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16

FROM MODERNIZATION TO DEVELOPMENT:
FACT AND FICTION

Katri Pynnöniemi

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Researcher
The Finnish Institute of International Affairs

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Summary

- During recent years, transport and infrastructure development has acquired the status of a ‘topic to be mentioned by the president’ and other high-level state officials in their public appearances. The rise of transport from almost complete oblivion into the sphere of state strategic interests has been rapid, and it is a subject which is likely to maintain a high profile in the years to come.
- Success in implementing the current plans for infrastructure development is considered critical in order to generate further economic growth. From the longer-term perspective, it will also be critical in ensuring the diversification of the economy and securing Russia’s place amongst the most advanced economies in the world. The modernization of the transport infrastructure is also seen as a lever with which Russia can reposition herself as a power-house in Eurasia.
- In actual fact, Russia is not a bridge but the dead-end of Eurasia. The country is faced with the enormous task of modernizing its transport infrastructures and implementing structural reforms that have been postponed for years. This would pose a tremendous challenge even in the best possible external circumstances, never mind against the backdrop of inflation and uncertainty in the world markets which exists at present.
- Something which has changed is that Russia now has the resources and the appropriate legislation in place to carry out these tasks. Yet, even if considerable effort has gone into defining strategic priorities, infrastructure investments are still implemented in an ad-hoc manner. The country is in dire need of massive construction projects. If the quality of the state apparatus in managing government spending does not improve – and there are few signs of that materializing – infrastructure development will become the Trojan horse of the Russian economy.

The Finnish Institute of International Affairs
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Teatralnaya ploshchat, Moscow

Photo: Katri Pynnöniemi

Putting infrastructure first

When the deputy Prime Minister and probable president-in-waiting of Russia, Dmitry Medvedev, listed the key tasks of Russia's long-term development, infrastructure was among the top three priorities. The other two were the diversification of the economy and the development of human capital, both of which are, in fact, closely linked to the development of the transport and infrastructure system.

However, it will take more than campaign declarations to set things right. Without a systemic improvement in the basic infrastructures, especially the roads, railways, inland waterways and domestic air transport, the Russian economy will be beset by serious problems. The country needs a better-integrated and more efficient transport system in order to improve the competitiveness of manufactured products in international markets and to secure the stable flow of raw materials to its foreign customers.

This critical infrastructure predicament comes as no surprise to anyone. Many of today's priority projects were launched back in the late Soviet period, but the turbulent years of the 1990s delayed their completion. It was not until the so-called Gref Plan in 2000 that the depreciation of the physical infrastructure was addressed within the larger framework of the social-economic development of the country. Since then, the responsible ministries have elaborated on comprehensive plans for the modernization of the country's infrastructures. In the first phase up to 2005, the emphasis was on the reconstruction of the existing transport system, whereas in the latter pe-

riod up to 2010 and beyond, the focus will shift to the accelerated development of the transport and infrastructure system.

The proposed shift from infrastructure modernization to development is linked to the recent move away from primarily raw material-based to investment-generated economic growth in Russia. Given that the growth in real investments in the Russian economy was 20.5 per cent last year alone, there are definitely grounds for this shift in thinking. However, the risks incurred by government spending on infrastructure development are also increasing. Contrary to the recent announcements by Putin and Medvedev which play down the state's role in the economy, the state corporations are currently going to great lengths to manage the large infrastructure projects in the transport sector. However, the past record of Russia's state apparatus and the fact that the massive construction projects are generally notorious for being hives of corruption and mismanagement is not a good equation to begin with.

Against this background, the prevailing vision of the current leadership seems to be over-optimistic. As noted by Dmitry Medvedev in his speech at Davos in 2007, in the future the Russian economy will 'fully realize our historical mandate as Eurasia's energy and transport centre'. When it comes to energy, Russia clearly holds a key position in the world. But in terms of transport, the country is on the periphery, if not at the dead-end, of Eurasia.



From Jakutski to Neriungri

Photo: Tero Mustonen/Snowchange Cooperative

Challenges

The task of transport infrastructure modernization confronting Russia is an enormous one. The depreciation of the infrastructure base has reached a critical stage and the lack of proper connections between the regions already undermines the integrity of the country as a whole. For its part, economic growth, averaging seven per cent annually, has generated an upward trend in cargo and passenger volumes not experienced during the 1990s. The new growth pattern of the economy also increases the pressure for timely and reliable transport services. Accordingly, the demand for logistical services is growing year by year, exceeding the pace of change in the sector.

The paradox is that the vast territory which Russia has at her disposal in different parts of the country is poorly connected. This situation can be partly explained by taking a look at the map. Russia stretches over the northern part of Eurasia, embracing thousands of kilometres of Arctic Sea coastline. The harsh climate and long distances between cities and industries make all-weather highway connections difficult over large parts of the country.

