sphere that are not solved yet. For instance special law devoted to rights and responsibilities of the Federation subject is not completely prepared yet. In practice its absence partly compensated by conclusion of bilateral agreements between federal government and administrations of some regions. These agreements are concerned issues, which Constitution of Russian Federation refereed to mutual managing of the Center and regions. For instance, there is the agreement with administration of Sakhalin region in foreign economic relations issues.

But concentration of means on the most important development directions and pooling of efforts of the governmental, local authorities and of other economic agents are necessary at the present stage of overcoming of crisis under concrete conditions of the Far East. Main problem is concluded not only in redistribution of limited resources between central and local authorities but in increase of the resources, i.e. applicably to budget that is increase taxable base by providing for economic growth. The Program is aimed at this, first at all.

As said above, region administrations took the active part in working out of the Program. Thus, they not only can accomplish their rights in the spheres of their competence, but take part in formation of long-term Federal government policy regarding Far East and Transbaikalia.

Besides, it is necessary to take in account that a lot of problems that Far East faces have significance for the country as a whole and they must be a point of care of the Federal Government (it is concerned, for instance, interregional division of labor
and usage of its advantages, providing for interests of Russia in APR because the country is located in this part of the world and aimed at active interaction with countries of APR in behalf of all the countries).

Large-scale purposes of the Program require big **sums of money for its achievement**. Total requirement for financial resources from all sources of financing for 1996—2005 years are accounted for 370 trillion roubles (in the prices 1995).

Realization of the Program need to involve financial resources from the federal budget, budgets of the subjects Russian Federation, located on a territory of the Far East and Transbaikalya, and from out-budget sources.

The amount of state support even in optimum variant will make only part of that necessary. In this connection the main attention during realization of the Program should be made on searching of other sources of financing.

The issue concerning sources of financing the Program, naturally, has the most practical importance. The Russian Far East is experienced shortage of investments in much more degree than the country as a whole (the Far East have many unprofitable enterprises; there is deficiency of many regional and local budgets; limited opportunities of federal budget; undeveloped banking system in the region etc.). But it is necessary to take account that many measures, points and actions included in the Program have been already envisaged in acting federal target programs, which have branch or functional character and is realising on the territory of Far East and Transbaikalia (its share in whole requirement for financial resource for the Program realization makes about 70%).

The next factors also will positive influence on the financial opportunities of economic agents: expected improvement of economic situation in the country; governmental support of overcoming of difficulties created by high energy and transport tariffs; improvement of relations between federal and regional budgets; measures aimed at the formation of more favorable climate for domestic and foreign investors.
The fact that the Program is approved by the President and the Government have important significance for potential investors because it guaranties that the state has very serious intentions to reach the target purposes.

The Program itself must play the organizing role in purposeful search of sources of financial resources and their concentration on the most effective directions.

b) The prospect of Russian Far East in Asia-Pacific region.

The active participation of Russian Far East in future division of labor with Asia-Pacific region as shown by the study of economic and social problems of the Far East within the framework of preparation Program, is one of the keys for solving these problems. It is necessary integration of the region in world economy through relations with APR, using comparative advantages and favorable preconditions, which the Far East has for this purpose.

To number of these advantages and preconditions concern:

1) Economic-geographical location of the Far East. This location was always characterised for its remoteness from centre of Russia and nearness to China, Japan, Korea and etc. But now there have been new particularities in it. With advancing growth of the transport tariffs, “economic distances” up to the central regions of Russia essentially increased, that effected strongly on labor division system with other regions of Russia.

