

Prospects of Russian-Chinese Cooperation in the Arctic and Subarctic Territories of Russia's North-East

Galtseva N.V.

*North-East Interdisciplinary Scientific Research Institute n. a. N. A. Shilo, Far East Branch,
Russian Academy of Sciences (NEISRI FEB RAS), Magadan, Russia*

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Abstract: Russia's Arctic is of international interest. However, specific trends in international cooperation are determined by regional contexts: specialization, investment potential, investment climate. The paper characterizes the investment potential of the Magadan Oblast and Chukotka Autonomous Okrug as well as government preferences for these regions. Russia's North-East can be the territory of international Russian-Chinese cooperation in Arctic, in exploring mineral resources, building infrastructural objects, facilitating the Northern Sea Route. For attracting investors, the government grants advancements on tax and customs fees in different options for the Northeast, which increases their investing attractiveness. To determine the barriers and conditions of the Russian-Chinese cooperation, the author suggests to combine efforts of scientists within the Russian-Chinese research grant.

1. Introduction

In the Arctic zone, geopolitical interests of many states converge. Its rich resources and the Northern Sea Route (NSR), that halves the time for delivering cargoes from Europe to Asia, make Arctic a unique object of international cooperation among Arctic and non-Arctic countries. The main trends of international economic cooperation in Arctic include exploring mineral resources on the shelf and on the mainland, constructing infrastructural objects, and facilitation and exploration of the Northern Sea Route. Russia's potential partner in developing its Arctic and Subarctic zones is China, exposing interest in works in Arctic, having enormous investment opportunities as well as advanced innovative technologies and equipment. Determining specific prospects for Russian-Chinese cooperation and conditions for their interaction is an important scientific task.

2. Proposed Approach

Russia's Arctic peculiarity roots from the fact that embraces territories that differ in their levels of social and economic development, infrastructures, resources, and human potentials. Prospects of foreign companies investing in Arctic projects depend on the investment potential and investment climate formed by the federal government and local authorities in each territory.

According to the Decree of the President of the Russian Federation issued in 2014 [1], Arctic dry lands include regions on the coasts of the Arctic seas. In large regions, such as the Republic of

Sakha (Yakutia), only a few districts (5 uluses) bordering the sea are referred to the Arctic; the rest are not, though the whole region is considered a single administrative unit and, as such, is united by the general development strategy and infrastructure. Therefore, project realization in Arctic territories and their districts referred to the Arctic requires developing and using infrastructures of the Subarctic.

We suggest to study directions, conditions, and formats of international cooperation in Russia's Arctic considering local specifics in Arctic and Subarctic.

3. Russia's North-East as a Research Object

3.1. Characteristics of Regions in Russia's North-East

In the North-East of Russia, the Chukotka Autonomous Okrug is referred to the Arctic; Magadan Oblast and the north of the Kamchatka Kray (Koryak Autonomous Okrug) can be referred to the Subarctic (Figure 1); their total area is about 1.5 mln. km² and population, 224 thousand persons. It should be noticed that until 1992 the Chukotka Autonomous Okrug had been a part of Magadan Oblast. The economies of the Chukotka Autonomous Okrug and Magadan are currently based on producing precious metals: in 2018, 66 t gold (21% of Russia's total) and 808 t silver (73% of Russia's total) were produced in the areas.

