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Russia's Far East Initiatives in Troubled Geopolitical Times

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Introduction

'Together we have carefully tended the tree of Russian–Chinese relations. Now autumn has set in. It is harvest time. It is time to gather fruit,' China's President Xi Jinping said after a meeting with his Russian counterpart Vladimir Putin in Beijing in 2014.¹

The China–Russia rapprochement forms the centrepiece of Russia's much hyped policy of a 'turn to the East', a policy aimed at transforming the Russian Far East from a territorial backwater into a new gateway to China, North-East Asia and beyond.² In 2013, President Vladimir Putin declared the development of the Far East a 'national priority for the entire twenty-first century'.³ The subsequent crisis in Russian–Western relations precipitated by Russia's annexation of Crimea and Russian involvement in the conflict in eastern Ukraine gave further impetus to the search for new allies and markets in the East.

What progress has been made so far in implementing the Eastern vector in Russian domestic and foreign policy? Have the ambitious plans indeed borne fruits, like President Xi declared? And what are the main drivers behind the 'turn to the East'? Do worsened geopolitical relations with Western/European actors intensify the turn? Or is it driven by the perceptions of opportunities and long-term objectives in the Asia-Pacific region?⁴

¹ 'China, Russia ink big energy deals', *China Daily*, 10 November 2014.

² See, for example, Marcin Kaczmarek. 2015. *Russia-China relations in the post-crisis international order*. Abingdon: Routledge; Aleksandr Lukin. 2015. 'Konsolidatsiia nezapadnogo mira na fone ukrainskogo krizisa: Rossiia i Kitai, ShOS i BRIKS', *Mezhdunarodnaia zhizn'* 2: 72–91; Fyodor Lukyanov. 2015. 'Russia must exploit its pivot east', *The Moscow Times*, 25 June; Dmitri Trenin. 2015. *From Greater Europe to Greater Asia? The Sino-Russian entente*. Moscow: Carnegie Moscow Center.

³ Vladimir Putin. 2013. 'Poslanie Prezidenta Federal'nomu Sobraniuu', *Kremlin.ru*, 12 December. <http://kremlin.ru/events/president/news/19825>. Accessed on 2 February 2017.

⁴ These are questions we discuss at more length in our recently published book *Russia's turn to the East: domestic policymaking and regional cooperation*. Palgrave Pivot, available open access at <https://www.palgrave.com/us/book/9783319697895>.

The Far East: Gateway or Garrison? Historical Experience

Russia's border regions have had their moments as open 'gateways' to cooperation. A good example of this is the development of cross-border cooperation and trade across the Russian–Norwegian border after the end of the Cold War. This cooperation in what is known as the 'Barents Region' has promoted cultural and artistic exchange, economic development initiatives and visa-free crossings for Norwegian and Russian citizens living within a certain proximity of the border area.

More often, however, the border has been viewed as a 'garrison' – an outpost of state power, rather than a gateway for trade and interaction. Current visions for transforming Russia's eastern border into a gateway have a long, pendulum-like backstory that can be illustrated by the various designs for the city of Vladivostok.

From the founding of Vladivostok in 1860 up until 1909, this city was a subject to a free port regime, attracting people not only from the European part of the Empire but also from other countries, which resulted in a substantial colony of foreigners: in the late 1800s, nearly half of the city's population hailed from outside Russia. With the establishment of Soviet power in 1922, the former internationally oriented city was gradually closed off from the outside world, culminating with the 1951 decision to ban the entry of foreigners altogether. Starting with Nikita Khrushchev's visit to the region in the late 1950s, during which he declared the ambition of turning Vladivostok into 'our Soviet San Francisco', Moscow began investing in urban and port facility development. The city nevertheless remained a closed naval base up until the end of the Soviet period.

With the break-up of the Soviet Union in 1991, local residents and external observers alike predicted a new boom for Vladivostok, with a transformation from a closed garrison to an open gateway to the Asia-Pacific. More than a quarter of a century later, these high hopes for Vladivostok, as well as for the wider Russian Far East, are still far from met. On the contrary, the Far East's post-Soviet history has been primarily one of severe economic dislocation and dramatic population decline. Since 1991, the overall population has dropped by more than 20 per cent. And yet, the Russian Far East remains a land of economic promise due to its vast natural resources and proximity to major markets.

