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THE FAR EAST BETWEEN RUSSIA, CHINA, AND AMERICA

By Rens Lee

Rensselaer (Rens) W. Lee III is a Senior Fellow of the Foreign Policy Research Institute and president of Global Advisory Services, a McLean, Virginia-based consulting firm. Dr. Lee has performed overseas contract assignments for the State Department, the Department of Energy, the World Bank, the White House Office of National Drug Control Policy and other agencies, which have encompassed Russia, Eastern Europe, Central Asia, the Caribbean, and much of South America. During 2002–03, he worked as a research analyst at the Congressional Research Service of the Library of Congress, where he produced major reports on terrorist finance, nuclear smuggling and Afghanistan's opium-heroin trade. In 2009, he was a Title VIII-supported short-term scholar at the Kennan Institute of Advanced Russian Studies. Dr. Lee received his Ph.D. from Stanford University and is fluent in Russian, Chinese, Spanish and French. He expresses thanks to Professor Artyom Lukin of the Far Eastern Federal University in Vladivostok for his comments on this article.

OVERVIEW

Moscow's relations with its eastern territories, especially the nine provinces of the Russian Far East (RFE), have significant security implications for Russia and for the Asia-Pacific community generally.¹ With 36 percent of the national territory and 25,000 km of sea coast, and richly endowed with natural resources, the RFE is a valuable and strategically desirable piece of real estate. Yet, holding just 4.4 percent of Russia's population and contributing a mere 5.6 percent to the country's GDP, it remains a weak and underdeveloped backwater. The RFE's geographical situation is precarious: remote from and poorly connected to Russia's European core and uncomfortably close to dynamic and ambitious outside powers, most notably China. In broader geopolitical terms, Moscow's authority continues to rest mainly on its political-military presence in the RFE—its industrial and financial footprint in that part of the world to date is essentially insignificant. The non-security components of power, however, have great modern day significance, and ultimately will determine whether Moscow can successfully retain real sovereignty over the RFE, or whether the interplay of outside forces will increasingly dominate the region's economic and political future.

EMERGENCE OF A STRATEGY

The Far East suffered a period of neglect after the collapse of the Soviet Union: the RFE descended into deep economic crisis in the 1990s, losing 15 percent of its population (by now, the outflow has increased to 25 percent), and upwards of 90 percent of its heavy industry. Due to steep budget cuts, naval and ground forces “experienced considerable degradation”.² The general disintegration of the state apparatus gave opportunistic regional bosses

¹ Subjects of State planning for the Eastern Regions include in the RFE provinces Amur, Chukotka, Kamchatka, Khabarovsk, Magadan, Primorye, Sakha (Yakutia), Sakhalin, and the Jewish Autonomous Oblast. Also include are eastern Siberian (Baikal) provinces, now Buryatia, Irkutsk, and Zabaikal Krai. To date, the RFE has received about 95 percent of Moscow's development funding.

² Artyom Lukin, “Russia and America in the Asia-Pacific: A New Entente?” *Asian Politics and Policy*, Vol 4, No. 2, p. 160 (hereafter, “New Entente”)

unprecedented scope for autonomy, including “liberalized” deal making on trade and migration issues. In the past decade, though, Moscow has reevaluated its strategic priorities in the Asia-Pacific, and has moved to strengthen its power and presence in the RFE and the adjoining Trans-Baikal provinces and has devoted considerable resources to developing these regions. Geopolitics has driven Moscow’s revived interest in its eastern territories. Vladimir Putin in 2006 called the RFE’s isolation and general backwardness a threat to Russia’s national security, and a 2007 State-generated planning document observed that “the presence of Russia in the Asia-Pacific region does not correspond to the role that our country aspires to play in the global economic and political system.”³

COMPONENTS OF STRATEGY

Russia’s modernizing agenda in its far east has proceeded along two main tracks. The first involves increased State intervention in the economy of the territories, and the second involves pursuit of closer regional integration with the fast-growing economies of the Asia-Pacific region (APR), especially China. Integration policies—which extend to inviting significant foreign participation development schemes—have provoked some controversy; while obviously necessary from a financial perspective (since Moscow hasn’t the resources to uplift the economy and infrastructure of these vast and inhospitable lands on its own), it is also seen by some as distorting Russia’s path of economic growth and diminishing Russia’s overall authority over the eastern regions in the long run.