In general, the infrastructure system is at its most dense in the European part of Russia where the majority of the population is located and the economy is most buoyant. On the other hand, the base network in Siberia and the Russian Far East is not yet developed and some areas even lack connections to the main transport network. The under-financing of air and inland-waterway transport has hit these regions particularly hard, aggravating the imbalance between the European and Asian parts of the transport system.

Against this background, the Russian rail system is an asset of paramount importance for the Russian economy. The railways account for 40 per cent of the cargo and for 43 per cent of overall passenger turnover. In 2007, the cargo turnover of the Russian Railways grew by 4.5 per cent, while the growth of private railway operators was even higher, 15 per cent. The highest growth in the sector was demonstrated by container transport, which surged by 30 per cent to five million TEU (TEU is the equivalent of one 22-foot container).

At the same time, sections that can be regarded as bottlenecks account for 30 per cent of the length of the main railway freight routes. What is more, 60 per cent of the Railways' fixed assets and 80 per cent of cargo wagons and diesel locomotives are decrepit. According to the Russian Railway Company's own estimates, 30,000 new wagons would be needed per year, against the current 5 to 8 thousand wagons bought by the company yearly. The capacity of Russian ports to handle containers (20 million TEU) does not exceed the current capacity of the world's largest container port in Singapore. These figures are part of the reason why Russia accounts for only less than one per cent of the cargo turnover between Europe and Asia and, according to the latest estimates, only five to seven per cent of the transit potential of the country.

Furthermore, the under-development of Russia's road network hampers prospects of changing the structure of the economy. During the last ten years, the number of cars grew five times faster than the length of the main road network. In fact, the Russian market for cars is considered to be the fastest grow-

ing and most interesting market in the world. It is predicted to be the largest in Europe by 2010, and the production of cars in Russia itself is also soaring. In 2005, 1.5 million cars were produced, the majority of which were Russian makes. By 2016, however, foreign makes are set to dominate the Russian car industry, with an estimated 2.6 million vehicles being scheduled for manufacture on home ground. Almost all the major manufacturers, headed by Ford, have already opened or are planning to open a car manufacturing factory in the country.

The growth of motor transport has been felt in Russia's largest cities in particular. Experts warn that if the traffic problems are not resolved in the near future, then cities such as Moscow will be paralyzed. Since the city is the heart of the Russian economy, pumping money and resources throughout the country as a whole, the road problem is not confined to the local context. To make matters worse, over 34,000 people die on average in traffic accidents in Russia and some 250,000 are injured annually. This is many times above the average for the EU member states.

Although the growth in traffic volumes is the immediate reason for the congestion along the main city and inter-city roads, as well as for the growing number of traffic accidents, the underlying cause is Russia's lack of normal roads. The country currently has around one million (1,000,145) kilometres of roads. The bulk of the road traffic is concentrated in the federal roads, which account for approximately five per cent of the total road length, namely less than 50,000 kilometres. Only 40 per cent of the federal road network fulfils the criteria for 'normal' roads. This figure is even lower for the majority of roads that are under the remit of the regional and municipal authorities.

Although traffic congestion in the largest cities creates pressure for the development of the federal road network, problems with the remaining 850,000 kilometres throw the regional integrity of the country into question. Simply stated, it is a question of the inadequate or simply non-existent connections between 50,000 settlements and the main transport system. In the light of the current emphasis on the development of the forest sector, it should be mentioned that the insufficient number of so-called forest roads in Russia is partly due to their status as part of the regional and municipal road network.

The Russian authorities have, however, recently announced that the country will have 'normal roads' by 2013. There are some grounds for optimism in this respect since President Putin passed a new road law in November 2007. The legislation regulates the general principles of land use and the construction of motorways. The plan is to construct 6,000 kilometres of new roads. This is a considerable figure taking into account the fact that in recent years the length of newly built roads has been calculated in hundreds of kilometres at the most. With the abolition of the federal road funds in 2000, the share of investments in roads from GDP decreased from nearly three per cent to no more than one per cent in 2007. The absolute amount spent on the road sector dipped as well, despite increasing revenues from taxes which were supposedly earmarked for that purpose. In recent years, the expenditure on roads has increased.

The change

What has changed in recent years is Russia's ability to carry out the tasks pinpointed above. In 2007 real investments in the transport infrastructure amounted to 770 billion roubles (€21.4 billion), almost twice as much as in 2002. But the required investments in the transport and infrastructure system are also enormous. The investments required for the development of the rail system by 2030 will amount to 13 trillion roubles (€361 billion). Moreover, it has been estimated that developing the transport system up to 2015 alone would require up to 21 trillion roubles (€583 billion). The latter figure is comparable with the estimated total cost of €600 billion for the trans-European transport network in the EU area.

In comparison with the situation in the early 1990s, Russia has put in place a general regulative and policy framework in order to implement the planned investments. The country already has major framework documents for the modernization of the transport system. In addition, a set of laws regulating the infrastructure development is in place, including the above-mentioned law on road building. The structural reforms for rail transport have already given impetus to investments and boosted performance in the sector.

