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# Developing the Far East and Chinese-Russian Relations: New Perceptions and New Practices

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## Executive Summary

Developing the Russian Far East and Siberia has been an important step in state-building for Russia. Although there have been debates about appropriate ideas and policies in the strategy, developing the vast frontier region and promoting relations with Asian countries has set a steadfast direction of development for Russia. Chinese-Russian cooperation in the border region during the early stages of imperial Russia's policies in the Far East holds enlightening significance for today's bilateral cooperation. The practices of interaction between Northeast China and the Russian Far East during 2009–2018 demonstrate the big potential in bilateral cooperation in the region. Meanwhile, such practices also hold implications for future collaboration. Under the framework of 'conjunction' between China and Russia, the two countries are exploring a more effective and sustainable pattern of participation. At the same time, it is also important to overcome issues such as low mutual trust in the business community, insufficient market openness, etc.

It is a century-long dream for Russia to develop the immense virgin land in the Far East and Siberia. After exploring the Far East, a Russian thinker of the Enlightenment Age, Mikhail Lomonosov, reached the conclusion that the strength of the Russian state rested on the development of Siberia and the Far East. Lomonosov's ideas were accepted by Russian decision-makers of different eras and gradually became the consensus of Russian people. Since the beginning of President Putin's third presidential term in 2012, to achieve the strategic goals of consolidating territories, balanced development between the eastern and western parts of the country, and integrating into the Asia-Pacific fast-growing region, the Russian government established specialized agencies, passed laws and regulations to actively promote a new round of development strategy for the Far East.

After a few years' experiment, this round has achieved preliminary goals and has embarked on a stable path of development. The prospects of such a development strategy will not only have long-lasting impact on domestic political economy of Russia but also play an active role in bilateral relations between China and Russia and reconfiguration of the regional order. This paper aims to look closely at the other aspect of this key historical process by introducing the opinions and debates in China regarding developing the Far East.

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# Developing the Far East: Deepening Perception of Russia

Since the disintegration of the Soviet Union, the Russian Far East has not been able to justify its geopolitical significance and economic value that matches its vast landscape and abundant natural resources. On the contrary, the collapse of the Soviet industrial system resulted in serious social and economic problems, including regression of regional economy to a natural economy and increasing internal emigration from the Far East to the European part of Russia. The Far East for a while became a heavy burden for Russia to realize its 'great power' ambitions, obstructing the state-building process for the post-Soviet Russia. Such a process has the following ramifications.

First, the lack of self-restoration capacity for the Far East economy increases the burden on the federal budget. Soviet Union brought the Far East into the Soviet national economic system through industrialization. The central government within a short period of time managed to finish the region's transition from an agricultural to an industrialized economy through economic planning. However, the Far East region lost its capacity of self-development and self-restoration after the end of the Soviet Union exactly because that the Soviet system allocated resources and capital through centralized planning.

It was under such context that the Far East experienced serious economic difficulties and shortage of supplies, i.e. the so-called Siberian Curse as defined by some American scholars. For the sake of maintaining functioning social economic life in the Far East, the Russian federal budget annually subsidizes the Far East in the amount of more than RUB 300bn, which worsens the federal budget deficits. Meanwhile, the Far East for a long time have been suffering from the monolithic market structure, high reliance on raw materials, low regional budget revenues, weak attraction for foreign investment, and limited influence on the national economy. In 2011, the Far East attracted only 2% of all the Russian investment inflow. In sum, the Far East's contribution to the Russian economy lags far behind the federal government's input into it.<sup>1</sup>

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<sup>1</sup> Mereminskaia, E, 2017, 'Kak Gosudarstvo Privlekaet Den'gi na Dal'nii Vostok i Pochemu Eto Ne Vsegda Udaetsia?' [How the State Attracts Investments to the Far East and Why It Does Not Always Succeed], *Vedomosti*, September 4. Available from: <https://www.vedomosti.ru/partner/articles/2017/09/04/732285-gosudarstvo-privlekaet-dengi#/partner/articles/2017/09/04/732285-gosudarstvo-privlekaet-dengi#!%23%2Fboxes%2F140737493523646>

Secondly, the big gap in life quality between the Far East and the European part of Russia has negative impact on the demographics and stability of social psyche in the Far East and Siberia. Russian federal elites have long regarded the Far East as either a 'frontier' or the Siberian 'home front'. Local residents in these two regions historically harboured discontent against the lack of support from the federal government. Perception of the 'China threat' in the Far East is also largely driven by the economic and psychological reality in this region.<sup>2</sup> As a result, residents in the Far East choose to vote by foot and migrate to the European part of Russia, where the state invests more. Such brain drain further obstructs the economic development potential of the Far East.

