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Foreign Economic Relations of Ryazan Oblast in the Context of a New Security Environment

By Leonid B. Vardomskiy

Ryazan Oblast is located about 200 kilometers south of Moscow. It belongs to the group of the so-called "Red Belt" regions, where the communist party dominates and economic restructuring faces difficulties. The conditions prevailing in the oblast are not favorable. Ryazan Oblast lies in the shadow of Moscow, and the influence of the financial and economic capital can be felt expanding into this region and shaping its economic life to a considerable degree.

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contents

Foreword

Ryazan Oblast, a region located only about 200 kilometers south of Moscow, is the focus of this paper, prepared by Professor Leonid Vardomskiy, Head of the Center for CIS Countries at the Institute of International Economic and Political Studies in Moscow. Ryazan Oblast belongs to the group of the so-called “Red Belt” regions. These are characterized by the fact that members of the communist party control political life and that the economy shows major difficulties in adapting to the new global challenges that emerged after the end of the Soviet Union.

The conditions prevailing in Ryazan Oblast for taking an active part in modernization and globalization trends are not favorable. We see a relatively high rate of unemployment and poverty. Against the background of a steady decline in living standard and of an ongoing economic crisis over the last ten years, structural reforms and integration into the world economy do not figure highly on the political agenda of the Ryazan Oblast authorities. Anti-globalization sentiments are noticeable not only in the political but also in the cultural and religious spheres. The authorities of Ryazan Oblast were the first to introduce a law restricting the activities of foreign religious groups in their region.

Socio-economic development of Ryazan Oblast is very much affected by the vicinity to the city of Moscow, which is the most globalized area of the Russian Federation. The comparison of Ryazan and Moscow, the first an economically undeveloped, poor agrarian region, the latter leading in terms of concentration of financial and human capital and development of infrastructure and services, speaks for the dramatic disparity of territorial development within Russia even between neighboring territories. Ryazan Oblast lies in the shadow of Moscow, and the influence of the financial and economic capital can be felt expanding into this region and shaping economic life to a considerable degree. Labor relations, industrial policies, or investments – all these spheres are directly affected by the dominating Moscow megalopolis whose interests often do not correspond to the concerns of local economic actors. The interests between external and local economic actors are therefore unbalanced. As a result, local resources are shrinking, which makes the adjustment to international conditions an even harder task.

The paper is number 13 in a series of working papers written in the context of the project "Regionalization of Russian Foreign and Security Policy: Interaction between Regional Processes and the Interest of the Central State," funded by the Swiss Federal Institute of Technology (ETH) Zurich. All of the studies in this series are available in full-text at http://www.fsk.ethz.ch.

Zurich, September 2001

Prof. Dr. Andreas Wenger

Deputy director of the Center for Security Studies
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Introduction

Ryazan Oblast is located not far from Moscow, but its social and economic situation is lagging behind Moscow Oblast to a significant extent, and even more behind the capital itself. Up until recently, Ryazan Oblast's integration into the network of international economic relations was quite weak. The years 1999–2000 witnessed a quick growth of exports due to the production of the Ryazan Petroleum Processing Plant. However, that did not lead to revitalization of investment or to an influx of foreign investment, nor did it improve the social situation of the oblast. This report analyzes the internal political and economic conditions for integrating the oblast into the processes of globalization, and the resulting contradictions. The report emphasizes that the present level of involvement in international contacts aggravates the existing threats to regional security rather than diminishing them.

chapter 1

Social and economic characteristics

Ryazan Oblast is located to the southeast of Moscow, bordering the Moscow and Tula oblasts in the west, the Vladimir Oblast in the north, Nizhnii Novgorod Oblast and the Republic of Mordovia in the east, and the Penza, Lipetsk, and Tambov oblasts to the south. The center of the oblast, the city of Ryazan, is located to the northwest (relative to the geographical center of the oblast) in the direction of Moscow, approximately 200 kilometers from the capital. The oblast lies in the heartland of Russia. It is approximately 1000 kilometers from the geographical center of the oblast to the closest international border crossing. The oblast is practically mono-ethnic: Russians make up approximately 95% of the population.

The oblast lacks significant natural resources. Its development was based on the advantages of its location close to Moscow and on the communications routes connecting the Volga regions and the south of Russia with the capital region. Another important resource for development is the cultural and historic potential.

The economy of the oblast evolved in close connection with the requirements of the Moscow region. The main industrial enterprises of the Ryazan Oblast are now inseparable parts of the Moscow economic complex. Ryazan Oblast's economy consists primarily of enterprises of the military-industrial complex that are located in the oblast and predominantly in the city of Ryazan. The industry in question produces measuring equipment, monitors, lasers, radio electronics, radio location equipment, special materials and coverings and so on, which are used in military equipment. Up until the beginning of the 1990's, the city of Ryazan was a closed city and could only be visited by foreigners with special permission.

The fuel and energy complex, which represents over one-third of the industrial production of the oblast, is also closely connected to the Moscow region. The biggest enterprises are the Ryazan Petroleum Processing Plant (PPP) with a capacity of 16 million tons of processed oil a year, which belongs to the Tyumen Petroleum Company (TPC), and the Ryazan Heat Power plant, which belongs to the " EES Russia" RAO joint-stock company that was formed to meet the needs of the capital region. Petroleum is delivered to Ryazan via the Almetevsk (Tatarstan)-Nizhnii Novgorod-Ryazan pipeline, and processed petroleum products from PPP are delivered to their destinations through the Ryazan-Moscow and Ryazan-Tula-Orel product pipelines.

The structure of the industrial production in 1999 was as follows:[1]

– Power industry:	26.1%
– Machine-building:	22.4%
– Food industry:	13.5%
– Fuel industry:	10.4%
– Production of construction materials:	9.1%
– Consumer industry:	4.7%
– Non-ferrous metallurgy:	3.9%
– Chemical and petroleum-chemical industry:	2.6%
– Woodworking industry:	1.2%
– Other industries:	3.2%

Over 70% of the oblast's industrial production is concentrated in Ryazan. All eleven institutions of higher education and approximately 40 research institutes and design organizations are also concentrated in the main city of the oblast. The main city of the oblast is home to 41.3% (530'000) of the population. Because of Ryazan city, the oblast is characterized by a high level of urbanization – 69% of the population live in cities. Eleven other cities belong to the category of small cities. The second-largest city, Kasimov, has less than 37'000 residents and is 14 times smaller than Ryazan.