On the other hand, foreign neighbors of the Far East have been sharply changed. APR, before was giving up in the Atlantic centre of world activity, have been transformed now in one of most intensively developing regions of the world (60% global manufacture, 40% of world trade). It is clearly that neighborhood with such region gives new advantages to the Far East, while sharply increased “economic remoteness” of Far East from central regions of Russia constantly instigate to use these advantages in order to compensate deterioration of a situation of the region relatively Russian internal markets:
2) Huge and diverse natural-resource potential of territory, covering (with Transbaikalia) 7 mln. sq. km., and aquatory of surrounding seas;

3) Many regions of the Far East possess already reasonably advanced industrial potential, with staff, which experienced in various branches of industries, such as highly qualified branches of military industrial complex;

4) Notwithstanding all insufficiency of a industrial and social infrastructure of the Far East, it's bases have already created. This is skeleton of main railways, highway, ports, communications. It continues to develop and permit to execute export-import linkage of Far East as well as international transit through this region;

5) With the beginning of reforms a market infrastructure has received the certain development;

6) The favorable influence to Far East, especially in a investment climate, is made by prospects of stabilization of political and economic situation as a whole in Russia:

7) Fast growth of economy in the majority of APR countries and of its structural transformations promote to expansion of potential markets of sales for the russian goods, and not only row material and power resources, but also for production of a engineering, chemistry, and for a complement deliveries of the equipment (for last none of the regions of the world present such opportunities as APR);

8) Accumulation of significant currency reserves in a number of APR countries expands their opportunities for investment activity in Russia;

9) Complementary character economy of the Far East and economies of many countries APR creates together with other enumerated above preconditions and factors real opportunities of development in APR of such labor division territorial system, which will be expedient for all her participants.

The special subprogram within the framework of Far Eastern Program-subprogram “Integration of Far East and Transbaikalya in world economy through economic cooperation with APR countries” is aimed at realization of these opportunities. This subprogram is opened for all interested participants. Its main
purpose - encouragement of foreign trade activities and international business cooperation of territories the Far East and Transbaikalya with APR countries, integration of the region in a international labor division system in APR with simultaneous maintaining of political and economic Russian integrity.

In this subprogram following questions are considered:

- general directions of foreign trade activities of the region;
- stimulation of inflow of the foreign investments in the economy of the Far East and Transbaikalya;
- development of export potential and perfection of a structure of export of the Far East;
- creation of necessary conditions for rationalization of import deliveries;
- separate projects of economic cooperation the Far East region with APR countries;
- frontier co-operation.

The attraction of the foreign investments is one of the conditions of realization of the Program.

Stimulation of the foreign investments in economy of the Far East and Transbaikalya first of all assumes creation in the region of investment climate, not less attractive, than in APR countries bordering with the region.

The following measures on stimulation of the foreign investments are offered in the Program:

- the regional programs worked out by administrations of regions of the Far East and Transbaikalya for attracting foreign and domestic investments, wide acquainting with them of local business circles, foreign banks and businessmen;
- cooperation of efforts region’s administrations of the Far East and Transbaikalya, as well as state support in promoting of investment projects on the external market;
- the creation (is desirable in Vladivostok) of international Far Eastern bank of reconstruction and development, similar to EBRR:
formation of a reliably functioning bank system, capable to grant the
investment credits, to execute loan operations to and service export-import operations
with attraction of foreign banks and free foreign credit resources;

adoption of the law “About the status of border regions”, new edition of the
laws “About foreign investments”, “About free economic zones”;

creation of a system of insurance of investments, granting of the direct
warranties by regional administrations with deposit in form of real estate and other
property, belonging to them, granting of warranties by regional insurance funds.

As prime objects of attraction of the foreign investments on the Far East it
should consider: development oil and gas fields on Sakhalin and in Yakutya,
development of deposits of diamonds in Yakutya, gold on Kamchatka, tin in
Khabarovsky region and Primorye, development of wood resources in Khabarovsky
region, seafood resources in Far Eastern seas, formation of recreation zone on
Kamchatka, construction of transport-warehouse and port complexes in Nahodka, on
the Amur river, on the coast of Tatar strait and on Sakhaline, construction of a
railway bridge through the Amur river in Khabarovsky and road bridge near
Blagoveschensk, creating planned in the region technoparks, technopolisies, local
free economic zones and free customs zones (warehouses) in Nahodka, Vladivostok,
Komsomolsk-on-Amur and other places, construction of Russia-China boundary
passes with customs, business commercial and trade infrastructure.

In relation to FEZ on the Far East introduction of economic regulators,
promoting inflow of capital in development of a infrastructure and manufactures is
necessary.