Thirdly, economic decline in the Far East has already impeded the integrity of the Russian economic space. The rapidly declining Far East since the collapse of the Soviet Union borders with East Asia, an area of rapid economic growth. In the absence of state macro-management, the Far Eastern economy has become increasingly dependent on the East Asian countries. Meanwhile, the European part of Russia has developed its economic cooperation with the EU in terms of both its width and depth. Consequently, in the post-Soviet space, two regional integrations with opposing directions play out at the same time. Such divergent integrations are detrimental to stabilizing the integrity of the Russian economic space.

Russian elites do realize the damaging impact of slow social and economic development in the Far East on state-building and on securing the eastern part of Russia. As a result, since 2011, discussions on re-developing the Far East and Siberia have become a hot topic that had caught Russian elite's attention. After Putin assumed the presidential post in 2012, he enlisted the development of the Far East among his first presidential decrees. Since then, while the elite's debate on this topic has not come to a stop, Russia has further raised the significance of developing the Far East and Siberia to the level of national strategy due to the Ukrainian crisis. The region, thus, is no longer defined as a strategic 'home front' against the West. Instead, the Russian elite consider developing the Far East a necessary condition for maintaining internal stability and enhancing international competitiveness of Russia. Only when both flanks of the Eurasian space reach true balance, can Russia claim a modern global power.

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<sup>2</sup> 米纳基尔: “俄罗斯与中国在远东: 臆造的恐惧与现实威胁”

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# The Far East and Siberia in the Changing Global Dynamics

Developing the Far East holds significance beyond any single country's domestic scene. Rather, it is closely connected with the overall trend of development in the world. Globalization has entered a new stage since the 2008 global financial crisis. This phase is characterized by the following major trends. The APR is becoming more significant in world political economy, and the rich multiplicity in the region will gradually stand in parallel with the Euro-Atlantic region. Since the 2008 crisis, many countries have strengthened state intervention in domestic economy. Among these are a number of Asian states, including China that have achieved a relative success in their economic regulation and management. Such state intervention was adopted not out of ideological consideration but rather based on the logic of development. Such experiences by Asian countries are of much relevance for Russia in its development of the Far East and Siberia. The top priority for Russia is to take advantage of the opportunities offered by the rising Asia and provide an effective model of development for the Far East, which can receive strong support from both the federal centre (top-down) and the society and elites (bottom-up).

Developing the Far East involves much more than a mere utilization of resources and space, or even more than complementarity between growth trend in East Asia and resource and environment in the Far East and Siberia. The larger background of developing the Far East lies in the uncertainty for the future of globalization and the support isolationism has been receiving in some countries. Against this background, China and Russia are providing unswerving mutual support for each other's state-building efforts and pushing forward more openness for their neighbouring countries and regions. By doing so, the two countries are also exploring trends and implications for new types of globalization. All these efforts by China and Russia address issues of global and fundamental nature.

Among the many possible routes of future globalization, the most likely one involves certain distinguishing features: (1) it will be based on local conditions of every region and every possible alignment of big powers; (2) it is diversified in its development paths, models, and directions; (3) it commits to the balance of market, environment, and resources, and takes into consideration both equity and efficiency; (4) it is oriented towards sustainable development and relies on a more active role of emerging countries in future globalization. Since 2000, emerging economies have managed to keep high-speed development against the backdrop the slow growth in world economy. In 2015 and 2016, the growth rate of GDP in emerging countries reached 4.3% and climbed to even 5.2% in 2017. As

the emerging countries expand their share in the global economy, they also enhance their capacity to provide international public goods. As a result, some of the proposals on regional cooperation raised by emerging countries are now well received and joined by many countries.

Such a model of the new type of globalization, i.e. a process that promotes open communication while strengthening state-building, will to a large extent be dependent on the creation and maintenance of regional cooperation and development frameworks. In particular, under the circumstances that emerging economies are fundamentally reshaping the existing regional frameworks, there emerge very different historical experiences and new ideas as to how to establish new frameworks to replace the old ones.

In this regard, certain questions arise. First, whether it is possible to achieve the transition between the old and the new: obviously, there are no conditions for a revolutionary approach. Second, whether this transition has to be managed through conflicts, especially in the form of hegemonic competition among major powers. The reality is that there has been no real example of the Thucydides Trap in history. The world is so large that interest realignment can be arranged without going through a conflictual path.

Third, whether it is possible to go back to the Yalta Model, i.e. achieve transition through traditional geopolitics and division of spheres of influence. The rise of emerging countries, especially the reviving attention to 'Westphalian sovereignty' in the contemporary world, traditional democratic countries included, implies that a simple 'return to Yalta' is unrealistic.

Fourth, whether it is possible for the non-European and non-Western world to handle the challenge of rising countries, in the way the European Communities and European Union handled the 'rising Germany'. Although one can definitely learn from these historical experiences, supra-state and supra-sovereign integration have already faced strong criticism and a political backlash. In addition, since current emerging economies still highly rely on sovereignty and emphasize state-building, it is not appropriate to handle the complicated regional and global restructuring through simply copying such an approach.