Therefore, in terms of the economic structure, the oblast consists of two parts: Ryazan city, the regional conglomerate of industry, center of education, culture and administration on the one hand, and a primarily agrarian periphery on the other.

1 *Riazanskaia oblast' v 1999g.* (The Ryazan Oblast in 1999). Ryazan: Riazanskii oblastnoi komitet gosudarstvennoi statistiki, 2000, p. 142.

The oblast serves important transit functions; the main transportation routes connecting the capital region with the Volga area and the North Caucasus, pass through it. Four gas trunk-pipelines leading from Central Asia to the Volga and the Center pass through the oblast. The largest deposit of natural gas in Europe, which belongs to the joint-stock company "Gasprom," is located near Kasimov.

With a per capita gross regional product of 14'200 rubles in 1998, the oblast was at the same level with the Moscow and the Tula oblasts (14'300 rubles), behind Lipetsk (21'900 rubles) and Nizhnii Novgorod oblasts (18'700 rubles), but ahead of the Republic of Mordovia (12'500 rubles), Vladimir (12'300 rubles), Tambov (12'000 rubles) and Penza (7'100 rubles) oblasts.[2] A decrease in population as well as in the development and profitability of the economy in Ryazan Oblast can be observed to move from the west to the east and southeast.

Table 1: Some indicators of the social situation of Ryazan Oblast and the neighboring regions in 1998[3]

Regions	Per capita income in thousands of rubles[4]	Unemployment level (%)	Per capita volume of retail trade and services in thousands of rubles	Population with income below the minimum wage (%)
Vladimir Oblast	6.5	5.3	6.1	28.5
Lipetsk Oblast	9.7	1.1	9.5	20.4
Mordovia	6.2	5.1	5.4	46.9
Moscow Oblast	6.6	2.9	5.1	27.1
Nizhnii Novgorod Oblast	9.7	2.6	7.9	20.5
Penza Oblast	1.9	5.8	3.8	51.0
Ryazan Oblast	**7.1**	**2.2**	**5.8**	**36.2**
Tambov Oblast	7.3	4.9	8.7	27.4
Tula Oblast	9.0	1.9	7.3	23.2
Russian Fed. average	7.7	2.9	9.2	29.2

2 "Kompleksnaia otsenka sotsial'no-ekonomicheskogo razvitiia regionov RF v 1998/2002 godakh" (Comprehensive Estimate of Socioeconomic Development of the Regions of the Russian Federation in 1998/2002). *Ekonomika i zhizn'*, no. 19, May 2000, p. 31.

3 *Ibid.*

4 Calculated on the basis of total financial balance.

In terms of social indicators, excluding the official unemployment indicator, the Ryazan Oblast lags behind the average for Russia. Among the neighboring regions, it lags significantly behind the Tula and the Lipetsk oblasts, but, at the same time, is ahead of the Republic of Mordovia and the Penza Oblast. (Table 1)

Under the classification of the Ministry of Economy of the Russian Federation for 2000, the Ryazan Oblast was listed among the regions with a median level of development. With the combined rating, the oblast in 1998 was number 45 among the Russian regions. According to the estimates of the Ministry of Economy, the oblast could drop to number 51 by the year 2002.[5]

5 Calculated on the basis of total financial balance.

chapter 2

Problems and threats to regional security

One of the main problems of the oblast throughout the recent years has been the steady decrease in population. In 1926, the population was 2'079'000. By 1959, Ryazan had 1'445'000 inhabitants; in 1979, 1'362'000; in 1991, 1'349'000; in 1999, 1'296'000; in early 2000, 1'284'000. During the reform years between 1991 and 2000, the population of the oblast decreased by 65'000. In the year 2000 alone, the population of the oblast decreased by an additional 13'000, and by 1 January 2001 it reached a record low of 1'272'000. However, if the negative demographic development between 1926 and 1989 was a result of voluntary or forced migrations, losses during the wars, and the repression of the 1930s and 1940s, the depopulation of the 1990s is due to other unfavorable demographic factors.

In 1999, the number of births in the region was 7.0 per thousand residents (the nationwide average is 8.8), while the mortality rate was 18.6 (average in Russia: 13.6). During 11 months in 2000, the number of births per thousand inhabitants decreased to 6.9, and the mortality rate increased to 19.1. On average, the ratio of deaths over births is approaching a factor of 3. At the same time, depopulation occurs mainly (80%) among the rural population, among whom the number of deaths is almost four times higher than the number of births.

In 1999, the average life expectancy corresponded to the average Russian level; 58.8 years for men and 73.0 years for women. The Ryazan Oblast is among the regions with the “oldest population.” Over 26% of the oblast population is of retirement age. The average rate for Russia is approximately 22%. The unfavorable demographic situation creates a threat of irreversible depopulation. The situation is partially improved by the positive balance of migratory movements. However, in the recent years these figures have been consistently decreasing. In 1994, population growth through migration reached its highest point of 10,533 people, or 80 people per 10'000 residents. In 1998, 2,699 new residents immigrated (21 per 10'000 residents); in 1999, this figure went down to 2,011 (15 per 10'000 residents), and in 2000, only 1,167 people wanted to immigrate to Ryazan (9 per 10'000 residents). In 2000, Ryazan was significantly less attractive to migrants than the neighboring oblasts of Moscow, Nizhnii Novgorod, Lipetsk and Vladimir. Migration is exclusively from the countries of the CIS, primarily from Kazakhstan, Uzbekistan and Ukraine. Ryazan's population balance derived from inland migration has been consistently negative.[6] This is evidence of another serious threat to the oblast – the transfer of skilled entrepreneurial specialists to other regions, primarily to Moscow.

Another threat to the security of the oblast is the widespread poverty. In 1999, 680'300 people or 52.4% of the population had incomes below the minimum wage of 802.90 rubles per month.[7] In the third quarter of 2000, the share of population with income below the minimum wage of 840 rubles was 39.9%.[8]

One of the causes of poverty is rampant unemployment. In 1999, the number of jobless reached 74'600, or 12.4% of the economically active population. But even employed residents collect below-average wages.[9] The nominal income was 1'340 rubles at the end of 1999, which was 55% of the average Russian level. The demographic problems and the shrinking migratory attractiveness of the oblast are to a large extent due to the poverty of the population.