For strengthening of foreign trade activities it is necessary to solve the problem
of attaching of the special status to the Far East administrative formations in the
part of organizing border trade, creating free economic zones and mastering
procedures of boundary, customs and migrational control. It is required also to ensure
the legislative decisions about the right of the subjects of the federation on the Far
East to use part of the customs duties, about creation of regional mortgage funds with
using of natural resources, about concessionary agreements and state warranties to the
foreign investors. Certain effect can be expected from expansion of industrial
cooperation, first of all with neighbor countries.

The new opportunities for the domestic and foreign investors are created with
coming into force the Federal law “About production sharing” of December 30, 1995
N 225—43.

Alongside with measures, provided in the subprogram of development of links
with APR, the attraction of the foreign investors in the region must be based on
development of a transport infrastructure and systems of communications, scheduled
in the subprogram of structural reconstruction.

So, perfection and development of transport-economic ties with countries of
Asia-Pacific region must go along with finishing BAM construction, construction
Amur-Yakutsk railway, fulfilment of measures adopted by federal programs “Revival
of a trade fleet of Russia” and “Roads of Russia”.

One of main problems will be working out of growing volumes of export-
import transportations, first of all in southern regions of the Far East and
Transbaikalya.

Within the framework of realization of the program “Revival of a trade fleet of
Russia” the development of overloading capacities in 12 ports as: Vladivostok,
Nahodka, Vostochny, Posiet, Vanino, Magadan, Korsakov, Kholmsk, Shahtersk,
Petropavlovsk-Kamchatsky, Korf, Beringovsky is offered.

As for railway transport: completion of reconstruction of bridge transition
through Amur river at Khabarovsk, electrification of Khabarovsk-Ussuriisk railway,
reconstruction of railway tunnels on western coast of Sakhalin and creation of a
united railway network in the island with unified gauge (1,067 mm) are expected.

In road construction measures concerning formation of basic main road
network is offered, including completion of Chita-Khabarovsk highway, construction
of Yakutsk-Kubume (“Kolyma”) road, Yakutsk-Viluysk-Mirny road, construction of
road parts of joint bridge transitions through the Amur river in Khabarovsk and Blagovechensk.

Many of these measures will also improve conditions for development of international links.

For instance in the area of the railway Berkakit - Tommot - Yakutsk practically all useful mineral, extracted in the world are situated: from gold and diamonds to coal, iron, aluminium, zink, apatites and others. With the completion of this line there will be a practical opportunity of closer cooperation with APR countries on development of natural reserves of this area.

The subprogram provides modernization and development of the existing system of air transport of the Far Eastern region. A number of the large projects, such as modernization of the airport in Khabarovsk, construction of airport terminal complex in Petropavlovsk-Kamchatsky, the reconstruction of airports in Chita and South-Sahalinsk are designed for use in international airways. The realization of this projects will promote the development of external economic ties of the Far East, in particularly with South-East Asia countries and Japan and may be will have certain interest for the investors from these countries.

The most perspective projects on a marine transport, included in the program of development of the Far East, the realization of which in the short term requires foreign credits are the following:
1) construction of the first part of a grain processing complex in port Vostochny for crossing, storing and partial processing of import grain and 2) construction on Japanese docks ships, intended for delivery of refrigered, bulk and general freights to the regions of Far North. The necessary information on these projects is given to the interested investors.

Other projects for joint realization in marine transport, included in the Program also deserve attention. For instance construction of automated safety navigation system in the Gulf of Peter and the Gulf of Nahodka, and development of trade sea port Vanino with total of volume of cargo handling up to 24 mln. tons in a year.
Work on completion in the first quarter of 1997 of construction of all structures of digital system communication between Moscow and Khabarovsk are under way. Financing is executed at the expense of the credit, granted by Export-Import bank of Japan.

The problem of the Program realization is the most actual now. Its working out and approval allow to transfer to solving of concrete problems included in its investment projects. Since attraction of foreign investments is one of the most important conditions of the realization, it is necessary to carry out bilateral and multilateral consultations on each of the concrete project, presenting mutual interest.