Under such circumstances, the Shanghai Spirit advocated by the Shanghai Cooperation Organization (SCO), implying mutual trust, mutual benefit, equality, mutual consultations, respect for cultural diversity, and aspiration for common development, as a new experiment, takes on the key task of facilitating the 'conjunction' between the China-initiated Belt and Road Initiative (BRI) and the Greater Eurasia Partnership, advocated by Russia. Moreover, development of the Far East and Siberia in this international context constitutes an important aspect of such an experiment of historical significance.

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# Developing the Far East: Rejuvenating the State and Moving Towards the Great Ocean

For Russia, the development of Siberia and the Far East implies both rejuvenating domestic economy and stimulating its relationship with the Asia-Pacific. From the perspective of the Russian elites, it is high time for Russia to participate in Asian affairs, because the emerging new opportunities and new patterns in the APR makes it both possible and necessary for Russia to be part of it.

First, the APR, especially Northeast Asia, is undergoing fundamental changes. The trend of moving towards multipolarity and diversity is significantly shaking the traditional hegemony and outdated military and ideological alliances. Developed along with the recently emerging opportunities in the Korean nuclear crisis, the three-step road map, advocated by China and Russia, is gradually being implemented. No matter what the prospects are for this round of the crisis on the Korean peninsula, the roadmap represents the unswerving commitment to cooperation among emerging countries and all other stakeholders. It also implies that only openness, instead of closeness, only peace, not confrontation and conflicts – can bring the region to harmony. This is an important change directly related to the Far East and Siberia.

Second, economic prospects of the APR, Russia included, increasingly hinge on whether the region can realize its long-term complementarity with the Far East and Siberia. The increasing diversity in development patterns in the Asia-Pacific bring about more opportunities for mutual emulation and learning. Notably, the innovative efforts in developing the Far East and Siberia have also caught people's attention. The opportunities brought about by new technological revolution, especially those related to the great demand for environment, space, resources, etc. embody high expectations for the development of the Far East and Siberia.

Thirdly, the changing environment in Russia's neighbouring areas are pushing Russia to pivot to the East in its foreign policy. Such a pivot is mainly taken because Russia needs both a cushion and a breakthrough in the East and Asia-Pacific to balance its regional conflicts in the West. Moreover, since Russia holds strategic interests in the direction of the APR, there is still room for Russia's further external manoeuvring by strengthening its relations with East and Southeast Asia. In a similar fashion, the trilateral interaction among China, Russia, and the US also holds significance for the progression of East



Asian affairs. In sum, Russia has extensive space for diplomatic and political manoeuvring.

Under such circumstances, Russia has adjusted its mentality concerning regional development, promoted openness for the Far East and Siberia, and facilitated positive interaction among East Asian countries in the development of the Far East. First, Russia has realized that it is not necessary to duplicate the manufacturing industries, in which East Asian countries have competitiveness. While continuing industrialization in its eastern part, Russia should strive to develop those products with high technological contents, in which the Far East and Siberia enjoy competitive advantage. These products should match the development level of Russia, including high technological and agricultural products, timber, electricity, etc. Russia should also focus on raising the utility of natural resources to a new level. By doing so, Russia may realize economic restructuring and optimize national industrial structures, while East Asian countries can also receive products and resources, necessary for domestic development, from Russia.

Second, during the new stage of regionally oriented globalization, Russia's last frontier is no longer a barrier against state-building, rather it is where the potential for a rejuvenated Russia lies. Russia should maximize the degree of openness for the Far East and Siberia. In its perception of this region, Russia should give up the phantom concept of the so-called 'strategic backyard' in its competition against the West or the 'strategic frontier' in the competition with China. In concrete policy interaction, the gradual openness in the way Russia treats the BRI, proposed by China, has been obvious. On top of the agreement on strategic coordination, reached by the two leaders in 2015, the proposal of the Ice Silk Road in 2017 further integrates the coastal region of the Far East and Siberia into the strategic coordination framework. In 2018, the SCO joint communique once again highlighted the organization's support for the BRI. All these measures indicate that Russia is now step by step accepting the proposals within the China-initiated framework.

Third, developing the Far East will not only provide the desirable working and living conditions for local youth and prevent them from migrating to the East or the European part of Russia but also facilitate the emergence of new entrepreneurs, like Mikhail Prokhorov, once the conditions permit. Alongside with the expansion of the regional economic scale, developing the Far East will also make it more attractive to labour from neighbouring regions, including North Korea. According to statistics, the majority of 30,000 North Korean workers in Russia are located in the Far East. Russia is also increasingly encouraging South and North Korea to get more involved in developing the Far East. In this sense, participation in this process can provide certain leeway of manoeuvring for peace negotiations in the Korean nuclear crisis.