The average salary reached 1'646 rubles in November 2000. However, employees of credit and financial institutions were paid 5'364 rubles on average, and employees of the fuel industry (Ryazan PPP) had an average salary of 4'789 rubles. The other extreme in terms of salary can be found in the agrarian sector (average wage 898 rubles), the cultural sector (837 rubles), and education (835 rubles).[10]

Poverty is linked to professions, and can therefore be seen as an expression of regional determinants. Rural regions of the oblast and small cities without industrial enterprises, which could generate competitive production, are among the most poverty-stricken areas.

The growing polarization of the oblast along fault lines related to income represents one of the most serious threats to social stability. The budget should be able to counter this tendency. However, the oblast cannot ensure normal implementation of the budget and its spending part on the basis of its own income. The sectors that depends the most on the budget (education, culture, public health),

6 *Sotsial'no-ekonomicheskoe polozhenie Riazanskoi oblasti v 2000 g.* (Socioeconomic Situation of Ryazan Oblast in 2000). Ryazan 2001, pp. 104–106.

7 Riazanskaia oblast' v 1999g., *Op. cit.*, pp. 78–79.

8 Sotsial'no-ekonomicheskoe polozhenie Riazanskoi oblasti v 2000 g. *Op. cit.*, pp. 92–102.

9 Riazanskaia oblast' v 1999g., *Op. cit.*, p. 49.

10 Sotsial'no-ekonomicheskoe polozhenie Riazanskoi oblasti v 2000 g. *Op. cit.*, pp. 98–99.

and those depending on budget subsidies (agriculture) are characterized by the lowest incomes. In the period from 1995 to 2000, all oblast budgets, with the exception of the 1998 budget, were implemented with deficits. In the budget adopted for 2001, the upper limit of budget deficit was set at 9.9% of the oblast income. In the budget income projection for 2001, 46.3% is provided by direct subsidies from the federal budget. In 1999, this portion was 30.9%; in 2000, it amounted to 23.5%. The income of the consolidated oblast budget, including free subsidies from the federal budget, calculated per capita, reached 76% of the average Russian figure in 1998, and 58% in 1999.

Under proposed expenditures, the resources appropriated for the municipal structures for the purpose of equalizing the budgetary support make up approximately 32%.[11] However, that sum is not sufficient to counteract the growing polarization within the oblast.

The chronically low level of the budget income threatens to destroy the cultural and scientific-educational potential of the oblast. The low income is due to the low profitability of the economy, the high share (40–50%) of unprofitable enterprises, and the drain of part of the profit out the oblast through corporate channels. For example, to judge by the results of eleven months in 1999 and 2000, the petroleum-processing industry (mainly the Ryazan PPP) lost money consistently, regardless of the increased volume of petroleum processing and the rising prices for petroleum products.[12]

Detoriation of technological equipment and the infrastructure presents a serious threat to the oblast. The results are decreasing competitiveness of the economy and subsequent income cuts, budget deterioration, as well as a worsening ecological situation as a result of accidents, water and air pollution, and accumulation of waste products. The oblast is characterized by a low investment volume in capital assets. In 1997–1999, per capita investment in capital assets was 2–2.5 times lower than the average figure for Russia.

11 "Biudzhet 2001g. – k ispolneniiu" (Budget of 2000 – On the Way to be Implemented). *Priokskaia gazeta*, 16 March 2001, p. 2.

12 Sotsial'no-ekonomicheskoe polozhenie Riazanskoi oblasti v 2000 g. *Op. cit.*, p. 78.

chapter 3

Political forces, their interests and correlation

The Ryazan Oblast is traditionally categorized as part of the so-called “Red Belt.” It belongs to a group of regions where Communists and their allied parties and movements are the strongest. It means that state-centric and nationalist-patriotic traditions are very strong in the Ryazan society, which has a very reserved attitude to international cooperation. In comparison to Moscow, westernization of daily life has only spread to a very limited social base here. This can be explained not only by the specific structural features of the economy – the rural periphery and the enterprises of the military-industrial complex are still heavily dependent on state contracts and budget subsidies – but also by the historically developed mentality of the population of the Russian heartland. Similar tendencies can be observed in other oblasts located in the Central region.

In general, the parties of the left have their base in the agrarian sector and in the enterprises of the military-industrial complex; the centrist Unity and Fatherland parties are rooted in the enterprises of the fuel and energy complex, and the parties of the right have a support base in the recently created private enterprises.

The Communist Party of the Russian Federation (CPRF) has consistently held first place in all electoral campaigns. Other parties that overcame the 5% threshold did not reach the average Russian level. (Table 2)

Table 2: *Comparison of political preferences of the population of Russia and Ryazan Oblast in the results of the 1999 State Duma elections in %*

	CPRF	Unity	OVR	SPS	LDPR	Yabloko
Results in Russia	24.29	23.24	13.12	8.60	6.40	5.98
Results in Ryazan Oblast	29.94	23.05	11.65	6.36	5.83	4.83

(Source: Riazanskie vedomosti, 12 December 1999.)

However, the number of CPRF supporters shows regional variation. In the Shilov electoral district 150 with its predominantly rural population, the political preferences of the electorate have not changed in practical terms. The CPRF vote exceeds the average Russian figure by approximately 10%, and this number has grown somewhat in the four years between the elections (Table 3). At the same time, in the Ryazan electoral district 149, which has a mainly urban population, the CPRF electorate had shrunk by almost 4%. However, the tendency to exceed the average Russian percentage has persisted.

Table 3: *Some results of the State Duma elections in Russia and in the Ryazan Oblast*

	1995	1999
CPRF in Russia	22.0%	24.3%
CPRF in the Ryazan electoral district 149	30.6%	26.7%
CPRF in the Shilov electoral district 150	32.3%	34.3%

(Sources: *Priokskaia gazeta*, 28 December 1995; *Riazanskie vedomosti*, 21 December 1999.)

The left-wing parties are dominant in the local governmental organs as well. CPRF candidate V. N. Liubimov won the elections to the position of the Head of the Ryazan Oblast Administration both in 1996 and in 2000. Communists and their supporters enjoy the majority in the Ryazan Oblast Duma, where they hold the position of the Duma Chairman, along with other positions.

