

# Burgeoning Sino-Russian Economic Relations and the Russian Far East: Prospects and Challenges

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## Abstract

The colossal economic transformations and political intrusions had been affecting brutally China and the Soviet Union in the final decades of the twentieth century. Currently, Russia is a gigantic power, struggling to rebuild its economic base in an era of globalization. There are a number of significant difficulties of guaranteeing a stable domestic order due to demographic shifts, economic changes, and institutional weaknesses. On the other hand, the economic rise of China has attracted a great deal of attention and labeled as a success story by the Western world. The current growth of the Chinese economy is of immense importance for the global economy. Both nations are part of the world's largest and fastest-growing emerging markets—member of the BRIC. Their respective GDPs are growing at an impressive rate by any global standards. Relations between China and Russia have evolved dramatically throughout the twentieth century. However, it would be fair to argue that during the past decade China and Russia have made a number of efforts to strengthen bilateral ties and improve cooperation on a number of economic/political/diplomatic fronts. The People's Republic of China and the Russian Federation maintain exceptionally close and friendly relations, strong geopolitical and regional cooperation, and significant levels of trade. This paper will explore the burgeoning economic and political relationships between the two nations and place the Russian Far East in the context of Russia's bilateral relations with China in order to examine the political, economic, and security significance of the region for both sides.

## 1 Introduction

The Russian Far East (RFE) is considered as a region in crisis due to troubled economic conditions, corrupt governance, and problem-ridden cross-border relations with China, Japan, and both Koreas (Rozman, 2008). Due to the some fears that the Russian Far East might disengage itself from the center and other regional/global powers may end up having a major grip in the region, Moscow started to show some genuine interest in those eastern border provinces.

The region in question covers a large geographical area from Siberia to Russia's Pacific coast, forming the northeastern corner of Asia. Although the Far East constitutes one-third of Russia's total landmass, it has only 6.6 million residents—4.7 percent of the total population. The low population density, just over one person per square kilometer, makes the region one of the most sparsely populated places in the world. The scarcity of residents exists alongside a wealth of natural resources that have attracted the interest of the Russian central government as well as foreign investors. Evidently, Russian politicians, bureaucrats/technocrats are all concerned about the level of socioeconomic development in that region (Troyakova, 2007).

However, it would be fair to assert that the developmental troubles of the RFE partly related to the region's history and location. Moreover, the USSR did also neglect socio-economically the region until its collapse in 1991. After the disintegration of the Union, the RFE, like many other regions, was to a great extent abandoned by the financially struggling central government in Moscow. Moscow's extended negligence to the region has left the RFE provinces economically underdeveloped, demographically challenged, and geographically exposed. Yet Moscow has recently begun to focus specifically on revitalizing the RFE, as years of dynamic economic growth and surging global trade in neighboring China have pulled the international community's attention to developments in the Pacific Rim. This change in the international political and economic climate, especially in light of the RFE's rich supplies of natural resources and strategic location in the North Pacific, has brought about a rethinking of Moscow's policy in Russia's Far East (Alexeeva, 2008; Blank, 2011).

## 2 Historical Background

For centuries, the territories of the Russian empire located to the east of the Ural Mountains were considered as places of promise and natural resource wealth (Kangas, 2007). Over the last three centuries, imperial Russia expanded both northward and southward across Siberia. After the Treaty of Peking was signed in 1689, Russia directed its energy toward the Sea of Okhotsk, Kamchatka, Chukotka, the Kuril Islands, and Alaska. Russia entered the Amur region in the mid-nineteenth century. In 1856 and 1857, Russia seized Chinese territory north of the Amur River. In 1860, all land east of the Ussuri River was ceded to Russia, thus extending the Russian empire from the Baltic to the Pacific (Troyakova, 2007).

After the disastrous Crimean War of 1854–56, Russia's priorities shifted away from the Northeast Pacific. Alaska was sold to the United States in 1867. The central and northern Kurils were handed over to Japan in exchange for Sakhalin in 1875. Soon a combination of external and internal developments forced the Russian government to upgrade the Far East to accommodate imperial priorities. In 1884 the Transbaikalian, Amur,

Primorye, and Sakhalin districts were united under a new Priamurskii governor-generalship. This established an institutional framework for the regional identity of the Far East (Troyakova, 2007).

As the Trans-Siberian Railroad extended steadily eastward, it brought European and Asian Russia together. Ethnic Russians, Ukrainians, and Tatars moved to the Far East, where they discovered thousands of Chinese, Koreans, and Japanese residing within the Priamurskii governor-generalship. This ethnic mix shaped regional development and added a cosmopolitan shade to Russian life.

From the end of the nineteenth century through the years leading up to World War I, the region played an important economic role in East Asia. It attracted loans and investments that supported its industrialization. Although economic interaction between the region and the rest of Russia was limited, the Far East was open for relations with Asian countries. Labor resources were satisfied by migration not only from the European part of Russia but also from China, Korea, and Japan. In general, the region was seen as a place for agriculture, exile, and a base for the Russian Pacific Fleet at Vladivostok (Bliakher & Vasil'Eva, 2010).