Introducing a New Development Model for the Far East

Ever since the break-up of the Soviet Union, Russian authorities have recognized the need to develop the Far Eastern part of the country.⁵ This has been linked to the economic potential and vast untapped resources of the region, as well as to concerns that an underdeveloped and sparsely populated region might, in the long term, fall victim of Chinese expansionism.⁶ For a long time, however, few concrete steps were adopted. Only in the aftermath of the 2008 global financial crisis did the authorities begin to give political priority to upgrading the Russian Far East, now with the clear objective of enabling Russia to benefit from closer cooperation with the fast expanding East Asian economies.⁷ Since then, Moscow has adopted a range of political strategies and investment plans aimed at developing infrastructure and generating growth in the Far Eastern Federal District.

To signal the importance and to ensure momentum behind these ambitious plans, a separate ministry, the Ministry for the Development of the Russian Far East, was set up in 2012. This ministry represents an institutional innovation, operating partly in Moscow as a regular part of the federal government, and partly as a decentralized structure based in the Far Eastern Federal District with offices in Khabarovsk and Vladivostok. The design represents an attempt to combine Moscow's traditionally centralized approach to policy formulation with bold acknowledgement of the difficulties of micromanaging policy implementation in a region that is extraordinarily distant in terms of time and space.⁸ The ministry has been tasked with coordinating the implementation of existing policies, as well as elaborating a new set of mechanisms for stimulating economic and social development in the Far East. Within short, the ministry was complemented with three new, specialized agencies

⁵ See, for example, Judith Thornton and Charles E. Ziegler, eds. 2002. *Russia's Far East: a region at risk*. Washington, DC: National Bureau of Asian Research; Rensselaer Lee and Artyom Lukin. 2016. *Russia's Far East: new dynamics in Asia Pacific and beyond*. Boulder, CO: Lynne Rienner.

⁶ Aleksandr Lukin. 2007. *Medved' nabliudaet za drakonom: obraz Kitaia v Rossii v XVII–XXI vekakh*. Moscow: Vostok–Zapad.

⁷ See, for example, Fiona Hill and Bobo Lo. 2013. 'Putin's pivot: why Russia is looking East', *Foreign Affairs*, 31 July. www.foreignaffairs.com/articles/russian-federation/2013-07-31/putins-pivot. Accessed 30 March 2017; Timofey Bordachev and Yevgeniy Kanaev. 2014. 'Russia's new strategy in Asia', *Russia in Global Affairs*, 3. <http://eng.globalaffairs.ru/numbers/118>. Accessed 30 March 2017; Sergei Karaganov, ed. 2014. 'Toward the Great Ocean-2, or Russia's breakthrough to Asia', *Valdai Discussion Club Report*. http://vid-1.rian.ru/ig/valdai/Twd_Great_Ocean_2_Eng.pdf. Accessed 5 May 2017.

⁸ Helge Blakkisrud. 2018. 'An Asian pivot starts at home: the Russian Far East in Russian regional policy', in *Russia's turn to the East: domestic policymaking and regional cooperation*, edited by Helge Blakkisrud and Elana Wilson Rowe, 11–30. *Palgrave Pivot*, available open access at <https://www.palgrave.com/us/book/9783319697895>.

RUSSIAN FAR EAST

-  Trans-Siberian Railway
-  International Transport Corridor (ITC)
-  ITC Primorye-1*
-  ITC Primorye-2*
-  Advanced Special Economic Zone (ASEZ)
-  Free Port regime