The Ryazan City Council that was elected in 1999 has an overwhelming majority of Communists. Only four out of 36 Council deputies were not CPRF members. Elections to the Ryazan City Council in 2000 have brought an end to this trend in accordance with recent developments. Only 22 deputies out of 28 had been elected (in six districts, the ballots were not counted as voter turnout was below the required quorum), and out of the 22 elected delegates, only five were representatives of the CPRF. However, those results cannot be seen as evidence of changing political preferences of the Ryazan residents. At the last election in particular, voters showed a preference for strong manager types. Out of 22

Table 4: *Some results of the elections to the State Duma of the Russian Federation in 1999[*]*

Region	Total	Yabloko	Unity	LDPR	OVR	CPRF	SPS	Other
The Ryazan electoral district 149								
Zakharov	100	2.8	18.8	7.6	11.7	32.4	5.8	4.4
Mikhailovsk	100	3.4	23.2	6.2	11.1	32.6	5.2	4.0
Rybnov	100	5.1	19.9	7.5	14.3	27.1	5.9	4.9
Ryazan	100	4.2	20.5	7.1	10.0	31.8	6.8	4.9
City of Ryazan	100	7.9	18.8	5.0	15.7	25.7	9.7	4.5
The Shilov electorral district 150								
Ermishin	100	1.5	36.0	6.3	5.5	32.1	2.9	2.6
Kdaomsk	100	1.1	30.3	8.6	5.7	36.7	2.0	2.5
Kasimov	100	1.3	40.2	6.0	5.4	30.4	2.4	2.6
City of Kasimov	100	3.3	39.8	5.7	6.2	24.9	4.7	3.3
Klepikov	100	4.0	22.3	8.0	10.0	29.4	4.4	4.6
Korablin	100	3.1	23.6	6.1	6.3	39.4	4.4	3.4
Miloslavl	100	1.6	26.5	5.6	7.0	40.3	3.0	2.2
Novo-Derevensk	100	2.0	35.2	7.8	5.2	31.0	3.0	3.2
Pitelin	100	1.1	27.6	6.2	6.9	40.1	2.4	3.0
Pronsk	100	3.6	35.5	7.2	5.9	24.9	7.8	3.1
Putyatin	100	3.3	25.6	6.8	11.6	27.4	3.9	4.3
Ryazh	100	3.3	28.6	6.2	8.6	32.0	4.2	3.6
Sapozhkov	100	2.0	25.3	6.8	7.1	38.1	2.6	3.3
Saraev	100	1.4	28.8	6.5	4.4	43.6	2.2	2.6
Sasovo	100	1.1	26.3	6.1	4.4	46.8	2.1	2.2
City of Sasovo	100	3.3	25.0	5.7	6.7	39.7	4.9	2.5
Skopin	100	2.1	26.8	6.4	10.8	32.7	3.0	3.7
City of Skopin	100	4.0	17.0	5.1	15.3	37.8	3.8	4.2
Spassk	100	2.7	24.0	7.1	7.4	39.9	3.4	3.3
Starozhilov	100	2.9	26.3	6.9	9.7	27.2	5.8	3.6
Ukholov	100	2.2	29.7	8.0	8.5	32.3	3.3	3.6
Chuchkovsk	100	2.0	27.6	9.1	5.4	36.2	3.5	3.6
Shatsk	100	1.6	19.1	5.5	24.4	32.0	2.9	3.1
Shilov	100	2.8	24.9	6.5	8.7	35.8	3.9	3.3
Total in Ryazan Oblast	100	4.9	23.4	5.9	11.8	30.4	6.5	3.9

(Calculations based on data in: *Delovoi vestnik*, 28 December 1999.)

deputies of the City Council, 18 were managers (nine directors of industrial enterprises, six doctors and three school principals).

In view of the significant superiority of left-wing forces – CPRF support never falls below 25% of all voters – the political preferences of the population in different regions of the oblast differ significantly. (Table 4)

As a result, the first and the second place in the elections were shared between the Communists and the ruling party, Unity. The Shatsk region, where the electoral bloc OVR took the second place from Unity, was the only exception. The number of CPRF supporters is lower in areas with high urban population (such as the municipalities of Ryazan and Kasimov, Rybnovski region with the city of Rybnoe, Pronski region with the city of Novomichurinsk). The Klepikovsk, Putyatin and Starozhilov regions belong to the same category. The number of CPRF supporters is the highest in remote rural regions (Sasov, Saraev, Miloslavsk and Pitelinsk regions – in each of these, the number of CPRF supporters exceeds 40%; in Kadomsk, Korablin, Sapozhkovsk, Spassk and Chukovsk regions, and also in the municipalities of Sasovo and Skopin, the CPRF regularly wins over 35% of the vote).

The character of the oblast economy with its high degree of integration of energy and military enterprises into inter-regional contacts, together with the mentality of the population, practically precludes any tendencies towards separatism. One can say that despite the difficult social situation, Ryazan Oblast represents a bastion for strengthening the Russian statehood. At the same time, the main political forces see the liberal market policies of the federal center as the primary threat to the oblast. They tend to attribute the demographic crisis, poverty, communal problems, and power outages to such policies. The majority of political elites speaks in favor of supporting national producers; they are against the dictate of natural and regional monopolies and are in favor of strengthening state regulation in the economy.

chapter 4

International contacts of the oblast

Foreign trade ties of the oblast showed contradictory dynamics up until the year 2000. The volume of exports was shrinking up until 1998, reflecting the state of Ryazan PPP as the main exporter and the fluctuations of the ruble exchange rate. From 1998, exports began to grow, with a rapid increase in 2000. However, the imports, after having reached their maximum level in 1996, have been consistently shrinking. The foreign trade balance of the oblast was negative in 1996; however, in 1997–2000 it grew from US$81.5 million to US$493 million.

Table 5: Foreign trade balance for the period 1997–2000, in millions of dollars

	exports	imports	balance
1995	294	114	408
1996	229	253	482
1997	202.7	121.2	323.9
1998	217.0	92.1	309.1
1999	288.7	71.3	360.0
2000	560.3	67.5	627.8

(Data supplied by Ryazan customs)

In 2000, petroleum and petroleum products accounted for over 83% of exports, a growth rate of 11% over 1999. Other significant exports were measurement equipment (3.3%), raw aluminum (2.6%), and synthetic fibers (2.1%).

The main imports are pesticides, food products and raw materials for their production, fibers, fabrics and raw non-woven materials, machines and equipment (mainly raw materials and spare parts for companies).