The first component of strategy has involved new administrative and control measures and substantial new financial outlays. In 2006 Moscow decreed creation of a State Commission for the Far East “with the status of a governing body”⁴ and this year established a full-fledged Ministry for the Far East and a planned State Company for the Development of the Far East and Eastern Siberia. In 2007, a “Federal Targeted Program” pledged 567 billion rubles (about \$22 billion) to RFE and Trans-Baikal provinces and in 2009 a new “Strategy” document was issued envisioning a three-stage development of the region to 2025. Ambitious goals were put forward—a 2.6-fold increase in GRP for the regions from 2008-2013 and a 4.4-fold expansion from 2010-2025.⁵

In the current version of the 2013 plan, about 95 percent of the funding is allocated to the RFE, and almost 40 percent to an extreme makeover of the city of Vladivostok: new roads, bridges, port and airport modernization, a conference center, 5-star hotels, and a new university campus are among the favored projects.⁶ The aim is to showcase the city to the international community in preparation for the APEC Summit Meeting to be held there in September, and, more generally, to establish its position as a modern commercial hub for outreach to the Asia-Pacific.⁷

Moscow’s attentions still favor its eastern territories. Putin earlier this year termed its development “the most important geopolitical task” facing Russia, and called for growth rates above the Russian average over the next 10 to 15 years to close the economic gap with the rest of the country.⁸ (One regional leader estimates that GRP expansion of two percent above the Russian norm would enable the Far East and Russia to “converge” economically by 2020.)⁹

Yet its development model increasingly relies on engagement with other Asia-Pacific countries for funding and economic direction. The integrationist impulse largely reflects a general inclination of the Russian state to reorient the country’s economic relations eastward to the APR. As Victor Ishayev, Russia’s newly-appointed Minister for the

³ Government of Russia, *Federal Targeted Program: Economic and Social Development of the Far East and Trans-Baikal for the Period to 2013*, p. 60 (hereafter, *Federal Targeted Program*). “Isolation of Russian Far East Threat to Nation Security: Putin”, *RIA Novosti*, December 20, 2006 (hereafter, “Isolation”)

⁴ “Isolation”

⁵ *Federal Targeted Program*, pp. 6-7. Government of Russia “Strategy for the Socio-Economic Development of the Far East and Baikal Region to 2025”, pp. 10-11, Appendix 2, p. 1

⁶ For recent figures on the plan, see Natalia M. Syssova and Igor A. Dets “State Strategic Planning and Spatial Development in the Siberian Regions”, *Quaestiones Geographicae*, No. 30 (2), 2011, p. 73. On Vladivostok see also Andre Kalachinsky “Putin is Turning Vladivostok into Russia’s Pacific Capital”, *Russian Analytical Digest*, No. 82, July 12, 2010, pp. 2-6.

⁷ Artyom Lukin and Tamara Troyakova “the Russian Far East and the Asia-Pacific: State-Managed Integration in Rouben Azizian and Artyom Lukin eds. From APEC 2011 to APEC 2012: American and Russian Perspectives on Asia-Pacific Security and Cooperation. Vladivostok and Honolulu: Far Eastern Federal University Asia-Pacific Center for Security Studies 2010 (forthcoming)

⁸ Segei Blagov, “Russia Mulls Far Eastern Economic Revival” *Eurasia Daily Monitor*, Vol. 9, Issue 83, May 3, 2012.

⁹ “Interview with the Presidential Plenipotentiary in the Far Eastern Federal District V. Ishayev”, *Tikhookeanskaya Gazeta*, April 14, 2010, (hereafter, Ishayev Interview)

Far East explains it, “Russia historically has oriented itself mainly to the Western vector of development, and that once made sense....Today the European Union is the least dynamically-growing region in the world, with growth rates of just 1-2 percent. Russia wants to vault into the ranks of the 20 most advanced nations, and to do this it must associate itself with actively developing states—that means China, India, the BRIC, and the APR.”¹⁰