During the early Soviet period, the region, now known as the Far Eastern Republic, developed as a relatively autonomous economic area. However, in the 1930s Moscow adopted a model of centralized state control and support. The Soviet system imposed a centrally planned economy, limiting the region's economic ties with the outside world. The central government provided substantial economic support because of the geostrategic significance of the region, but it paid little attention to the long-term economic viability of the Far Eastern economy. Moscow stressed the development of mining and defense industries, eventually turning the region into a fortress (Kuhrt, 2012).

The massive Soviet arms buildup in the Far East and the Pacific was a source of considerable concern for China, Japan, and South Korea. By the 1960s, the Sino-Soviet border was closed, and Mao Zedong, the Chinese leader, openly spoke of China's legitimate claim to the southern part of the Far East. This hostile environment was not conducive to economic contacts.

Moscow later eased its grip, however, and the Far East became one of the few regions in the Soviet Union where the central authorities encouraged an export-based development strategy. In the 1970s and 1980s the region was supposed to benefit from expanded trade with Asian countries, particularly through a number of compensation agreements between the Soviet Union and Japan. The region's natural resources were offered in order to finance purchases of machinery and equipment for further resource development. As a result of these agreements, several projects were implemented, including the Vostochnyi port near Nakhodka, and the South Yakutia coal complex. Initial work to develop the oil and gas deposits offshore of Sakhalin Island also began. The region also has reserves of iron, lead, zinc, silver, gold, lumber, farmland, and fish (Sullivan & Renz, 2010; Zausaev, 2012).

By the mid-1980s the Far East began to reorient from a military outpost to an economic player. The successful development of China's growing economy improved the chances for greater trade and joint projects between the two countries. Indeed, over the past twenty years, Russia and China have sought new points of agreement for broader and more institutionalized cooperation.

In 1986 and again in 1988, Mikhail Gorbachev called for the integration of the Soviet Union into the Asia-Pacific region. He stressed that the cold war era was ending and the Soviet government would like to open the Far or adopts a more diversified economic profile.

### **3 Economic development**

It would be fair to argue that the Russian Far East has three essential characteristics that make it worthy of attention. Together with eastern and western Siberia, the region is well-endowed with an abundance of variety of natural resources. Particularly, fossil fuels of the region may play a pivotal role vis-à-vis energy hungry countries of East Asia. At the same time, as seen from the European part of the country, the regional bloc qualifies Russia as a rightful member of the Asia-Pacific and Northeast Asia regions, extending its geopolitical influence. Finally, the long coastline and the Amur River boundary of the Russian Far East allow cross-border relations that are a significant component in bilateral ties and key to efforts to establish infrastructure that could jump-start Northeast Asian integration (Rozman, 2008).

### **4 Economic challenge**

The developmental troubles of the RFE, which stem in part from the area's history and location, are not new. The legacy of socio-economic neglect of the RFE by the central government in Moscow dates back to the Soviet era. The RFE, like many regions, was to a great extent abandoned by the struggling central government following the 1991 collapse of the Soviet Union. Moscow's prolonged inattention to the region has left the RFE provinces "seriously underdeveloped, demographically challenged, and geographically vulnerable," stated Lee. Yet Moscow has recently begun to focus specifically on revitalizing the RFE, as years of dynamic economic growth and surging global trade in neighboring China have pulled the international community's attention to

developments in the Pacific Rim. This change in the international political and economic climate, especially in light of the RFE's abundant supplies of natural resources and strategic location in the North Pacific, has brought about a rethinking of Moscow's policy in Russia's Far East.