The volume and structure of imports indicate low investment activity. At the same time, a large share of imported consumer goods comes from Moscow, which is the largest supplier of food and consumer goods in Russia with over 40% market share.

The geographic structure of Ryazan's foreign trade has changed substantially in the last five years. In 1995, most important countries for exports were Italy, Germany, Turkey, Virgin Islands, the US, Ukraine, Rumania, Hungary, Iran; imported goods came predominantly from Ukraine, Germany, the US, Great Britain, Hungary, Uzbekistan, Slovakia, China, Italy, Kazakhstan. In the subsequent five years, the list of primary trade partners changed substantially (Table 6), reflecting the shifting nature of export-import connections.

Table 6: Main foreign trade partners of Ryazan Oblast in 2000

Country	Exports in %	Country	Imports in %
Estonia	52	Germany	19
Latvia	10	Kazakhstan	13
Ukraine	7	Italy	10
Lithuania	6	Belgium	9
China	4	Great Britain	8
Romania	4	Ukraine	8
Finland	3	Norway	5
Poland	3	Czech	5
Turkey	2	Sweden	3
total ten primary trade partners	91	total ten primary trade partners	80

(Data obtained by Ryazan customs)

Nonetheless, between 1995 and 2000, one could emphasize the special status that countries with transitional economies held within the foreign economic ties of the oblast. Their share grew rapidly in 2000, when 76% of exports went to post-Soviet countries, among them 8% to the countries of the CIS and 68% to the Baltic states. They also made up approximately 25% of imports, including 24% from CIS countries.

The trade policy of the Tyumen Petroleum Company (TPC) exerts a decisive influence over the geography of foreign trade contacts. It was this policy that caused the sharp growth of exports to the Baltic countries.

The number of participants of foreign economic activity in the oblast was 375, or 1.5% of all registered legal subjects in 2000.

The largest of these were the TPC, and its subsidiary, the joint-stock company Ryazan PPP. The Ryazan State Equipment Plant and joint-stock companies "Ryazanagrokhim" and "Visko-R" can be noted as other significant participants of foreign economic activity.

Therefore, the foreign trade of the oblast is characterized by high concentration in terms of product structure, shares of individual companies, and shares of certain countries in exports and imports. The territorial concentration of foreign trade is even higher. Ryazan accounts for almost 99% of exports and 89% of imports of the oblast.

The oblast is one of the last among the regions of the Central Russia in terms of the volume of foreign investment. (Table 7)

Table 7: Direct foreign investment in the Ryazan Oblast and the neighboring regions in 1994–1999, in million dollars[13]

Regions	1994–1996	1997	1998	1999
Vladimir Oblast	11.9	14.0	1.9	38.5
Lipetsk Oblast	11.5	0.1	6.4	12.2
Mordovia	3.1	1.7	4.3	0.6
Moscow Oblast	629.1	66.1	637.1	390.0
Nizhnii Novgorod Oblast	87.2	4.5	4.0	13.8
Penza Oblast	1.5	0.0	2.3	0.3
Ryazan Oblast	**3.0**	**1.2**	**4.1**	**1.3**
Tambov Oblast	11.7	0.0	0.1	3.4
Tula Oblast	17.0	31.3	29.9	5.7
Russian Federation	4515.9	3897.4	3361.0	4260.0

(Source: Gostkomstat RF, Sotsial'no -ekonomicheskoe polozhenie Rossii (State Committee on Statistics of the Russian Federation, Social and Economic Situation of Russia), no. 1, January 2001, information for the years 1996 -2000.)

13 Goskomstat RF, Sotsial'no-ekonomicheskoe polozhenie Rossii, janvar'–fevral', 1998, 1999, 2000 (State Committee on Statistics of the Russian Federation, Socioeconomic Situation of Russia, January–February, 1998, 1999, 2000).

On 1 January 2001, 73 joint ventures and 50 subsidiaries of foreign legal subjects engaged in economic activity in the territory of the Ryazan Oblast. They have approximately 7'000 employees, or approximately 1.3% of the total number of employed population. The number of people employed in enterprises with foreign investment (EFI) has practically not increased since 1997. Enterprises with foreign investment accounted for 3.2% of all goods and services produced by the industries of the oblast in 1999.[14]

The total direct investment in the oblast between 1994 and 2000 was US$10.7 million, according to the State Committee on Statistics of the Russian Federation. According to the Statistical Department of Ryazan Oblast, US$33.7 million of foreign investment were invested in the region from1992 to 2000, an estimate which is most likely exaggerated. The absolute volume of investment per functioning enterprise with foreign investment , regardless of the method of accounting, was a paltry US$150'000–450'000. The main foreign investment partners came from Italy and Ukraine (nine each), Cyprus and the Czech Republic (eight each), Germany and Belarus (seven each), Bulgaria, Poland and Latvia (six each), and Uzbekistan (five companies). Most of these businesses are located in Ryazan.

According to the Ryazan Chamber of Commerce and Industry, the largest influx of investment into the oblast came from Cyprus and amounted to US$13.9 million or 64% of all investment. Austria and Germany came next with 15.6% and 5.5% respectively. One can confidently state that the phenomenon of large-scale Cypriot investment is due to the return of capital that was previously spirited out of Russia.

Many enterprises with foreign investment operate in the retail and service sectors. Practically all of those enterprises are oriented toward the Russian market. "Texaco" began production of lubricants at the Ryazan PPP within the framework of a joint enterprise with "TNC-Texaco," which was able to secure 30% of the market for packed oil in Moscow, and 10% each of the Russian and Ukrainian markets.[15] The "Isabel" company produces sewing products with Italian partners. A considerable number of enterprises with foreign investment receive import materials and spare parts. In particular, these are "Ryazan-West" (in cooperation with the German company "Salamander"), which produces shoes and imports raw leather products, and "Ryazan-Bosch" and "Automotive Lighting," which produce automobile lights and import some spare parts.

The oblast's lack of investments can, on the one hand, be explained by Moscow's securing a large part of the investment coming into Russia. Moscow is more attractive for foreign investors than any other subject of the Russian Federation. On the other hand, the situation is the consequence of the protectionist policy pursued by the oblast authorities.