To date, integration is still “in its infancy.”¹¹ Russia’s Asia-Pacific regional trade stands at a minuscule 1 percent, and at least half of the “foreign” investment in RFE Trans-Baikal (\$7.4 billion in 2010) originated mostly from non-Asian countries, mostly from European and (via Cyprus) from Russian domestic investors. Also, foreign capital flows mostly to two relatively wealthy and research-rich provinces—67 percent to Sakhalin (for oil and gas) and 18 percent to the Sakha Republic (mainly for gold, diamonds, and timber). A paltry 14 percent went to border provinces, respectively 6 percent to Amur, 5 percent to Khabarovsk, 2 percent to Primorye, and 1 percent to Zabaikal Krai.¹² Partly to promote a more diversified pattern of development Russia has accorded to China, with which it boasts a “deepening strategic partnership” in international affairs, a special place in its Far Eastern economic strategy. “China, for the Far East, plays a key (*klyuchevuyu*) role. Like it or not, that is the reality,” says Victor Ishayev.¹³ For the foreseeable future decisions on many of the important industrial and infrastructure projects in the RFE-Baikal regions seems likely to be made jointly with China, with unpredictable consequences for the region’s economic and political ties to Moscow.

CEMENTING THE PARTNERSHIP

Russia’s Far East “feels extreme pressure from the rapidly-developing neighboring provinces of China,” asserts Ishayev.¹⁴ And no wonder: China is the largest trading partner for the RFE’s border provinces and the second largest partner (after South Korea) for the RFE as a whole. China is a vital market for RFE’s metals, coal, and timber, and a principal supplier of foodstuffs, clothing, and consumer electronics to regional residents. Also, China’s population in its northeast outnumbers that in the RFE by a factor of at least 16 to 1. Chinese capital investment so far ranks considerably below trade in importance (a point to be discussed later) but the PRC’s investment interest promises to grow over time—at least that is the hope of Russia’s leaders.

As is known, Russia and China have formed a close political partnership in recent years that reflects shared understandings vis-à-vis the United States and the West (opposition to perceived Western “domination” in local affairs) and alignments on contentious issues such as Iran sanctions, Syria, and NATO expansion. The countries have shored up their relations by resolving long-standing border disputes, promising “to build the border into where everlasting peace and friendship prevail.”¹⁵ They have dramatically expanded cooperation in trade (China is now Russia’s largest partner) and have pledged to increase trade from \$83 billion in 2011 to \$200 billion in 2020. Energy cooperation has advanced significantly with \$25 billion loan to Russian State companies Transneft and Rosneft in 2009 to build an oil pipeline from Irkutsk to China (and eventually the Pacific) that would guarantee supplies of 300,000 barrels a day of crude to the PRC for 20 years. “Never before have our relations been characterized by such a high level of mutual trust,”¹⁶ said then-President Medvedev, extolling the relationship in a meeting in Beijing in September 2009.

The Russia-China entente will necessarily shape the future direction of Russia’s Far Eastern territories. Indeed, Russia has signaled its intention to link the development of eastern Russia directly to China’s own modernizing agenda. The central architecture and governing principles of the new economic partnership are enshrined in a September 2009 agreement approved by presidents Medvedev and Hu Jintao “Program of Cooperation between the Regions of the Far East and Eastern Siberia and the Northeast of the People’s Republic of China, 2009-2018”). The program specified 284 areas of cooperation, most significantly 201 “key cooperative projects” 90 in Russia and 111 in

¹⁰ *Ibid.*

¹¹ Natasha Kuhrt, “The Russian Far East and Russia’s Asia Policy – Dual Integration or Double Periphery”, *Europe-Asia Studies*, Vol. 64, No. 3, May 2012, p.473

¹² Artyom Lukin, “Russia Looks to the Pacific in 2012” *East Asia Forum*, March 6, 2012. Investment figures for the Far East and Tans-Baikal regions courtesy of Derek Norberg, Russian-American Pacific Partnership (hereafter, “Investment Statistics”)

¹³ Ishayev Interview

¹⁴ *Ibid.*

¹⁵ Treaty of Good Neighborliness and Friendly Cooperation Between the People’s Republic of China and the Russian Federation, Article 6, July 24, 2001

¹⁶ “Medvedev in China: Energy and Economic Cooperation at Top of the Agenda” *Asia News*, September 27, 2010