As the state customer-coordinator of the Program (Ministry of economy) so state customers of subprograms (several federal ministries) and also regional administrations must take part in above mentioned consultations and negotiations. It must be combined with preparation of the budget requests. Accordingly to acting order of realization federal target programs state customers annually present their request for the federal budget participation in financing program measures and projects. Simultaneously, suggestions aimed at attraction and usage of other sources of financing are worked out.

It is important that the Program has long-term character and thus allow to target ways of long-term systematic collaboration, to solve step by step large tasks for in behalf of all the participants taking part in realization of the concrete projects, subprograms and the Program as a whole.

It can be taken into consideration to account special features of the Far East for the purpose to improve laws devoted to foreign investment issues.

Regional administrations take more part in creation of conditions for international cooperation, allocating considerable sums for development of business infrastructure. Sufficient progress in this direction is made by administration in Nahodka, Vladivostok, Khabarovsk, Blagoveschensk.
The regional programs of attraction of foreign and domestic investments are developing now, regional conferences on stimulation of inflow of the foreign investments are held annually.

3. Problem of use of natural gas resources of the Russian Far East in connection with growth of fuel-consumption in APR.

In report “Russian economy - transition from stabilization to growth” which have been prepared science group for study of economic reform in the Russia (guide-S. Hosino), it is noted that demand on energy resources will be increased in 10 country of Asia (without Japan) by 2010 in comparison with 1992 more than 2.3 time, while production of energy will grow only 1.9 time. Taking in account ecologic requests, need in natural gas especially will increase and it will be required to transport there from other regions of world 26.6% consumted gas against 9% in 1992.

On other side, the Russian Far East, as said, have large potential deposit of the natural gas. 60% explored deposits of gas (total 2.2 trln. m³). are concentrated in Saha (Yakutia) and 36% on coastal shelf of Sakhalin.

In Yakutia for a present is exploited only 2 gas fields for local-supply but it can be develop many gas fields. On coastal shelf of Sakhalin is discovered large oil-gas-condensate fields and the largest in the region gas-condensate field Lunskoe.

Explored and potential deposits of gas in Saha (Yakutia) and the Sakhalin allows to organize extraction of gas in big scope. One of main preconditions for that is large scale cooperation with foreign states and structures and attraction of necessary investments.
Dynamic of volume of industrial production
Far East and Transbaikalya

<table>
<thead>
<tr>
<th>Region</th>
<th>1994 to 1991 (%)</th>
<th>1995 to 1994 (%)</th>
<th>1995 to 1991 (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Russian Federation</td>
<td>52.5</td>
<td>95</td>
<td>49.9</td>
</tr>
<tr>
<td>Republic Saha (Yakutya)</td>
<td>75.7</td>
<td>102</td>
<td>77.1</td>
</tr>
<tr>
<td>Evrey autonomous region</td>
<td>41</td>
<td>68</td>
<td>27.9</td>
</tr>
<tr>
<td>Chukotsky autonomous district</td>
<td>55.2</td>
<td>67</td>
<td>37</td>
</tr>
<tr>
<td>Primorsky territory</td>
<td>56.1</td>
<td>99</td>
<td>55.6</td>
</tr>
<tr>
<td>Khabarovsk territory</td>
<td>43.5</td>
<td>77</td>
<td>33.5</td>
</tr>
<tr>
<td>Amur region</td>
<td>57</td>
<td>82</td>
<td>46.7</td>
</tr>
<tr>
<td>Kamchatka region</td>
<td>40.6</td>
<td>109</td>
<td>44.3</td>
</tr>
<tr>
<td>Koryaksky autonomous district</td>
<td>41.4</td>
<td>82</td>
<td>33.9</td>
</tr>
<tr>
<td>Magadan region</td>
<td>73.6</td>
<td>79</td>
<td>58.2</td>
</tr>
<tr>
<td>Sakhalin region</td>
<td>48.4</td>
<td>109</td>
<td>52.7</td>
</tr>
<tr>
<td>Far Eastern economic region*</td>
<td>54.3</td>
<td>92.8</td>
<td>50.4</td>
</tr>
<tr>
<td>Republic Buryatia</td>
<td>62.7</td>
<td>93</td>
<td>58.3</td>
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<tr>
<td>Chita region</td>
<td>41.4</td>
<td>86</td>
<td>35.6</td>
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<tr>
<td>Aginsky Buryatsky autonomous district</td>
<td>46</td>
<td>49</td>
<td>22.5</td>
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<tr>
<td>Transbaikalya*</td>
<td>49.6</td>
<td>89</td>
<td>44.2</td>
</tr>
</tbody>
</table>