14 Riazanskaia oblast' v 1999g., *Op. cit.*, pp. 288–289. – Data by the Regional Statistics Committee for 2001.

15 "Krupneishie kompanii: itogi goda" (Largest Companies: The Results of this Year). *Ekspert*, no. 37, 10 February 2000, pp. 94–95.

The Ryazan Oblast has a certain experience in credit cooperation. In 1996, the administration of Ryazan acted together with the administrations of the cities of Vladimir, Orenburg, Cherepovets, Volkhov and Petrozavodsk as a sub-borrower of the loan of US$300 million provided by the World Bank to the government of the Russian Federation for the project "Transfer of Ministry-Controlled Housing Funds." Ryazan received US$69.7 million out of this loan for a period of 14 years under the guarantee of the administration of the Ryazan Oblast. The funds were to have been allocated between 1996 and 2002. In April 2000, the TPC and "Eksim-Bank" signed an agreement on guarantees for a large long-term loan of US$5 million, which was to be used for the reconstruction of the Ryazan PPP.

International contacts of the oblast in the humanitarian and educational spheres are still quite limited. To a large extent, this is due to the poverty of the population, the low regional budget and the way the budget is organized. Only limited grants are available from various international funds and organizations. Few students and specialists go to foreign countries for internships. For example, in the last three years, only 18 people were sent by the Ryazan Chamber of Com-

Table 8: Parameters of openness of the economy of the Ryazan Oblast and the neighboring regions

Regions	volume of foreign trade per capita, in US$ (1998)	ratio of foreign trade to gross regional product, in % (1998)	Accumulated foreign direct investment per capita, in US$ (1994-1999)	share of foreign direct investment into main capital in 1999, %
Vladimir Oblast	198.2	10.8	41.3	7.6
Lipetsk Oblast	1123.7	44.2	24.4	2.1
Mordovia	72.8	3.9	9.8	0.2
Moscow Oblast	424.4	14.9	266.4	10.3
Nizhnii Novgorod Oblast	315.2	11.8	29.9	0.8
Penza Oblast	57.9	4.3	2.7	0.1
Ryazan Oblast	**211.1**	**10.4**	**7.5**	**0.3**
Tambov Oblast	110.7	7.3	12.0	1.2
Tula Oblast	458.8	23.0	48.2	0.8
Russian Federation	606.0	19.8	110.2	3.2

(Source: The figures were calculated on the basis of statistical sources that were used for Tables 1 and 7. Also: Regiony Rossii: ekonomicheskaia kon'iunktura (sotsial'no-ekonomicheskaia informatsiia) (Regions of Russia: Economic Market Situation [social-economic information]). Moscow: Izd. Tsentr ekonomicheskoi kon'iunktury pri pravitel'stve RF, June 2000.)

merce and Industry to study in foreign countries. The city of Ryazan, which is practically the only focus of international contacts in the oblast, lags significantly behind Moscow in the use of the Internet. More than 76 out of 1000 Moscow residents used the Internet in the beginning of 2001; in St Petersburg, only 2.5% of the population had Web access, and in Ryazan, the number was approximately 0.9%.

Despite intensifying foreign contacts in the recent years, the Ryazan Oblast, in general, is still among the more introvert regions of Russia.[16] Among its neighbors, the Ryazan Oblast is close to the Vladimir and Tambov oblasts in terms of international contacts; it is ahead of the Penza Oblast and Mordovia, but noticeably behind the Moscow, Lipetsk, Nizhnii Novgorod and Tula oblasts. The oblast is engaged in the processes of globalization of the economy with a very small number of enterprises From the perspective of regional security, the effect of foreign contacts can be seen in quite contradictory terms in the Ryazan Oblast. On the one hand, the preservation of the closed character of the oblast economy prevented it from attracting substantial investments or human capital since the beginning of the reforms. For all practical purposes, the modernization of the economy has not even begun. The threat of incidents in industry due to outdated equipment and the loss of economic competitiveness have increased. But on the other hand, the unfavorable conditions of the credit agreement with the World Bank, the devaluation of the ruble as a result of the August 1998 crisis, and the ineffective use of the appropriated resources have worsened the budget situation of Ryazan. Deputies of the Ryazan City Council initiated the withdrawal of the city from this project.

The active foreign economic policy of the TPC leads to social polarization and does not contribute significantly to the regional budget. Today's level and structure of foreign contacts is more likely to aggravate the threats than to ameliorate them.that are concentrated in Ryazan.

Among the barriers to the integration of the oblast in the processes of globalization, in my view, the most important role is played by the heritage of the "closed" city status, which is rooted in the mentality of the majority of managers, causing a feeling of inferiority, and also in the low technological level of the economy that makes it less competitive on the international markets. These factors are decisive, because both crime and the established bureaucracy correspond to the national average. The situation is aggravated by the outflow of the most active and innovative labor resources from the region.

16 For more details see the article by Leonid B. Vardomskii "Vneshneekonomicheskie sviazi regionov Rossii v kontekste problem federalizatsii" (Foreign Economic Relations of Russia's Regions in the Context of Problems of Federalization), in: Klimanova, V. and N. Zubarevich, eds. *Politika i ekonomika v regional'nom izmerenii* (Regional Dimensions of Politics and Economics). Moscow and St Petersburg: Mezhdunarodnyi institut gumanitarno-politicheskikh issledovanii, 2000, pp. 136–155.

chapter 5

Actors in the context of international contacts

Looking at the actors in the oblast and their influence on international contacts, they can be categorized into active, moderately active, neutral, and opposing players.

Among the opposing group are agricultural enterprises suffering from competition from imported food products as well as industrial enterprises that produce non-competitive goods, are incapable of introducing them to foreign markets and are also experiencing problems on the internal markets. These groups exert serious influence on the development of international ties. The interests of the numerous groups of enterprises that feel marginalized by globalization are expressed by the parties of the left, primarily by the CPRF and the agrarian parties. In their perception, the engagement of foreign financial resources in the oblast and the exports are practically coterminous to a "sellout of the motherland and the oblast." All imports represent a threat to the national producer.

Among the active proponents of expanding foreign contacts are the TPC and the Ryazan Petroleum Processing Plant, which has been a member of the above-mentioned company since 1995, and which is one of the biggest enterprises of the oblast. Today, the TPC is one of the most dynamic Russian companies and in 2000 occupied 11th place among the country's largest companies in terms of the volume of sales. "Alpha Group" (one of Russia's top financial industrial groups), the "Renova" investment company and the American company "Access Industries" are the main stockholders in the TPC, which is more than a Russian trans-regional company today as it moves increasingly beyond the Russian borders and develops characteristics of a transnational company. It should be noted that foreign transnational companies so far have not shown any interest in

Ryazan Oblast, with the exception of the above-mentioned “Texaco.” The presence of companies “Bosch” and “Salamander” can be seen as purely symbolic due to their insignificant investments.

