Development of the Transboundary Economic Cooperation within the China-Mongolia-Russia Economic Corridor

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Abstract. The paper deals with the issue of advancing economic cooperation of Russia, China and Mongolia given the increasing number of political and business contacts among the parties in question in the last few years. A recent formal agreement on developing the China-Mongolia-Russia economic corridor provides the framework for implementing potential joint projects in infrastructure, manufacturing, technology, and service sectors. However, there are also a number of challenges that the Russian authorities face, the most important of which is the relative underdevelopment of the eastern regions of Russia compared to north-eastern regions of China. Current economic relations between Russia and China cannot be considered mutually beneficial: Russia is mostly exporting raw and semi-final products and importing final goods including hi-tech products. The paper points out a few ways in which transboundary cooperation can be established while, at the same time, ensuring economic security of border regions.

1. Introduction
Economic globalization is the phenomenon that has drawn much of the scholars’ attention in the last few decades. Its advocates claim that globalization is beneficial for everyone [1]; others point to its flaws and assert that globalization brought more harm than good to the poor, both in the developing and developed countries [2]. Russia has joined the world economy in the 1990s and according to Stiglitz and some other experts has been on the losing side. Indeed, opening Russian economy to foreign competition proved to be catastrophic for whole industries and put a large share of the population below subsistence level. The early 2000s was the period of stabilization and restoration. The GDP of Russia experienced steady growth, for the large part due to high oil prices and rising exports. After 2014, there have been tensions in the relations between Russia and Western countries that have led to significant distortions in trade. As a result, certain actions of the Russian government show that it is attempting to make a ‘Turn to the East’ – to shift accents in economic relations from the European Union and the United States to Asian economies, the largest and the most promising of which is China [3].

However, this is a path with many obstacles. On the one hand, Russia is interested in increasing trade and attracting investments from China to make its external relations more diversified. On the other hand, China is perceived as a possible threat to the economic security of the Russian Far East and Siberia. Therefore, it is challenging to formulate a strategy that will be in the best interests of Russian citizens and help develop the eastern part of Russia rather than make this a ‘core-periphery’
relation where Russia will only play a role of a natural resources exporter [4]. This paper identifies main challenges that the Russian public policy faces in its relations to China and suggest certain ways in which Russian-Chinese economic relations can be beneficial to both parties.

2. Challenges in Russia’s ‘Turn to the East’ policy

Given rapid development of Chinese regions that border with Russia, less dynamic development of the corresponding Russian regions poses significant challenges for the governments of those regions, as well as for the federal government. Russia borders with China both in Siberia and in the Far East. However, most of the trade between Russia and China either originates or is carried out through Zabaikalsky krai, the Republic of Buryatia, Irkutsk oblast and Altai krai via transport corridors, of which the railway being the most important. Irkutsk oblast is a large industrial center, together with the Republic of Buryatia and Zabaikalsky krai they are rich in mineral resources. Altai krai and the Republic of Buryatia have strong agricultural complexes. All the aforementioned regions also have a good recreational potential, most well-known being: balneological resorts of Belokurikha in Altai, Tunkinskay valley in Buryatia, Darasun in Zabaikalsky krai, and, of course, Lake Baikal as well as many other prospective tourist destinations. Comparison of dynamics of economic growth between corresponding Russian and Chinese regions is given in the following table.

| Region                     | Gross Regional Product (GRP), mln. US dollars | Annual Growth of GRP for the Period of 2011-2016, % |
|----------------------------|-----------------------------------------------|--------------------------------------------------|
| Russian Federation:        |                                               |                                                  |
| Zabaikalsky Krai           | 3932.2                                        | 0.2                                              |
| Irkutsk Oblast             | 15990.9                                       | 4.0                                              |
| Republic of Buryatia       | 2980.9                                        | -0.6                                             |
| Altai Krai                 | 7463.2                                        | 1.7                                              |
| People’s Republic of China:|                                               |                                                  |
| Inner Mongolia             | 272827.6                                      | 8.3                                              |
| Heilongjiang               | 231560.4                                      | 6.9                                              |
| Xinjiang                   | 145227.8                                      | 8.9                                              |

* Calculated based on the official data of Russian State Statistics and Chinese State Statistics.

b Converted by the author from national currencies using official annual exchange rates.