The current emphasis is on the private-public partnerships as a mechanism for funding and management of the large infrastructure projects. How this



Serp i Molot train station, Moscow

Photo: Katri Pynnöniemi

‘mechanism’ will be put into practice is, however, still unclear. The government has also approved an idea to create ‘special economic zones’ at the sea ports. This is intended to facilitate the upgrading of the infrastructure of ports, such as the port of Ust-Luga in the Gulf of Finland and Murmansk in the Barents Sea.

The experience of recent years in implementing the major infrastructure projects has yielded mixed results, however. The building of the Primorsk oil terminal, for example, was conducted swiftly and the port itself conforms to international standards of environmental quality. On the other hand, the project is a prime example of the Russian objective to safeguard the country’s foreign transport by increasing independence from the infrastructures of the neighbouring regions, rather than interdependency between the adjacent countries.

Sources of doubt

The current shift in emphasis from ‘modernization’ to the ‘development’ of the transport system reflects, and in fact highlights, the persistent difference between two parallel realities of the Russian economy. Consumer- and investment-driven economic growth creates pressure for the development of a new type of logistical service and related infrastructure installations. Improvements in this area, in turn, provide a stimulus for further diversification of the economy. On the other hand, large parts of the country still operate under the raw-material economy with limited or no infrastructure connections to the main transport system. To balance these di-

vergent realities by improving Russia’s international competitiveness, on the one hand, and ensuring the integrity of the country on the other, is a source of contradiction in the current transport policy.

The modernization of the transport infrastructure has traditionally been viewed as a way for Russia to ease the burden of her space – to transform her vast territory into a thriving economy. However, the bid for modernization has always been coupled with the need to control the space, thus leading to a peculiar compromise between space and order. This is the single most important variable in the face of modernization or, to use the current buzzword, the development of the country’s infrastructure network. In this respect, Russia is hardly unique. The paradox, however, is that it is a country which seems to fail repeatedly in its efforts at infrastructure planning and development. As mentioned above, the harsh climate is largely to blame for certain difficulties, but some of the problems are ideational rather than practical.

The infrastructure development mindset during the Soviet period, and since, has been fixed by an image of Moscow as a ‘port of five oceans’. The latest version of this old Soviet saying is to envision Russia as a Eurasian land bridge – an exporter of transport services, not just raw materials. The prevailing idea is that by activating the potential which already exists, largely the infrastructures inherited from the Soviet Union, Russia will regain its position in the former Soviet space. The thinking is Moscow-oriented and, in the main, oriented towards securing the state-led capitalization of the major raw material flows. Accordingly, real investments in infrastructure have

been targeted at the ports and related facilities which help in securing energy exports.

To think of Moscow in terms of ‘a port of five oceans’ is an erroneous analogy in the sense that Russia is, after all, a land-power with enormous territory at her disposal. In fact, the orientation of the country’s main transport corridors via Moscow has become a major bottleneck for economic development. Recently, the need for more regionally oriented planning has been voiced. It is unclear as yet whether the newly proposed ‘macro regions’ will actually help in directing government funds in a feasible way. By simply revamping the existing infrastructures, Russia is not gaining competitiveness in the international markets. The shift towards the innovative and technology-oriented path of infrastructure development, as suggested by the Russian Ministry of Transport, is the right track to follow. But it would be too premature to claim that Russia is ready to adopt this new course.

Irrespective of the economic growth Russia has enjoyed in recent years, the country has not seen any major improvement in the building of new railways, roads or air transport hubs. The slow progress is due to the lack of effective institutions required to implement long-term development needs. Over the years, the Ministry of Transport has been openly criticized for its lack of initiative in setting priorities and in failing to organize the practical work effectively. The solution to this problem is currently being sought in

active state participation, which takes the form of putting state corporations in charge of large infrastructure projects. However, it remains to be seen whether these arrangements help to tame corruption in the construction sector or, conversely, serve only to aggravate the problem.

The situational context of infrastructure building is, paradoxically, worse now than it was just a few years ago. The external economic environment is highly volatile and it is not clear how the Russian government will be able to cope with the outside pressures which, potentially, may gobble up the benefits of the Stabilization Fund.

In the face of concerns about the mismanagement of the state apparatus and the external economic environment, the risk of Russia not having ‘normal roads’ is increasing. Russia’s bid to become one of the leading economies in the world does not seem viable when one considers that the country cannot even build a decent road between its largest cities. The failure to reinforce Russia’s role as a transit bridge between Europe and Asia is jeopardizing the traditional image of the country as the rightful heir to Eurasia. However, it can also be seen as a fresh start. When infrastructure development is tied up with the building of the competitiveness of the country rather than its location on the geopolitician’s map, Russia may be able to shed the burden of her space and become a modern country.

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Katri Pynnöniemi
Researcher
The Finnish Institute of International Affairs

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