The TPC illustrates the importance of a large growing company that brings significant financial resources and prestigious foreign transnational companies to the region, and improves its image.

Moderately active and neutral actors occupy the space between these two opposing forces. The category of moderately active players includes the Ryazan Chamber of Commerce and Industry; enterprises with foreign investments producing for the oblast and Russian markets; enterprises interested in exports, for example, the Ryazan Equipment Building Plant; commercial companies that trade in imported goods; commercial banks providing services for foreign economic interactions. Owners and managers of enterprises that have good investment potential act as proponents of attracting foreign investment, and sometimes succeed in doing so.

Among the political parties, the SPS and Yabloko belong to the moderately active proponents of developing of foreign contacts. However, in public, representatives of these parties are reluctant to express their position in this respect and attracting foreign investment. In private conversations, however, regional leaders of the parties of the right and of the public organizations voice a positive attitude toward bringing foreign investment to Ryazan Oblast. The reluctance on the part of the parties of the right to speak their minds can be explained by the specific features of the Oblast electorate, by its mood, and, in particular, by the deeply rooted social polarization in the region, which is attributed to the activity of foreign capital.

The category of neutral actors includes regional enterprises, which belong to the joint stock company “Gasprom,” the Russian joint stock company “EES – Russia,” “Sberbank,” and transportation companies. These enterprises work mostly for the domestic market. However, they are interested in expanding the number of paying customers for their products and services. To the extent that the development of foreign relations would contribute to such growth, they are interested in expanding those as well. However, as a rule, they are off-limits for foreign investors.

Among the politically neutral actors are the regional branches of the parties of the center. The administration of Ryazan Oblast can also be categorized as a neutral actor, because it is forced to balance between the interests of the business elites and the need to make the oblast more attractive to investors, on the one hand, and the predominant public mood in the oblast, on the other. The attitude of the oblast administration to bringing in foreign investment appears positive at first glance. However, it mainly supports investment projects, in which its representatives participate directly. Investment projects that are implemented directly, bypassing the oblast administration, not only do not enjoy any support, but often face counter-action on the part of the administration. This was the case, for example, with the joint stock company “Ryazan Plant of Automobile Equipment.” While the enterprise was hardly functioning, and was under the control of the administration, it fully satisfied the administration. However, as soon as the management achieved substantial progress in negotiations with foreign investors without the oblast administration, the latter initiated bankruptcy proceedings for that enterprise. The role of the Oblast Duma in expanding the oblast’s participation in foreign contacts has been more negative than neutral up until now.

chapter 6

Policy of the oblast administration toward international contacts

Legislative activity in the sphere of international contacts mainly relates to secondary issues and remains within the framework of appropriate federal laws. The first Ryazan Oblast Duma (1994–1997) in one of its first resolutions repealed the decision of the Small Council of the Ryazan Oblast Soviet of Peoples Deputies On Establishing on the Territory of the Ryazan Oblast a Fee for Rendering of Additional Services in Preparation of Documents for Citizens' Departure Abroad, Entrance and Stay in the Russian Federation of 19 August 1992 (No. 94/18). Entering the oblast territory thus became easier for foreign residents, while at the same time the exit procedure was simplified for residents of Ryazan. In 1996, the Ryazan Oblast Duma passed a number of laws with direct or indirect impact on foreign economic contacts of the oblast.

On 24 July 1996, the law of Ryazan Oblast On Tariffs on Imports of Alcohol Production in the Territory of the Oblast was passed, and it took effect on 10 August 1996. This law was protectionist in character, because it stimulated production of this particular product by domestic enterprises, and because it limited business opportunities for foreign entrepreneurs, as this special tariff was imposed on alcohol products imported into the territory of the oblast both from abroad and from other regions of the Russian Federation. The law also applied to domestic alcohol products that were exported abroad and subsequently re-imported to the oblast.

On November 11, 1996 the law On Regulation of Missionary (Religious) Activity of Foreign Organizations in the Territory of the Ryazan Oblast was adopted. This law defined the legal status of representatives of foreign religious organizations in the territory of the oblast, the procedure of their authorization, the legal status of individual preachers or missionaries, the order of their accreditation and the basis of refusal of accreditation, the basis for banning foreign proselytizing religious organizations, religious sects, individual preachers and missionaries, and also the penalties for violation of this law. The legislation was enacted before the adoption of the federal law On the Freedom of Consciousness and Religious Groups.

The absence of federal legislation led to the adoption of the law On the Order of Sojourns in the Territory of the Ryazan Oblast of Persons who are not Citizens of the Russian Federation in November 1996. This law regulated the registration of foreign citizens, the registration oversight, and the duration of stay in the territory of Ryazan Oblast, as well as penalties for violations. Articles referring to international cooperation can also be found in laws of Ryazan Oblast, which give equal rights to both national and foreign economic actors. In some cases, they even give priority to international legislation over Russian and local laws. For example, Article 60 of the law of Ryazan Oblast On Protection of the Environment in the Territory of Ryazan Oblast of 25 December 1998 established the following order of implementation of the norms and rules of international treaties in the sphere of environmental protection: “If an international treaty signed by the Russian Federation establishes different norms and rules for the protection of the environment than those specified in the legislation of the Russian Federation and Ryazan Oblast, the norms and rules of the international treaty are to be used.”

The law of On Tourist Activities on the Territory of Ryazan Oblast of 17 September 1999, specifically analyses such issues as “the development of practical measures for attracting national and foreign investment in the tourist industry;” and conducting tourist activities on the basis of the “financial means of the investors, both national and foreign.” Article 5 of the above-mentioned treaty is fully devoted to cooperation in the sphere of tourism, and it establishes the legal basis for the tourism industry in Ryazan Oblast.