As we can see from the table, both in absolute terms and in terms of rates of growth Chinese regions are far ahead of corresponding Russian regions. Moreover, the main contributors to economic growth of Chinese regions are secondary industry (manufacturing) and service sectors, whereas in Siberian regions these are natural resources extraction and primary processing. Thus, the quality of growth is also different.

In the last years political, business, scientific, and other ties between Russia and China have received a new impetus to development given rising tension in relations between Russia and Western countries, as well as in relations between China and the USA. Whereas Russia can be confident in scientific and cultural respects in relations with China, they need to offer something more substantial than export of natural resources in the economic sphere to stand on equal grounds with its neighbor.

Unfortunately, the export of natural resources is precisely the economic agenda formed during the 1990s. Whereas export from Siberian regions to China has changed little from that period, the structure of imports is becoming more complex: during first years after Perestroika Russia mostly imported consumer goods, now, on the other hand, there is a growing share of machinery, equipment, computers and electronics, and other hi-tech products.
In 2009, the joint Program of Cooperation between Russian Far East and Eastern Siberia and North-Eastern Regions of China for the Years of 2009-2018 was signed. Soon after the Program’s publication, experts in Chinese studies started to express concerns about its content. The experts noted that the Program activities are much more beneficial for the Chinese party than Russia: the projects that were planned for implementation on the Russian territory were related to extracting and initial processing of natural resources, expanding the handling capacity of border crossings; Chinese projects, however, dealt more with industrial development – producing durable goods [5, 6 p 248-50]. Agricultural projects of the Program also appeared controversial considering the history of rapacious land use by Chinese agricultural producers [7]. Besides that, the Program has set certain preferences for Chinese working migrants [6 p 242-43]. Considering apparent drawbacks in the Program, it has been revised on several occasions. Starting from 2015, it has not been mentioned in official reports of Russian authorities. In any case, 2018 is the last year of the Program implementation.

Another official document worth mentioning here is the Program of Establishing the Economic Corridor China – Mongolia – Russia signed in 2016. The Program’s goals are “increasing trade turnover, ensuring produce competitiveness, supporting cross-border transportation, infrastructure development” [8]. It is difficult to consider this program to be a significant step forward in trilateral relations. The Program provides only a framework of future cooperation. Although it contains some projects, in reality these are only references to a possibility of projects’ development in the future. For example, the subsection “Transport Infrastructure” of the “Projects List” section of the Program mostly includes activities starting with the phrase: “To research and if economically feasible to start implementing the project…” In other words, the actual implementation of the project may never start. The Program is heavily skewed toward transport infrastructure development (40% of all projects); industrial projects comprise less than 1% of all activities. Thus, the Program mostly aims at increasing trade turnover and transit of goods between Asia and Europe. The goal of ensuring produce competitiveness is not supported by actual activities.

3. Prospects of Russia-China economic relations
In the last years, mostly due to deteriorating economic and trade relations with the United States and the European Union, Russian authorities have given closer attention to developing the external economic relations with Asian countries. In these circumstances development of a new program of cooperation between Russian and Chinese regions is desirable, a program that will contain specific activities and projects akin to the Program of 2009. This program should also include Mongolian regions as part of the economic corridor. Apparently, the program should be developed on a new basis though, in which Russia would play a role of an equal partner not an exporter of natural resources for the rapidly developing regions of North-Eastern China. The regions of the Russian Far East and Eastern Siberia should actively participate in program development.