*— accounted data

Prices and incomes

<table>
<thead>
<tr>
<th>Region</th>
<th>Summery index of prices (march 1996 to december 1995,%)</th>
<th>Ratio incomes per capita and living minimum (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1995</td>
<td>Febr.1996</td>
</tr>
<tr>
<td>Russian Federation</td>
<td>110</td>
<td>163</td>
</tr>
<tr>
<td>Far East’s region</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Republic Saha (Yakutya)</td>
<td>106</td>
<td>125.9</td>
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<tr>
<td>Primorsky territory</td>
<td>109.6</td>
<td>121.6</td>
</tr>
<tr>
<td>Khabarovsk territory</td>
<td>107.7</td>
<td>121.6</td>
</tr>
<tr>
<td>Amur region</td>
<td>113</td>
<td>142.8</td>
</tr>
<tr>
<td>Kamchatka region</td>
<td>113</td>
<td>162.2</td>
</tr>
<tr>
<td>Magadan region</td>
<td>111.9</td>
<td>155.6</td>
</tr>
<tr>
<td>Sakhalin region</td>
<td>110.9</td>
<td>121.1</td>
</tr>
<tr>
<td>Transbaikalya</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Republic Buryatia</td>
<td>109.5</td>
<td>106.4</td>
</tr>
<tr>
<td>Chita region</td>
<td>110.2</td>
<td>79.2</td>
</tr>
</tbody>
</table>
### Tabl. 3

**Capital investment in Far East economic region**

<table>
<thead>
<tr>
<th></th>
<th>1995</th>
<th>I quarter of 1996</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Russia trln.roubles</td>
<td>%</td>
</tr>
<tr>
<td>Capital investment from all sources of financy</td>
<td>250.2</td>
<td>100</td>
</tr>
<tr>
<td>from them:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>federal budget</td>
<td>32.2</td>
<td>12.9</td>
</tr>
<tr>
<td>regional budgets</td>
<td>26.3</td>
<td>10.5</td>
</tr>
<tr>
<td>self means of enterprises and organizations</td>
<td>156.4</td>
<td>62.5</td>
</tr>
</tbody>
</table>
Some indicators of budget independence of subjects of the Russian Federation in 1994

<table>
<thead>
<tr>
<th>Region</th>
<th>Snare of receipts from federal budget in common incomes of regional budgets, %</th>
<th>Share of taxes gathered on territory and included to regional budgets, %</th>
<th>Ratio of self tax potential and budget expenses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Russian Federation</td>
<td>22.5</td>
<td>64.8</td>
<td>1.23</td>
</tr>
<tr>
<td>Far East</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Republic Saha (Yakutya)</td>
<td>1.2</td>
<td>100</td>
<td>0.73</td>
</tr>
<tr>
<td>Evrey autonomous region</td>
<td>53.4</td>
<td>77.1</td>
<td>0.83</td>
</tr>
<tr>
<td>Chukotsky autonomic okrug</td>
<td>64.9</td>
<td>77.7</td>
<td>0.37</td>
</tr>
<tr>
<td>Primorsky territory</td>
<td>24</td>
<td>60.8</td>
<td>1.12</td>
</tr>
<tr>
<td>Khabarovsk territory</td>
<td>29.4</td>
<td>61.8</td>
<td>1.11</td>
</tr>
<tr>
<td>Amur region</td>
<td>37.5</td>
<td>64.5</td>
<td>1.01</td>
</tr>
<tr>
<td>Kamchatka region</td>
<td>53</td>
<td>77.1</td>
<td>0.7</td>
</tr>
<tr>
<td>Koryaksky autonomous district</td>
<td>81.6</td>
<td>77.4</td>
<td>0.14</td>
</tr>
<tr>
<td>Magadan region</td>
<td>53.7</td>
<td>68.8</td>
<td>0.63</td>
</tr>
<tr>
<td>Sakhalin region</td>
<td>33.1</td>
<td>73.6</td>
<td>0.84</td>
</tr>
<tr>
<td>Transbaikalya</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Republic Buryatia</td>
<td>51.4</td>
<td>77.4</td>
<td>0.79</td>
</tr>
<tr>
<td>Chita region</td>
<td>39.9</td>
<td>74.8</td>
<td>0.93</td>
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<tr>
<td>Aginsky Buryatsky autonomous district</td>
<td>83.4</td>
<td>83.4</td>
<td>0.22</td>
</tr>
</tbody>
</table>