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# Historical Practice and Evolution of the Chinese Perception of the Far East Development

China's perception of the Far East development has undergone a long evolution depending on historical conditions. First, perception of historical issues. After Russia acquired the territory of the Far East, imperial Russia reclaimed the virgin soil and conducted preliminary exploration in the region. Such efforts went alongside with the establishment and adjustment of economic relations with China (the Qing Empire). The China–Russian Treaty of Aigun and the Convention of Beijing (1860) in effect promoted Chinese-Russian border trade. The two treaties opened up the land route of free trade along the border in the Far East. According to the treaties, nationals of the two countries shared relatively equal rights to trade. In the interest of expanding economic ties with neighbouring countries and securing food and weapon supplies of the first generation of immigrants in the Far East, the Tsarist Russia passed the Sino-Russian Overland Trade Regulations (1862), established free-trade zones in the eastern border region between China and Russia, and developed all the port facilities in Russia's coastal Pacific region into free ports. After a long period of development, in the late 19th century, Chinese–Russian borders and free ports became the most densely populated regions and cities in the area accomplishing rapid development.

All through the history of development of the Far East, labour shortage has always been a serious issue, especially in the early stage when infrastructural projects were in great need for workers. It has been long constraining the development prospects of the Far East. Russia has many times implemented domestic labour migration policies and increased openness to attract migrant workers from abroad, targeting labour from the European part of Russia and abroad to migrate to the Far East. Domestic labour, however, always turned out to be insufficient to serve the needs of reclaiming the virgin land and exploration. That is why foreign migrants, especially those from China, have been a great push in the early history of the Far East development.

Since the Chinese were hardworking, disciplined, and low in cost, large number of Chinese labour were employed as non-technical workers in Russian state agencies, such as those in charge of infrastructure building (roads, the Trans-Siberian Railway, ports), gold mining, as well as the Ministry of the Navy, Ministry of Defence, Ministry of Internal Affairs, etc. In agriculture,

the Chinese and Koreans were the main suppliers of foodstuff. They imported paddy rice, planted millet, corn, vegetables, and introduced brewing to the Far East. By doing so, they not only helped to solve the shortage in food supplies for both civilians and the military but also introduced agricultural and reclamation technologies to the local Russians.<sup>3</sup>

In retrospect, it is obvious that the Chinese played a crucial role in the early stages of developing the Far East in the times of the imperial Russia. Chinese immigrants were the first to provide labour for development of the region, alleviating the constraints on development caused by the lack of migrants from the European part of Russia. Unlike Russian migrants from the western part of the country, Chinese labour showed more enthusiasm in their work. In addition, China also turned out to be the main market for exports from the European Russia, such as textiles, metal products, paraffin, matches, and products from the Far East, such as fur, velvet antler, and marine products.

No discussion about history of the Far East can dodge the question of territorial disputes. In 2001, China and Russia signed the Treaty of Good-Neighbourliness and Friendly Cooperation and in 2004 – the Supplementary Agreement on the Eastern Section of the China–Russia Boundary Line. These two documents represent full demarcation of all border lines between the two countries. It is clear that when it comes to such sensitive issues as territorial disputes, China and Russia respect the status quo, having recently resolved those territorial disputes which once brought them close to the verge of war – in a practical, equal, and mutually respectful manner. Such practices have laid a solid foundation for future development of bilateral comprehensive strategic partnership and coordination.

Second, perception of the current development in the Russian Far East. It is clear that developing the Far East is a centennial project with long-strategic significance for Russia and is of crucial value for realizing President Putin's 'great Russia' idea. Both the official and intellectual circles in China widely believe that the programme titled Socioeconomic Development of the Russian Far East and the Baikal Region until 2025, released by the Russian state in 2013, is a strategic document for the region's development. The key policy messages of the document can be summarized as the following: to take a global vision, make full use of the resource and location advantages, speed up integration of Russia into the Asia-Pacific through developing new economic models and promoting openness, ensure diversification of Russian export market, prevent a decrease in the economic and political influence of the state on the Far East,

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<sup>3</sup> 南慧英：“19世纪末20世纪初俄国远东经济发展中的亚洲移民——以中国人和朝鲜人为例”，《北方论丛》，2015年第5期。

hold back the declining of population in the region, and, ultimately, ensure geopolitical and geo-economic interests of Russia.

It is widely and constantly reported in Chinese media that by putting strategy into practice, the latest round of the Far East development has achieved breakthrough in its policy instruments, some of which, such as institutional innovations, are worthy of emulation by neighbouring countries. This policy and institutional innovations include the following. In order to overcome the existing bureaucratic barriers and break both horizontal and vertical fragmentations in decision-making, Russian government is willing to make extra efforts by dissolving current institutions and establishing the Ministry for the Development of the Russian Far East, which is entrusted with coordinating the implementation of national plans and federal goals in the region. The Russian state has also set up the Corporation for the Development of the Far East (KRDV) to be in charge of the construction of ports, roads, telecommunication, airports and local airlines, and the utilization of natural resources. In addition, the Russian state is promoting TORs and the FPV to improve the investment climate and transform the economic development model of the Far East. Such innovative measures reflect the emphasis on the complementarity between infrastructural construction and resource exploration. Meanwhile, the modernization of the Trans-Siberian Railway and the construction of a transportation network in Primorye and seaside ports, implemented simultaneously, indicate that the Far East is meant to serve two major functions as both a stimulus for internal development in border regions and a maritime transportation hub.