Development of a new program is important for Russia to try to break the undesirable trend of economic exchange of natural resources for finished products. The most worrisome situation has developed in timber industry where Siberian regions export large amounts of timber and China managed to build a number of facilities near Russian borders to process it into construction materials, furniture, and the like. A loss of value-added, potential jobs, profits and taxes for the Russian economy is obvious.

On the other hand, the urgent need for the development of the processing industry in Siberia and the Far East largely remains in the form of declaration. Most large projects that are being implemented or are planned to be implemented in the Siberian regions that we mentioned in the beginning of the paper are dealing with that same export of natural resources. These projects include, for example, ‘The Power of Siberia’ gas pipeline that will transport gas from Siberia to China, export of oil to China and Japan, development of the Udokansk copper mine in Zabaykalsky krai, metal ores in Buryatia, and others. All of this notwithstanding, Russia has now a unique opportunity to take the negotiations with its Chinese partners concerning future economic cooperation to a new level. A major factor in understanding the future of Russia-China relations is the decision of the Trump administration in the
US to raise import tariffs for Chinese goods [9]. The United States is one of the primary markets for Chinese products so China will have to seek new ways of selling its goods and Russia stands as one of the most prospective candidates for filling at least part of the niche.

Rich natural resources base, which Chinese economy requires for sustained growth, as well as potential markets of Russian regions are the key elements in negotiations on the development of future cooperation of the two countries. However, negotiations on the Russian side will encounter certain difficulties. History of interactions with potential Chinese partners shows that China’s officials and businesspeople work in close collaboration and firmly pursue the interests of the country’s economy. Particularly, traditionally Chinese investors express the following requirements when asked to participate in joint projects.

Firstly, China is interested in keeping importing natural resources from Russia with consequent processing near the borders to minimize the transportation costs. Besides that, China is interested in importing electric power from Siberian hydropower stations. Correspondingly, these are the priorities for Chinese investors. Secondly, even when Chinese investors are willing to invest in manufacturing, they prefer to hire Chinese workers and demand preferential treatment for the land purchase or lease. There are also certain peculiarities in attracting tourists from China that prefer to stay at Chinese hotels, use the services of Chinese cooks, tour guides, and so on. For this aim, Chinese investors buy pieces of land near popular tourist destinations like Lake Baikal. It is evident that mass tourism of this type is not in the long-term economic interests of Siberian and Far-Eastern regions and the country as a whole and creates significant ecological risks. Of a growing concern are the shadow land-leasing practices for agriculture, both in Siberia and in the Far East. This happens when Chinese nationals do not rent land for the purposes of agriculture openly but make arrangements with Russian farmers and other landowners when the latter do not disclose the details of the deals and do not include these profits in their tax returns. This leads to a growing number of Chinese migrant agricultural workers moving to Russian villages. The concern is that they may stay there permanently and require certain preferences from the Russian government [10].

As we could infer from Table 1, there is a strong imbalance in regional development of the two countries in question. Based on that, the main priority of the federal Russian government in its ‘Turn to the East’ policy should be enhanced development of its eastern territories. This is an important prerequisite to open trade and other economic relations with stronger counterparts. Certain decisions have already been made on the federal level to ensure that. An important step to attract investment, domestic as well as foreign, was the creation of Territories of Accelerated Social and Economic Development. These territories are administrative locations that enjoy tax and tariffs preferences. The federal government has also increased investments in infrastructure that helped improve the quality and speed of transportation. Certain measures have been implemented to attract workforce to the eastern regions, such as free-of-charge land acquisition in the Far East and one-time money allowance for young specialists willing to work in the countryside. Unfortunately, the measures to increase or at least keep human capital in the eastern regions have not proved to be effective. There is still an outflow of working population from Siberia and the Far East. One of the main reasons for that is the lack of well-paid, high-skilled jobs when universities’ graduates just cannot find ways to apply their knowledge and skills in their native regions and are forced to move to the central part of Russia or abroad.