For the purposes of attracting foreign investment, the Duma adopted a resolution On Granting Tax Privileges to Enterprises with Foreign Investment Registered in the Territory of the Ryazan Oblast. The resolution was in accordance with the Russian national legislation, and stated that “enterprises with foreign investment engaged in industrial activity, including those in the service sphere, that are registered in the territory of the Ryazan Oblast, under the condition that the appropriated portion of foreign investment in the established fund is no less than 30%, and the equivalent sum is no less than US$30’000, and if they are registered after 1 January 1994, pay profit taxes, property taxes, taxes on ownership of means of transportation, and a fee for the needs of educational institutions, in particular, to the oblast budget in the following order:

In the first two years of functioning they shall not by subject to the above taxes and fees under the condition that the profit from industrial activity exceeds 70% of the total sum of profits from realization of production (good and services); in their third and fourth year of operation they shall pay accordingly 25% and 50% of the main rate of the above-mentioned taxes if profits from industrial activity make up above 90% of the total sum of profits from realization of their products (goods and services). In the case of cessation of functioning of the enterprise within the 5-year term, the sum of taxes to the oblast budget must be paid in full, which was specified in paragraph 2 of the above-mentioned resolution.”

The principles of this resolution were fully integrated in the laws of the Ryazan Oblast on tax privileges in 1995 and 1996. However, after the inauguration of V. M. Lyubimov and his team as Head of Administration, the resolution lost its force. Since 1997, the activity of foreign investors in the oblast has been decreasing.

In June 1998, the law On Investment Activity in the Territory of Ryazan Oblast was adopted, which stated that “the present law is directed at the development of investment activity in the territory of Ryazan Oblast, and on creating a regime of most favorable status for participants of investment activity, regardless of the form of property.” In accordance with this law, all kinds of investment, investment activities, and financial sources of investment activity must agree with the federal legislation. Support for investment activity is administered by the organs of government of the Ryazan Oblast and the organs of local self-government by granting credits on favorable conditions, purchasing part of the stock as oblast and / or municipal property, granting tax benefits to the participants of investment activity, participation of the executive organs of the oblast government and / or (or) local government in the expertise and in full or partial financing of investment projects, and giving guarantees to the participants of investment activities. The regional state bodies hold competitions for the purpose of attracting investors Selection of investors should be made on the basis of the statute On the Competitive Selection of Investors, which was approved by the Head of the Administration of the Oblast.

This law does not guarantee any special privileges to foreign investors; however, it does not preclude granting such privileges. Therefore, Russian and foreign investors are treated as equal subjects of investment activity in the territory of Ryazan Oblast.

In order to attract foreign investment to the Ryazan Oblast, the Committee on Foreign Economic Relations of the Oblast Administration prepared and introduced a draft law On Solicitation of Foreign Investment to Ryazan Oblast for consideration by the Ryazan Oblast Duma in March 1991. After the Duma Committee on Budget and Taxes had studied it, the draft law was rejected by the majority of the deputies and sent back for additional consideration. So far the work has not been completed.

Overall, the legislation of the Ryazan Oblast regulates only individual issues of international contacts. There are no official programs for developing foreign economic ties or soliciting foreign investment in the oblast. The federal laws regulate foreign economic activity practically to the exclusion of all other bodies.

The majority of regional lawmakers do not consider solicitation of foreign investment an issue of special importance. This reflects the position of the CPRF, whose influence in the oblast is prevalent. The unsuccessful experience with credit cooperation with the World Bank, which seriously complicated the budget situation in Ryazan and the oblast as a guarantor of the credit, to a certain extent, strengthened the communistposition.

Conclusion

In conclusion, one should emphasize that the volume, structure and instability of foreign economic ties of the oblast do not allow us to identify any kind of substantial influence of the oblast on the development of cooperation within the framework of the CIS, the Customs Union, or the Russian-Belarusian Union. The oblast's participation in cooperation between Russia and the European Community and with the countries of East Asia is even less significant. At the same time, thanks to the functioning of the TPC, the Ryazan Oblast has become an important link in the cooperation between Russia and the Baltic countries. But how stable is this function? The TPC competes with another Russian company "LUKoil" in this area, not to mention Western companies. What effect could the following developments have on this cooperation: the possible admittance of the Baltic countries to the European Community and NATO, the construction of a bulk oil port in Primorsk (Leningrad Oblast), an expansion of the capacity of the Russian fuel market, falling world market prices on oil and oil products?

The TPC, as a powerful trans-regional company, is practically independent of regional authorities. The same does not hold true for other subjects of foreign economic activity that depend on them in some way.

Today, only a very limited number of companies can benefit from foreign economic contacts. At the same time, practically all of these are located in Ryazan. However, the majority of economic players of the oblast suffer directly or indirectly from this process. This situation is reflected in the protectionist policy of the regional leadership. The economic potential of the enterprises of the regional center in terms of getting benefits from the expansion of foreign economic contacts is offset by the political dominance of the rural areas, which see such expansion as a threat to their interests.

As a result of the policies carried out in the interests of the regional periphery, an unfavorable entrepreneurial climate has developed in the oblast. It slows down the modernization of the Ryazan economy and leads to a drain of financial resources from the oblast. Despite the industrial growth after 1996, the income of the population and the budgetary income have not grown.

The lack of attractiveness for investors robs Ryazan of the opportunity to fully realize the benefits of its closeness to Moscow and to attract investments to the region that could be oriented toward the Moscow market. Today, the competitiveness of Ryazan Oblast with its relatively low costs for investors is beginning to grow (as can be seen in rising prices on real estate, leasing of land and buildings, and a growing work force). Some oblasts adjacent to the Moscow region, such as the Vladimir, Kaluga and Yaroslavl oblasts are presently enjoying a growth of foreign investment.

The situation in Ryazan Oblast is quite typical for Russia. Involvement in the processes of globalization has sharpened the contradictions between centers and peripheries. This conflict is reflected with a particular clarity at the federal level. Moscow, as the main regional actor of globalization, has made a sharp leap forward and left the rest of the country far behind in terms of economic growth. The imbalance of the relations between the center and the periphery, in the present author's view, represents one of the main threats to Russia.

There is only one solution. Despite the growing dualism, it is necessary to implement a more liberal policy while strengthening the financial control over the big companies. This will eventually increase the financial opportunities to support the periphery. In the conditions created by globalization, without such support, the periphery will lag further and further behind Moscow and other sub-centers.

This statement fully applies to the Ryazan Oblast. If the policy of protectionism continues, the oblast will lag behind other neighboring regions and the threats noted above will inevitably become real.

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