Chinese media have also fully realized that the development of the Far East provides a new platform for realizing the Chinese-Russian strategic goals in economic and trade cooperation. The strategy of developing the Far East resonates well with China's strategy of rejuvenating Northeast China and the Silk Road Economic Belt initiative. The construction of the Eurasian Transport Corridor, Northern Route, and Eurasian communication network is both the focus on the 'connectivity' component in the BRI and the priority for developing the Far East. In 2015, after negotiations, China and Russia released a joint statement on the conjunction of the Silk Road Economic Belt and Eurasian Economic Union (EAEU), strengthening regional economic integration. In this regard, developing the Far East can serve as a platform for realizing a strategic conjunction between the two countries. Through its active participation in developing the Far East, China can deepen bilateral economic and trade cooperation with Russia and enrich the Silk Road Economic Belt Initiative.

Third, regarding Russia's relations with Asian countries, Chinese officials and intellectuals take an active and composed attitude towards Russia's cooperation with Japan and South Korea. Russia is China's closest strategic

partner, and Japan is a close geographic neighbour to China. Overall, China welcomes the improvement in Russian–Japanese relations, believing that it is beneficial to a productive development of the situation in East Asia. China will also gain more opportunities from this improvement, including promotion of more deepened multilateral economic cooperation in the Far East. This does not require either Russia or Japan distancing itself from other East Asian countries. On the contrary, such easing contributes to developing mutual relations among major regional countries, including China and Russia.

Fourth, the practice of Chinese–Russian cooperation in the Far East. Since the disintegration of the Soviet Union, Chinese–Russian interaction in the Far East has experienced first the stage of ‘spontaneous’ interaction, mainly focused on border trade, then the stage of mutual active promotion of border region cooperation, until the recent stage of strategic conjunction.

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## First Stage: ‘Spontaneous’ Interaction Based on Border Trade

After the collapse of the Soviet Union, the Far Eastern economy deteriorated to such a degree that the basic livelihood of local residents had to rely on economic and trade collaboration with neighbouring countries. As a result, many Chinese tradesmen appeared in the Russian Far East. Between 1992 and 1993, the trade volume between the Far East and Heilongjiang Province of China amounted to \$2.1bn. In 1993, trade with China equalled 90% of the total foreign trade volume of the Far East. Between 1992 and 1994, trade with China reached 50% in total foreign trade of Khabarovsk Krai and Primorsky Krai. During this period, the Far East experienced a short-lived ‘China boom’.<sup>4</sup> The appearance of the Chinese met the Far Eastern residents’ livelihood needs, playing an important role in stabilizing the region’s society. Since the 1990s, the annual Chinese labour inflow to the Far East increased from around 10 to 20 thousand. In the beginning of the new century, Chinese migrants in the Far East stabilized at around 30–40 thousand workers.

Since the Russian Far East is still in a severe demographic crisis facing labour shortage, Chinese migrant workers also fill the labour shortage gap for the contemporary Far East. More specifically, Chinese migrants take important

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<sup>4</sup> Larin, VL & Larina, LL, 2011, ‘Okruzhaiushchii Mir Glazami Dal’nevostochnikov: Evoliutsiia Vzgljadov i Predstavlenii na Rubezhe XX-XXI Vekov’ [The Surrounding World in the Eyes of Far Eastern Residents: Evolution of Views and Perceptions at the Turn of the 21st Century], Vladivostok: Dal’nauka, p. 32.

positions in agriculture, construction, energy exploration, etc. Apart from that, Chinese products have become a necessity for local residents' daily livelihood. Thus, the inflow of Chinese migrants can help secure the supplies of Chinese products, meeting consumption needs of local residents.

During this period, border trade became the main form of economic interaction between China and Russia in the Far East. The large numbers of cross-border traders started with a low-level border trade, sometimes in barter because of the shortage of foreign currency. Overall, the Chinese-Russian border trade played a positive role in the early post-Soviet period, when the large amount of supplies for daily life brought by Chinese traders alleviated the tough living conditions of the Far Eastern locals.

However, the economic interaction between China and Russia in the Far East was mostly driven bottom-up, and the two governments lacked regulation and guidance for trans-border trade, which led to certain negative ramifications. Certain traders' improper behaviour was amplified through media to shape the group image of all traders from both countries. Such a negative image further created stereotypes of traders in the public in both countries, thus influencing the early formation of mutual perception of each other among the Russian and Chinese people, respectively. Such a malign influence holds on until today and to a certain extent is the reason for the low level of mutual trust between Chinese and Russian businesspersons.