Considering all this, potential cooperation between the two countries can be reached in the following directions.

1. Infrastructure development within the economic corridor.
   Infrastructure can be developed in two main ways. First, within the framework of existing projects, such as “The Power of Siberia”, it is important to put effort not only into developing the infrastructure of the projects themselves but also the infrastructure of the surrounding territories for the purpose of their further exploration. This will help enhance economic and trade ties, industry, tourism, quality of life, and other spheres. Among the specific joint infrastructural projects, we can suggest enhancing capacity of the Transsiberian and Baikal-Amur railroads, constructing railways and roads to most
promising mineral deposits, gasification of eastern regions and developing transport infrastructure in local hubs along the economic corridor China – Mongolia – Russia including the upgrade of the airports and river ports infrastructure and roads construction.

Second, special attention should be given to the development of infrastructure of border towns assigning them a hub status. Here large multimodal logistic centers can be created. As for now, most of the imported goods, even those purchased through Chinese Internet stores, are first shipped to Moscow, sometimes to Novosibirsk, and then are distributed around the country. This is a costly and time-consuming process. Creating multifunctional logistic centers near the border will help reduce costs and increase the trade turnover. Federal and regional investments should also be put in development of urban environment. Together, these measures will help attract human capital to the bordering regions – one of the positive effects of the mutually beneficial trade relations.

2. Creating joint ventures in the manufacturing industry.
It is desirable to create joint Russian-Chinese and Russian-Mongolian ventures to process natural resources with the aim of producing high value-added products that could further be exported to the third countries, as well as consumed locally. Given the limitations that the United States and other countries impose on the import of raw materials and primary processed produce, creation of joint ventures of the type mentioned will help our products be more competitive on the world markets. This will be achieved through the joint use of technologies, skilled workforce, natural, financial, and other resources. In this case, the priority should be given to timber processing, metalworking, machinery and equipment, construction materials industry, and food industry.

The Chinese economy no longer enjoys lower level of wages as a competitive advantage. Therefore, utilizing human resources of the eastern part of Russia can be beneficial for all parties. Jobs creation will eventually lead to rising standards of living, which, in turn, will help increase the purchasing power of the local population that will expand markets for consumer products.

3. Advancement of the “green economy.”
The third important way of cooperation between Russia and China is the field of “green economy.” A common definition of the “green economy” is that it is “the economy aimed at preservation of well-being of society, through effective use of natural resources as well as ensuring the return of end user’s products to the production cycle” [11]. Both countries face serious ecological challenges posed by rapid industrialization. For China, it is a relatively new issue and Russia has been dealing with these problems for a few decades now. Addressing ecological challenges assumes search for new technological, organizational and other solutions aimed at sustainable environment, restoration of disturbed ecosystems and striking a balance between economic growth and environmental well-being. A big part of this work is investing in recycling in order to bring back the waste into a production process. This can definitely be the area of mutual interest of the two countries.

4. Conclusion
The world’s economy is not unipolar anymore. Up to date, Russian external economic relations have mostly been oriented at the European Union and the United States. However, rapid economic growth of Asian economies poses serious challenges as well as presents unique opportunities for the development of the Russian economy. The future of the Russian economy will be greatly affected by its ability to establish mutually beneficial relations with its Asian neighbors, of which China is the most important one. It is vital for the Russian authorities to review the policy of exporting raw materials and semi-final products to China, which stifles local growth and makes economic prospects for the eastern regions bleak. The greatest challenge for Russia is to be able to pour resources into development of eastern regions in order to create a good manufacturing base, significantly raise the standards of living and attract human capital. Without that, the ‘Turn to the East’ strategy does not seem feasible.

The potential areas of mutual economic interest for Russia, China and Mongolia are: development of transport infrastructure and urban environment within the economic corridor, creation of joint ventures in natural resources processing, and development of the “green economy.”
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