China, plus 65 target areas for upgrading border crossings and transportation infrastructure on both sides.¹⁷ Viewed as a whole, the program list was designed to revitalize and diversify China's northeast industrial base, while accelerating exploitation of Russia's natural resources and facilitating flows of the extracted materials to China—what one study called a resource and transit-oriented economic model for eastern Russia.¹⁸ Analysis shows that more than 70 percent of the projects envisioned on the Russian side, covering minerals extraction, agriculture, and forestry, have a clear resource focus, compared to about 5 percent on the Chinese side; on the other hand, roughly 90 percent of the Chinese projects outlined in the program involve a broad range of industrial processing and manufacturing sectors. The scope of the program promises to extend widely across the Far East, including projects in eight of nine RFE provinces (Sakha is the exception) as well as in Zabaikal Krai. Some of the new projects, especially in infrastructure development and supply of iron ore and timber already are underway.¹⁹

Unsurprisingly, the Hu-Medvedev agreement and its associated project design have provoked considerable debate in Russia, being widely viewed as playing Russia's east in a colonial or "resource appendage" relationship with "metropolitan" China and jeopardizing Russia's long term interest in sustainable development. Some commentators see it as placing Russia's eastern regions in a colonial or "resource appendage" relationship with metropolitan China, and jeopardizing "sustainable development" in Russia over the long term. Others envision troubling implications for Russian sovereignty and for broader international relations along the Pacific Rim. Sergei Karaganov, who chairs the prestigious Council on Foreign and Defense Policy in Moscow, expresses fears that Russia's eastern regions and even the entire country could "turn into an appendage of China—first as a warehouse of resources and then economically and politically. This will happen without any aggressive or unfriendly efforts on China's part, but will happen by default." Moreover, he says Russia's "semi-dependency" on China could add "a great deal of international weight" to the PRC, which should concern other countries of the Asia-Pacific community.²⁰ Western observers also see strategic risks in Russia's development approach; military analyst Stephen Blank, for example, writes that Russia's "failure" to develop the RFE has forced it to "turn to China for help" which has "allowed China to begin consolidating a new economic and security order in Asia at Russia's expense."²¹ Economic absorption of the RFE by China is by no means inevitable, but Russia needs to reexamine the assumptions of its China-oriented development strategy, and to engage more fully with Asia-Pacific democracies; also required is at least a tacit consensus among the latter that China should not be the predominant economic arbiter and gatekeeper for Russia's Far Eastern zones.

SEEKING BALANCE

Russia will always in some sense be a "resource appendage" for other nations. Building a diversified industrial base that competes with Asia's (excepting in a few areas such as space, aviation, and nuclear power) is not a realistic prospect. Maintaining real sovereignty does not equate to "self-reliant" industrialization but rather to judicious exploitation of its enormous comparative advantage in natural resources (water, timber, energy, minerals, and the like) to advance its geopolitical objectives globally, including its power pretensions in the APR.

Of course, basic geopolitics means not allowing a single country (in this case China) hegemonic access to its valuable commodity base. Certainly there exists support in Russia for a more balanced integrationist policy. While the Medvedev-Putin leadership ostentatiously trumpets the benefit of partnership with China, many in the Russian public and in leadership circles fear China's rising economic and military clout (not to mention its overwhelming demographic advantage) and question the wisdom of linking the RFE's future too closely to China's economic juggernaut. For their part, the Pacific Rim democracies have an obvious stake in the development of the RFE, both to gain access to the region's resources and to prevent China from "calling the shots" in regional development policy. Furthermore, Russia's forthcoming entry into the World Trade Organization should increase transparency

¹⁷ Dmitri Medvedev and Hu Jin Tao, "Program of Cooperation between the Regions of the Far East and Eastern Siberia and the Northeast of the People's Republic of China, 2009-2018", pp. 1-25 (hereafter, "Program of Cooperation"). O. Yengoyan and E. Simonov, "The Russian-Chinese Trans-Border Cooperation Program – A Case of 'Business as Usual' in Yevgeny Simonov, et al., "Environmental Risks to Russian-Sino Trans-Border Cooperation", *WWF Russia*, Moscow and Vladivostok, 2011, pp. 42-43. (hereafter, "Trans-Border Cooperation")

¹⁸ Executive Summary in *Ibid.*, p. 1

¹⁹ "Program of Cooperation" pp. 13-20 "Trans-Border Cooperation", p. 42

²⁰ Sergei Karaganov, "Russia's Asian Strategy", *Russian in Global Affairs*, July 2, 2011

²¹ Stephen Blank, *Toward a New Chinese Order in Asia – Russia's Failure*, National Bureau of Asian Research NBR Special Report, No. 26, march 2011, Executive Summary, p. 2

and predictability in its relations with APR investors—lack of which has constrained investment flows in the past. In sum, the stage seems set economically and politically for wider RFE engagement with the Asia-Pacific, even if China’s economic preeminence in parts of the region, especially along the Russian border, seems likely to persist in the long term.