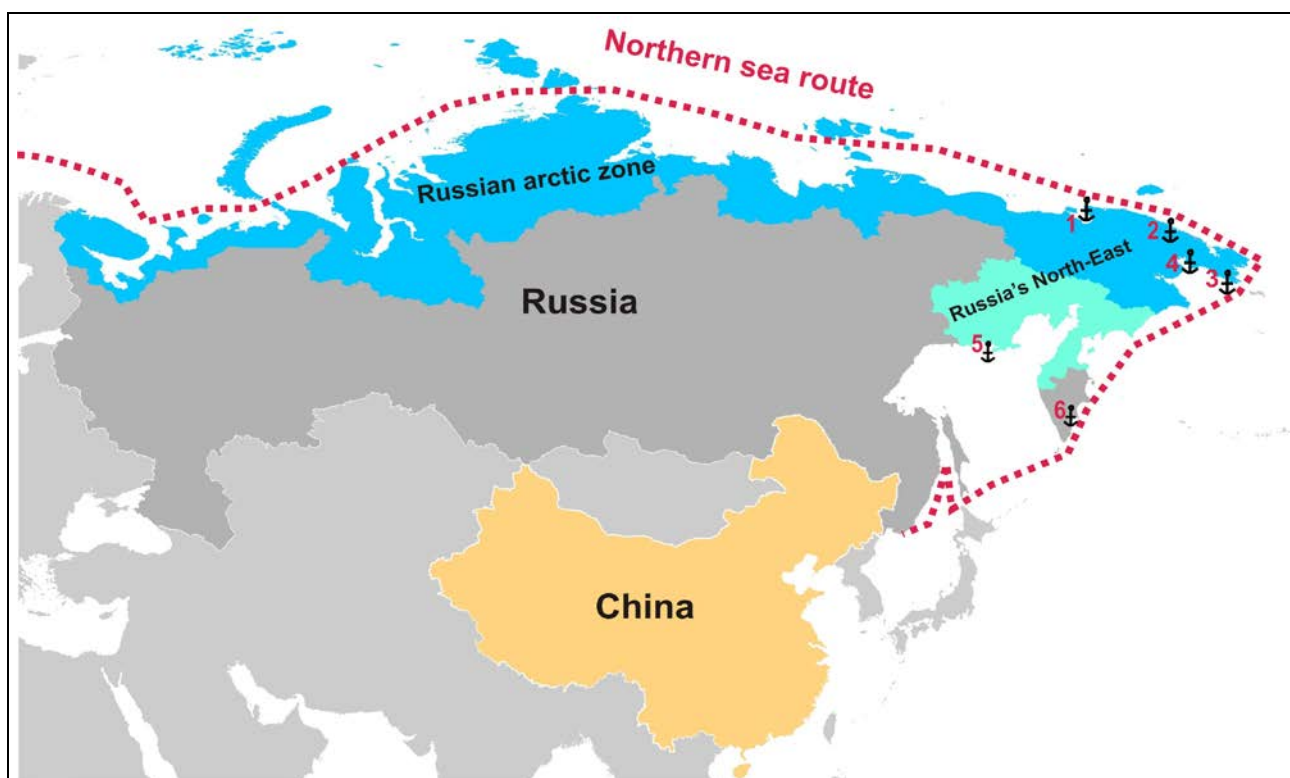


Figure 1: Location of an object of a research.

3.2. Investment Potential

3.2.1. Mineral Resources

The regional investment potential is based on mineral resources. Beside gold and silver mined,

the territories possess rich reserves of other minerals imported by Northeast Asian countries, including China.

The resource potential of the Chukotka Autonomous Okrug includes precious and non-ferrous metals as well as coal and hydrocarbons (Table 1).

The basis for the regional economy is gold mining at large ore deposits, Kupol and Dvoynoye, explored by the Canadian Kinrossgold company. The main large-scale investment projects in the region are also Ugol'naya Bay mineral coal deposits with their total reserves of over 4 billion t and the Baimskaya ore zone (resource potential of 27 mln. t copper and 1600 t gold), including the Peschanka deposit.

Table 1: Resource potential of the Chukotka Autonomous Okrug [2]

Resource	Amount	Unit
Gold	1262	t
Copper (resources)	8300	thous. t
Tungsten	257	thous. t
Tin	916	thous. t
Coal	4000	mln. t
Hydrocarbons: mainland / shelf	740/470	mln. t

In 2016, the Beringpromugol' Ltd. (part of the Tigers Realm Coal Ltd, TIG) started its large-scale coal mining project in Ugol'naya Bay, which implies coal mining and export to China, Japan, and Taiwan.

In September 2018, at the Eastern Economic Forum, the Ministry for the Development of the Russian Far East, the Administration of the Chukotka Autonomous Okrug, the KAZ Minerals PLS company, and GDK Baimskaya company signed the agreement on the implementation of the investment project "Exploration of the Baim Ore Zone" concerning the exploration of one of the world's biggest copper deposits that will make Russia the largest player on the world copper market.

The resource potential of Magadan Oblast is even more diverse: it possesses precious metals (gold and silver), non-ferrous metals (zinc, lead, copper, molybdenum, tin), iron, black and brown coal, oil, and gas (Table 2). At the present, in the area gold and silver are mined on a large-scale basis; some lead is produced as well as black coal mined for local needs.

Table 2: Resource potential of Magadan Oblast [3]

Resource	Amount	Unit
Gold	3891.0	t
Silver	44,691.0	t
Molybdenum	200.0	thous. t
Tin	311.0	thous. t
Copper	10.1	mln. t
Zinc	18.0	mln. t
Lead	5.4	mln. t
Iron	1.4	bln. t
Coal	8.7	bln. t
Oil (shelf)	1.9	bln. t
Gas (shelf)	1987,7	bln m ³

Perspective investment projects imply exploration of new resources in the region: iron (Omolon iron ore district, predicted resources about 756 mln. t), non-ferrous metals (copper, tungsten, lead, zinc, molybdenum) in different districts of Magadan Oblast; increasing brown coal mining at the Lankovskoye (reserves of 137 mln. t) and Melkovodninskoye (505 mln. t) deposits and brown coal mining at the Galimovskoye deposit. So far, there have been no investors for these projects.

3.2.2. Infrastructural Objects

Exploration of resources in the region has been dramatically embarrassed by the absence of the transportation and power supply infrastructural objects: roads, power lines, power plants, and sea ports. The investment share for infrastructure in new projects exceeds 50%.

At the present, the following infrastructural projects are being discussed for the North-East.

- uniting the power supply systems of Magadan Oblast and the Chukotka Autonomous Okrug, which would allow the latter to use the excessive and relatively cheap power from the two power plants, Kolyma and Ust'-Srednekan, in Magadan Oblast;
- constructing the road from Magadan Oblast to the Chukotka Autonomous Okrug for all-season cargo transportation from the year-round sea port in Magadan.