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## Second Stage: Cooperation Between Neighbouring Regions

In order to coordinate the two countries' regional development strategies (i.e. China's Northeast Area Revitalization Plan and Russia's state programme The Socioeconomic Development of the Russian Far East and the Baikal Region), from 2009, China and Russia started to implement The Programme of Cooperation Between Russian Far East and Eastern Siberia and Chinese North-Eastern Regions (2009-2018) (The Programme). The two governments promoted cooperation in the Far East through encouraging interaction between border regions, starting the second stage of bilateral cooperation. This stage is characterized by direct participation of the two governments and investments in large-scale projects, which became the main form of Chinese participation in developing the Far East. The original intention of such bilateral regional cooperation was meant to take full advantage of the geographic proximity and close economic ties between Northeast China and the Russian Far East so as



to speed up the regional social and economic development and ultimately further solidify the economic ties between the two countries, laying the foundation for solid bilateral relations.

In 2009, when The Programme was launched, federal units of the Russian Far East and the Baikal Region, the three provinces in Northeast China, and Inner Mongolia Autonomous Region (China), respectively, proposed their key projects. Originally, all provincial level units of both countries submitted applications for implementation of the total of 208 key projects, 97 of which were located in Russia and required \$44.03bn, and the other 111 with locations in China and planned investment of \$9.87bn. On the list of proposed projects, 70 involved construction of trans-border infrastructure, Chinese-Russian bilateral cooperation park. Among them, 20 are large international collaborative facilities involving joint participation of both China and Russia, e.g. the Tongjiang (Amur River) Bridge project. Another 19 were located on the Russian side with the total investment over \$40bn. The remaining 31 were on the Chinese side, mostly in Heilongjiang Province and Inner Mongolia.

Despite the fact that national leaders and governments on both sides have put huge efforts into promoting the cooperative projects between Northeast China and the Russian Far East, their implementation still lags behind expectation. 104 major projects with the total investment of \$47.9bn were expected to be completed by the end of 2016. However, in reality, only 25 had been implemented with investment of \$11.77bn, translating into a project success rate of 28%. Meanwhile, originally 111 projects were planned on the Chinese side with the total investment of \$9.87bn. Towards the end of 2016, 42 of these 111 were put into implementation with investment of \$6.1bn, translating into a project success rate of 62%.

What is more troublesome is that among the planned projects on the Russian side, only 8 managed to attract Chinese investment of \$1.77bn and only one planned project on the Chinese side received Russian investment of \$0.63bn.<sup>5</sup> Reality implies that projects within the cooperation framework between Northeast China and the Russian Far East have been mostly domestic investment projects for each side. Since genuine bilateral cooperation projects have been rather scarce, practice so far has deviated from the original intention of solidifying economic ties and strengthening the foundation of Russian-Chinese relations through promoting real cooperation between the two sides.

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<sup>5</sup> Muratshina, KG, 2017, 'Programma Sotrudnichestva Regionov Dal'nego Vostoka i Vostochnoi Sibiri RF i Severo-Vostoka KNR na 2009-2018 gg. v Rossiisko-Kitaiskom Transgranichnom Vzaimodeistvii: Znachenie, Evoliutsiia, Riski' [The Programme of Cooperation Between Russian Far East and Eastern Siberia and Chinese North-Eastern Regions (2009-2018) in the Russian-Chinese Cross-Border Interaction: Its Meaning, Evolution, and Risks] // Vestnik Tomskogo Gosudarstvennogo Universiteta, No. 417.

The major cause for such deviation lies in the large discrepancy between the two sides as to how to design the cooperation between Northeast China and the Russian Far East. Chinese projects proposed around 2009 focused on infrastructural construction with the aim of increasing the capacity of importing Russian resources, while Russia endorsed more projects related to industries in resource processing. In effect, when these projects started to be implemented, the two national governments began to realize the difference in mentality and the way of thinking between them. In 2011, the National Development and Reform Commission (NDRC) of China and the Russian Ministry of Economic Development began to look into how to further adjust the cooperation projects between the Chinese and Russian two adjacent regions. However, the sides failed to reach consensus given the large discrepancy between their demands. On a related note, since domestic markets in both countries were undergoing upgrading – given the limited degree of openness – deepening cooperation between the two countries was constrained, further limiting participation in each other's major projects.<sup>6</sup>

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## Third Stage: Strategic Conjunction

China and Russia released a joint declaration on cooperation in coordinating the development of the EAEU project and the Silk Road Economic Belt on May 8th, 2015, reaching wide consensus on promoting productive regional interaction. The two sides agreed to take the following as priority spheres in cooperation: (1) to expand investment and trade cooperation, (2) to promote mutual investment facilitation and capacity cooperation, (3) to implement large-scale investment projects, jointly establish industrial parks and trans-border economic cooperation zones, (4) to strengthen mutual connectivity in logistics, transportation infrastructure, multimodal combined transport, etc., and (5) to realize joint development products in infrastructure.