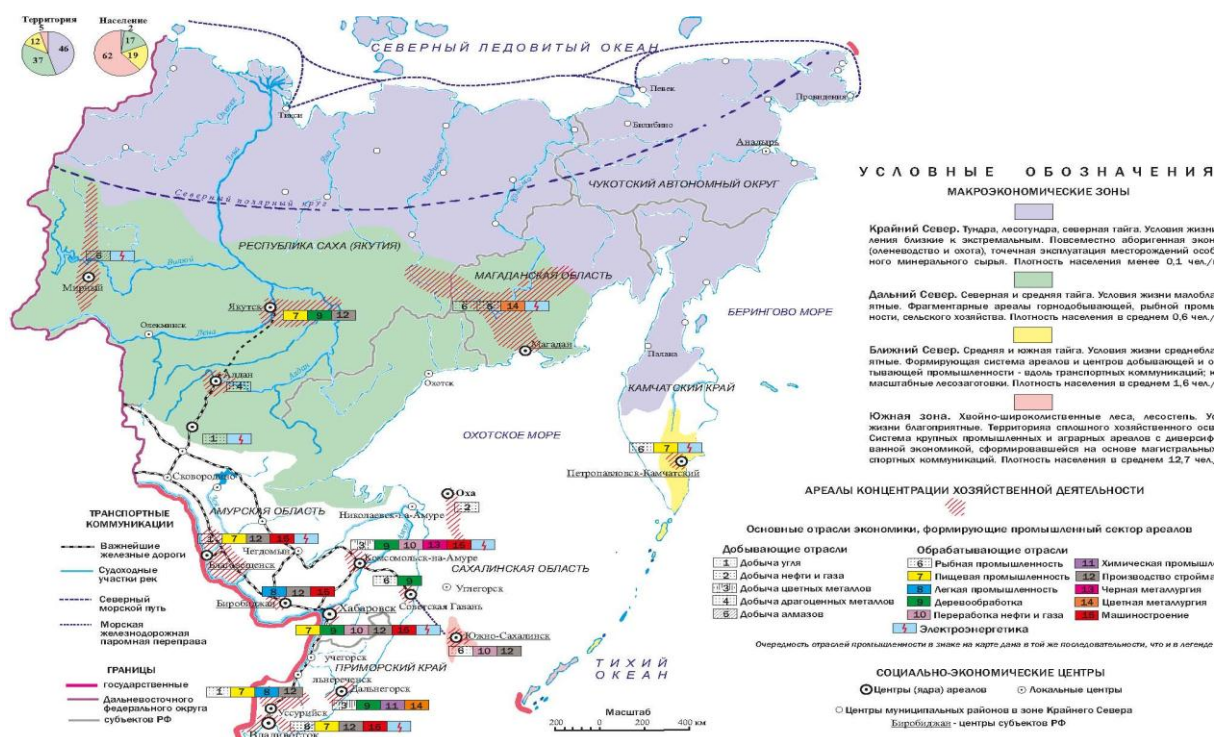


Figure 1. Macroeconomic Zones of the Far East Source: Vishnevskiy, Demyanenko, 2010

## 5 China's Role

From historical point of view, China's role and presence in the region is complex and are linked to energy needs, as well as political, cultural, and historical points of potential tension between itself and Russia. Indeed, the history of the RFE is tightly bound to the history of northern and northeastern China, dating back to the early Russian exploration of the region in the sixteenth and seventeenth centuries. The "unequal treaties" signed by the Russian and Chinese imperial courts in the subsequent centuries formed the basis of relationships mired in mutual suspicion, periodic cooperation, and basic needs. As the Chinese Communist Party began its campaign to defeat the Goumindang, the leadership in Moscow vigorously debated the extent to which they should support these forces under the control of Mao Zedong. Periodically, Stalin opted to not offer substantial support, which created a rift between the sides. Indeed, after the 1949 victory, Mao and his colleagues were repeatedly slighted by the Soviet leadership in bilateral meetings and were unsure as to how deep the relationship would ever be. There was a strong sense that the Soviet leadership condescended to their Chinese counterparts, in sort of an "elder brother-younger brother" relation-ship. This upset Mao and his colleagues, who looked upon their own culture and civilization as being much older and more developed than the Russian/Soviet one (Alexeeva, 2008; Sullivan & Renz, 2010).

However, currently, China is one of leading trading partners of the Russian Federation. Due to the important economic role played in the global economy by China, Moscow took some important steps to strengthen its political and economic outlook in the Northeast of Asia vis-à-vis China. However, it would be fair to assert that the economic interaction between Russia and China as trading partners is not only resulting from their geographical proximity, but also from an excellent level of bilateral interstate political relations.

## 6 Conclusion

There is no doubt that the Russian Far East has many barriers to economic development. It is very important, for China and Russia, to establish a friendly and mutually beneficial relationship by following the converging interests of the two countries. While discussing long term prospects of cooperation in the Russian Far East with China, it is possible to envisage some scenarios of economic development that may be useful to policymakers. An active involvement of China in the economy of the Russian Far East seems to be the best way to accelerate

the economic development of the region. It is possible to generate powerful arguments for such a policy regarding the region.

First, the Chinese economy is very dynamic and shows remarkable strength not only in the region but also all over the world. According to some estimations done by the Russian Academy of Sciences, Gross National Product (GNP) of China will be more than twice the size of Japanese economy—another economic giant of the region— by 2015.

Secondly, the length of territorial border between Russia and China in the Russian Far East makes possible the development of joint production facilities by creating “*frontier zones*” of economic interaction. Thirdly, this economic interaction could make the region more attractive for Chinese labor, which in turn would promote stable/friendly interstate and inter-regional Russian-Chinese relations.

Moreover, the relationship between China and Russia can also be a role model for a new type of relationship between great powers, characterized by mutual security, cooperation and mutual economic development. There is no doubt that those two countries in question have different political/economic systems and social structures. Consequently, there are often misapprehensions regarding a number of issues. But, both sides by getting familiar with these situations may circumvent misreading each other. The strategic partnership between China and Russia should be forged on interests, rationality and rule of law by avoiding the sentiments of fantasizing or idealizing each other. The Russian Far East can present a good opportunity to create that environment where the mutual interests for both sides would come together.

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