These projects as well as infrastructural objects of mineral resource projects could be of interest for foreign investors.

3.2.3. Northern Sea Route

A large-scale infrastructural project in Arctic is the development of the Northern Sea Route (NSR). Facilitation of the NSR section in the Chukotka Autonomous Okrug requires updating sea ports (Figure 1) in (1) Pevek, (2) Mys Schmidta, (3) Egvekinot, and (4) Provideniya ("first-order" supporting points). Development of the Northern Sea Route will promote the role of "second-order" supporting points, i.e. communities located with the coastal "first-order" supporting points by reliable transportation routes. In Russia's North-East, the former include seaports (Figure 1) in (5) Magadan and (6) Petropavlovsk-Kamchatsky. Active cargo transportation along the NSR will give an impulse to river traffic and road transportation, which will change the logistic patterns for cargo deliveries to remote Arctic and northern areas of the Far East. The main cargo transportation could go longitudinally, via Magadan Oblast, because of the year-round Magadan sea port and automobile roads, including *zimniks* (winter roads) [4,5].

Creating an up-to-date infrastructure along the Northern Sea Route as well as longitudinally will promote facilitation of resource projects in Russia's North-East.

3.3. Investment Climate

The President of the Russian Federation has proclaimed the Far East a development priority in Russia for the whole 21st century, when Arctic has to be turned into a resource base providing Russia competitiveness in global markets. For Arctic and Subarctic regions in the North-East of the Russian Federation, the largest list of various preferences has been made statutory. The main preferences are presented in Figure 2.

Character and sizes of the privileges granted vary; therefore, for each investment trend, the most efficient option for a specific region can be chosen.

For instance, in 1999-2025, in Magadan Oblast, the regime of the Special Economic Zone (SEZ) has been acting; it provides preferences customs and tax regimes for registered participants, which implies liberating them from the federal share of the tax on corporate profits (3%) and the mineral extraction tax (40%) [8].

Advanced Development Areas (ADA) represent a new mechanism for supporting investors. It implies simplified administrative procedures, advantages on the profit tax, the property tax, and the land tax, privileges on payments to non-budget funds, duty- and tax-free import and re-export, budget financing the ADA infrastructural objects construction. ADA works in the Chukotka Autonomous Okrug for implementing the coal mining project; another ADA is planned for exploring the Baim ore zone.

The status of the Regional Investment Project (RIP) permits to acquire such tax advantages as the decreasing coefficient on the mineral extraction tax and the profit tax.

The Special Investment Contract (SPIC) is another mechanism for supporting investors in projects implemented in the Far East for creating or updating production. It grants advantages on the profit tax over the first 5 years after the first profit has been obtained; an opportunity to obtain advantages on the property and land taxes as well as on the rent for using federal and municipal property, including land; an opportunity to use the increasing coefficient of depreciation, and other preferences.

Measures for Increasing Investment Attractiveness of Russia's	
Preferential Tax Regimes	Additional measures
<ul style="list-style-type: none"> ✓ Special Economic Zone (Magadan Oblast): tax advantages and customs privileges for registered participants; ✓ Advanced Development Area (Chukotka Autonomous District): Tax advantages and preferences; ✓ Regional Investment Project: Mineral extraction tax and profit tax advantages; ✓ Special Investment Contract: Advantages on the profit tax, the land tax, the wealth tax etc. 	<ul style="list-style-type: none"> ✓ Advantages on the profit tax and the mineral extraction tax for the part entered to the federal budget for investment projects implemented in the Far East and Transbaikalia (Federal Law of September 30, 2013, №267-FZ); ✓ Creating infrastructure on the account of budget funds within the framework of governmental programs; ✓ Decreasing power tariffs.

Figure 2. Measures for raising the investment attractiveness of the North-East of the Russian Federation [6,7]

According to the Federal Law of 30 September, 2013, №267-FZ, for the projects realized since January 1, 2014 [9], the taxation rate on the profit tax due to enter the federal budget is 0% and used over ten taxable periods (10 years); the taxation rate on the mineral extraction tax is decreased.

Transportation and power supply infrastructural objects for large-scale investment projects of importance can be financed by the federal government within the framework of federal programs.

Besides, to decrease production expenses in the North-East, power tariffs are decreased in the regions.

4. Conclusions and Proposals

Mineral resources exploration, construction of large-scale infrastructural objects for facilitating and developing Arctic and Subarctic areas in Russia's North-East can become trends for mutually beneficial economic cooperation of Russia and China.

Realization of the available potential requires estimating Chinese investors' interests in Arctic territories of Russia's North-East, specifying trends for cooperation to particular investment projects,

defining the existing barriers on the way of the Chinese investors as well as developing measures to eliminate those barriers. For the purpose of solving these problems, we suggest to combine efforts of the Russian and Chinese research communities within the framework of an interdisciplinary research project on the basis of grants from both Russia and China. Participation of the Chinese side would provide better insight in opportunities, aims, and mentality of Chinese investors.

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