On October 28th, 2015, the Russian government passed a development concept for the border regions in the Far East Federal District. This document lays out in detail the goals, tasks, and measures for the Russian Far East and the Baikal region to conduct cross-regional cooperation with Northeast China.

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<sup>6</sup> Gemueva, K, 2017, 'Realii Ekonomicheskogo Sotrudnichestva Rossii i Kitaia – Osnovaniia dlia Optimizma?' [The Reality of Russian–Chinese Economic Cooperation: Grounds for Optimism?], Russian International Affairs Council, December 28. Available from: <http://russiancouncil.ru/analytics-and-comments/analytics/realii-ekonomicheskogo-sotrudnichestva-rossii-i-kitaya-osnovaniya-dlya-optimizma>



It also stipulates that Russia prioritize promotion of international transport corridor, integration of the corridor into the Northeast Asian transport network, and establishment of a favourable investment and business environment, so as to stimulate demand for expanding trans-border transportation and developing the corresponding transport infrastructure. In January 2017, the two countries decided to establish an intergovernmental cooperation committee under the framework of China–Russia Prime Ministers’ Regular Meeting in order to coordinate and promote region-to-region cooperation.

This stage of strategic conjunction differs from The Programme in 2009 in that the current bilateral economic cooperation in the Russian Far East meets the urgent needs of both countries. Since 2015, China has started domestic industrial restructuring as China’s demand for raw materials had passed its peak period. Consequently, China has embarked on a critical phase of exporting production capacity. For the same reason, transfer of production capacity to neighbouring regions now becomes the urgent need to China.

In contrast, after its economic crisis of 2014–2016, Russia has started to adjust its internal industrial structure. Taking the import-substitution strategy as guidance, Russian state prioritizes development of manufacturing industries in the Far East and Siberia so as to reduce the economy’s reliance on raw material industries. Thus, during the era of strategic conjunction, the two countries’ needs match very well, creating preconditions for advanced industrial cooperation in the Far East between them.

At the current stage, developing the Far East – and on a larger scale, cooperation under the BRI framework – places utmost emphasis on enhancing infrastructure and promoting ‘connectivity’. This choice embodies both countries’ consideration. In the strategic conjunction, China and Russia refrained from choosing the EU model, which is guided by market integration, because of the constraints of the scale of the Russian–Chinese trade volume and its structure. The Chinese–Russian bilateral trade has increased dramatically, surpassing \$80bn in 2017. However, it still lags way behind US–China and EU–China trade volumes.

Structurally, the Chinese-Russian trade consists mainly of bulk commodities. Bilateral direct investment and cooperation among small and medium-sized enterprises are very limited. Under the current level of economic and trade cooperation, market integration between China and Russia lacks the necessary personnel, capital, and the scale of market and services flows.

In addition, market integration touches on the sensitive issue of transfer of sovereignty and negotiations will take a long time. In comparison, through pragmatic 'connectivity', it is much more practical and easier to demonstrate achievements of such a policy and more beneficial for raising the scale and level of bilateral trade. It is worth pointing out that at the EEF held in September 2017, President Putin specifically emphasised that during the previous two years, Chinese investment in the Far East had reached \$9bn, taking up 80% of all foreign investment in the region.

While highlighting the potential of Chinese-Russian cooperation in developing the Far East, it should also be noticed that it is a time-consuming process and there are still many long-existing barriers to overcome for China's participation in it.

First, business communities in China and Russia lack mutual understanding, and the low level of mutual trust between them threatens to paralyse further expansion of cooperation. According to the statistics provided by SPARK, from 2014 to 2016, Russia's severe economic crisis in fact did not have a visible impact on the growth of Chinese enterprises in Russia. The number of the registered Chinese ventures in Russia reached 378 in 2013, 693 in 2015, and 702 in 2017. Therefore, macroeconomic conditions are not the key factors constraining the entry of Chinese companies into the Russian market. Instead, what really matters for deepening bilateral cooperation is the low mutual trust on the micro level.

The Centre for Russian Studies of East China Normal University conducted two large-scale field researches in March 2016 and November 2017 on enterprises along the Yangtze River economic belt that were involved in trade and investment in Russia. The results from these researches also confirm the fact of the low level of trust by Chinese entrepreneurs in their Russian counterparts. The two governments have recognised the problem and have taken active measures to address it. In November 2018, the Ministry for the Development of the Russian Far East held the Day of Chinese Investors to promote direct dialogue and exchanges between entrepreneurs of both countries.