The good news is that Chinese investment in the RFE and Trans-Baikal is currently small—officially, about one percent, according to 2010 foreign investment data (or \$7.4 million), although this figure may be understated somewhat.²² Furthermore, and significantly, although China dominates trade with all the RFE border provinces, it is not the main partner for any of the others. For example, in 2011 South Korea was the main partner for Magadan, Kamchatka, and Sakhalin, and the United States for Chukotka. Belgium (surprisingly) was the principal partner for the huge Sakha republic, which is almost as large as the rest of the RFE territories combined, though the United States was the largest importer of Sakha products.²³ Moreover, non-Chinese players (and admittedly mostly non-Asian ones) dominate investment in these provinces to date, although the Medvedev-Hu agenda encourages China to target these zones also. For example, China is discussing development of the huge Beringovsky coal deposits in Chukotka and associated rail, road, and port projects, and the PRC also may have signed agreements for exploration of the Kamchatka oil and gas shelf.²⁴ As China’s reach expands, Asia-Pacific democracies may find it advantageous to further strengthen their foothold in the non-border provinces. This is not to carve out spheres of influence there; rather by hedging against China’s growing regional clout, other Pacific states can actually reinforce Russian sovereignty, while at the same time protecting their own security interests in northeast Asia.

Here a special role should be played by the United States. Still the world’s largest (though not its fastest-growing) economy and the most important Pacific power, the United States has both the resources and the security motivation to increase its presence in the RFE. Japan also could be a bigger economic player, but Russia’s continued occupation of the four southern-most islands in the Kurile chain has poisoned relations (and tensions have further been exacerbated by Medvedev’s high-profile visits to the Kuriles in 2010 and 2012). Right now the US presence is unremarkable. America accounted for only 2.2 percent of total RFE trade in 2011 and just 0.1 percent of foreign investment in 2010²⁵ despite earlier investment of tens of billions of dollars by the Exxon Corporation in Sakhalin oil and gas and related infrastructure projects. Certainly, US investment and technology could do much to help Russia exploit and manage the vast resource base of its eastern territories. The RFE seems likely to assume increased importance in US security calculations as Washington’s attention and US military assets shift to the western Pacific to confront the Chinese challenge. A strategic alignment or “entente” between Moscow and Washington in the Pacific, where relations are relatively stable, could be in the short term interests of both countries by setting some limits on China’s growing influence and reach.²⁶ However, the best approach over the long term would be inclusive regional economic and security arrangements that allow active involvement of all interested Pacific states in RFE-Siberian development, while guaranteeing Russia’s real sovereignty over the territories (granted, China’s influence may predominate over that of other outside powers in the border areas). Perhaps the United States could lead the way to establishing such a grouping. In any case, defining the economic and political status of the Russian Far East promises to be a foremost security priority for the United States and for the rest of the Asia-Pacific community in the coming decades.

FPRI, 1528 Walnut Street, Suite 610, Philadelphia, PA 19102-3684

For more information, contact Eli Gilman at 215-732-3774, ext. 255, email fpri@fpri.org, or visit us at www.fpri.org.

²² “Investment Statistics”

²³ Russian State Customs Authority, *Data on Foreign Economic Activities of the Far Eastern Federal District, 2010-2011* (Hereafter, “State Customs Authority”)

²⁴ “Roman Kopin, Presented in the Regional Ministry a Plan for Exploiting Chukotsk Deposits of Hard Coal” *Chukotsk Press Center*, September 9, 2011. Derek Norberg, personal communication, April 30, 2012

²⁵ “State Customs Authority” and “Investment Statistics”

²⁶ “New Entente”, pp. 153, 163-167