Source: Analysis of development tendencies of regions of Russia (Tacis, 1996)
Tabl.5

Export Far East’s and Transbaikalya’s
regions (1994)

<table>
<thead>
<tr>
<th></th>
<th>mlrd. Roubles</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total export</td>
<td>3264.7</td>
<td>100</td>
</tr>
<tr>
<td>Far East and</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transbaikalya from</td>
<td></td>
<td></td>
</tr>
<tr>
<td>them:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Republic Saha (Yakutya)</td>
<td>211</td>
<td>6.5</td>
</tr>
<tr>
<td>Evrey autonomous region</td>
<td>12.8</td>
<td>0.4</td>
</tr>
<tr>
<td>Primorsky territory</td>
<td>1085.5</td>
<td>33.2</td>
</tr>
<tr>
<td>Khabarovsk territory</td>
<td>949</td>
<td>29.1</td>
</tr>
<tr>
<td>Amur region</td>
<td>86.5</td>
<td>2.6</td>
</tr>
<tr>
<td>Kamchatka region</td>
<td>394</td>
<td>12.1</td>
</tr>
<tr>
<td>Magadan region</td>
<td>15</td>
<td>0.5</td>
</tr>
<tr>
<td>Sakhalin region</td>
<td>386.8</td>
<td>11.8</td>
</tr>
<tr>
<td>Republic Buryatia</td>
<td>85.4</td>
<td>2.6</td>
</tr>
<tr>
<td>Chita region</td>
<td>38.6</td>
<td>1.2</td>
</tr>
</tbody>
</table>

Source: Analysis of development tendencies of regions of Russia (Tacis, 1996)

Tabl.6

Foreign investments, 1993—1995

<table>
<thead>
<tr>
<th></th>
<th>$US, mln</th>
<th>per capita $US</th>
</tr>
</thead>
<tbody>
<tr>
<td>Russian Federation</td>
<td>6534.1</td>
<td>44</td>
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<tr>
<td>Far East economic region</td>
<td>615.9</td>
<td>80</td>
</tr>
<tr>
<td>from them:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Republic Saha (Yakutya)</td>
<td>19.3</td>
<td>19</td>
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<tr>
<td>Evrey autonomous region</td>
<td>173</td>
<td>801</td>
</tr>
<tr>
<td>Primorsky territory</td>
<td>83.9</td>
<td>37</td>
</tr>
<tr>
<td>Khabarovsk territory</td>
<td>74</td>
<td>46</td>
</tr>
<tr>
<td>Amur region</td>
<td>78.8</td>
<td>75</td>
</tr>
<tr>
<td>Kamchatka region</td>
<td>45.1</td>
<td>116</td>
</tr>
<tr>
<td>Magadan region</td>
<td>74.2</td>
<td>263</td>
</tr>
<tr>
<td>Sakhalin region</td>
<td>67.6</td>
<td>99</td>
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<tr>
<td>Transbaikalya</td>
<td>6.2</td>
<td>3</td>
</tr>
<tr>
<td>from them:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Republic Buryatia</td>
<td>2.3</td>
<td>2</td>
</tr>
<tr>
<td>Chita region</td>
<td>3.9</td>
<td>3</td>
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</tbody>
</table>

Source: Analysis of development tendencies of regions of Russia (Tacis, 1996)
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