Second, the degree of openness between the Chinese and Russian markets needs to be further improved. The implementation of The Programme 2009–2018 reflects the problem of low openness between the two markets. The existing investment, economic and trade markets are saturated, and this requires the Chinese and Russian governments to double their efforts to open

their domestic markets to each other. Although the number of registered Chinese enterprises in Russia has been increasing in recent years, the number of registered Chinese companies in the Far East has shown a downward trend. In 2014, a total of 90 Chinese natural and legal persons were registered in the Far East, rising to 162 in 2015, and then declining to 124 in 2016 and 125 in 2017. Even taking into consideration the small population in the Far East and its limited market capacity, the low level of market openness remains the key constraint.

Far more important problem is that not all types of agricultural products, meat, and water-intensive products with comparative advantages in the Far East can enter China, and Chinese companies cannot enter the downstream sectors in the Russian energy industry such as manufactured goods. The Chinese and Russian governments are making certain institutional innovations in expanding market openness. For example, in February 2018, Russian Deputy Prime Minister and Presidential Plenipotentiary Envoy to the Far Eastern Federal District Yury Trutnev during his meeting with Chinese Vice Premier Wang Yang put forward the idea of a new cross-border advanced development zone. The proposed zone is supposed to be established between Pogranichny, Primorsky Krai (Russia), and Suifenhe (China), where both Chinese and Russian companies will have the right to sell their own products to both markets without restrictions.

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## Conclusion

In sum, developing the Russian Far East and Siberia is an important step of high relevance to Russian state-building. Even though this is a long-term strategy and it is hard to expect large-scale breakthroughs within a short period of time, developing the vast frontier in the east and expanding relations with Asian countries is a determined direction of Russian development. Under the framework of strategic conjunction, China and Russia have a bright future in cooperating in the Far East, and China is also searching for a more effective approach to its participation. In the future, the two countries still need to make further efforts in the following fields.

The two countries should strive to further assess and inspect the implementation of existing cooperation projects and attach greater importance to their implementation. It is necessary for the government and

the academic community to jointly discuss the deep causes for the difficulty in connecting Northeast China and the Russian Far East and ways to achieve solutions. In February 2018, Yury Trutnev and Wang Yang met in Harbin and proposed that China and Russia jointly set up a special working group to draft a new cooperation plan for the Far East. It will clarify China's and Russia's trade and investment objectives with special emphasis on clearly defined responsibilities and deadlines for implementation of each project. This shows that both governments are aware of the problem and are working together to improve the quality and efficiency of Chinese–Russian cooperation in the Far East.

Financial cooperation is likely to be the most important factor in Chinese-Russian joint development of the Far East. Enterprises from both countries face challenges of financing. In particular, infrastructural projects require huge investment and a long period of return, translating into more demanding conditions for investments. In the absence of secured financing, it is very difficult to deepen collaboration on such projects. In June 2018, national leaders of both countries signed a Chinese-Russian joint declaration, proposing to strengthen bilateral financial cooperation and enhance the share of domestic currencies in trade and investment. Such measures are supposed to help lower the shocks that exchange rate fluctuations may pose to the Chinese–Russian interaction.

On top of economy and trade, China and Russia should pay more attention to raising the quality of cultural cooperation. Up until now, educational, cultural, and people-to-people communication between China and Russia has played an important role in promoting mutual understanding between the two nations. In the future, more emphasis should be placed on promoting the role of cultural cooperation in shaping the image of both countries and increasing mutual trust. In particular, we should promote deeper interaction among entrepreneurs and think-tanks from both countries, so that through continued interaction both sides can build mutual trust among the business communities, raise questions of mutual concerns, and resolve these questions under the joint efforts by official and intellectual circles.

Starting from March 2017, Russia began to implement electronic visa in the FPV, making it much easier for Chinese businesspersons to travel in and out of Russia. According to the statistics provided by Primorsky Krai government, by December 29th, 2017, 6134 foreigners had received e-visas. The Chinese showed the greatest interest in e-visas, having submitted 2388 applications.

In the future, when the e-visa policy in Vladivostok is fully operational, Russia should extend its coverage to the entire Far East and Siberia.

For Russia, the Far East development is an unprecedented process of strengthening the Russian state-building. Neoliberalism advocates weakening the state's ability to regulate and over-emphasises the autonomy of the market. This kind of thinking does not apply to Russia's development of the Far East as the region suffers from poor infrastructure, low capital and population density. Even prominent American experts, Clifford Gaddy and Fiona Hill, in their book *The Siberian Curse* clearly state such a view. On the contrary, the path suitable for the Far East should be to strengthen the leading role of the state (federal government) and to enhance the attractiveness of the Far East to people and capital through national institutional innovation and substantial input. Meanwhile, during this process, one should also provide space for small and-medium-sized businesses to develop. After these enterprises go through their start-up stage, they will be able to inject new dynamism into local economic growth.

In other words, Russia needs to find a balance between strengthening the role of the state and maintaining market vitality. In this regard, joint efforts by China and Russia may be able to bring new historical breakthrough to the 'last frontier', the last 'virgin land' on the planet, waiting to be explored.



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