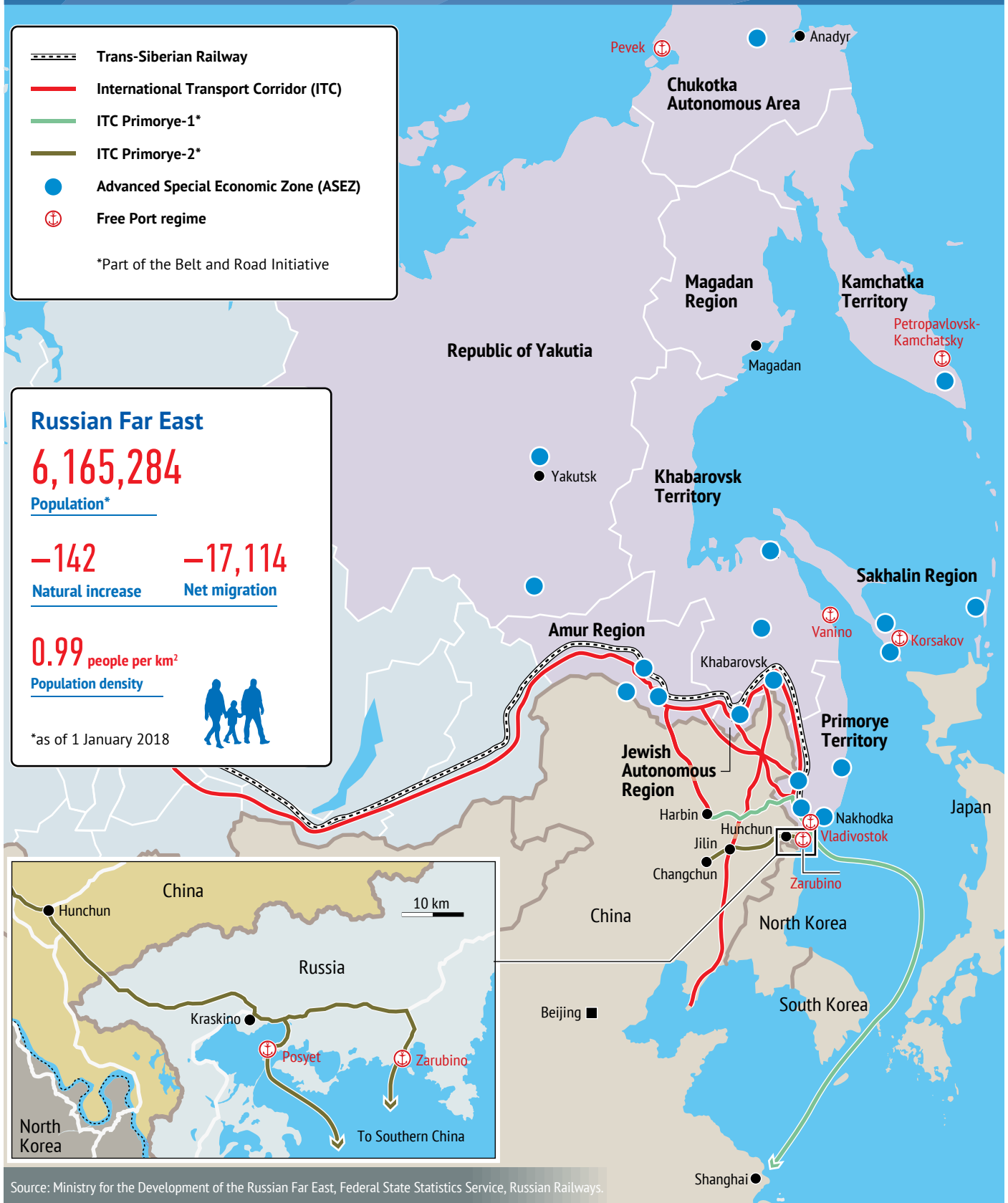
*Part of the Belt and Road Initiative

Russian Far East
6,165,284
 Population*

-142 Natural increase **-17,114** Net migration

0.99 people per km²
 Population density

*as of 1 January 2018

Source: Ministry for the Development of the Russian Far East, Federal State Statistics Service, Russian Railways.

aimed to attract labour force, work with potential investors, and operate the special economic regime introduced for the Far East, respectively.

An additional key milestone was the adoption of a lavish new state strategy for Socio-Economic Development of the Far East and Baikal Region until 2025 in 2013. In its original version, as promoted by then Minister for the Development of the Russian Far East Viktor Ishaev, the total budget of the programme amounted to more than 10 trillion roubles – although in more recent editions, and in the light of post-Crimea budgetary constraints, the volume has been cut back considerably.

To attract new residents to the region, Moscow has come up with various incentives, including a land distribution scheme, The Far Eastern Hectare. Since 2016, prospective residents can apply online to get 1 hectare of land for free. Through this scheme, the authorities hope to increase regional self-sufficiency in food production as well as boost the population.

As for the economy, in order to kickstart Far Eastern economic development, in 2014, Moscow adopted a federal law on Advanced Special Economic Zones (ASEZs). Together with the Free Port of Vladivostok regime, the establishment of the ASEZs is meant to stimulate regional growth by introducing new framework conditions for local and regional development, such as a favourable investment and tax regime and special financing available for infrastructure development. The goal has been to introduce one or two ASEZs in each of the nine federal subjects in the Russian Far East to ensure balanced distribution of economic activities.

With impressive speed, a new institutional and legislative framework has thus been put in place so as to facilitate the implementation of a new development model for the Russian Far East. What are the results? Is this new model capable of generating policy solutions that can adequately address the challenges facing the Russian Far East?

What Has Been Achieved?

It might not be fair to draw too firm conclusions at this stage – as of this writing, the main mechanisms of the new Far Eastern development model have been in place for some three years only. Nonetheless, there are some worrying signals. Old habits of top-down approaches seem to persist: the policy implementation process is still characterized by Moscow's strong penchant for strategic planning and pursuing

state-sponsored, top-down development models. At the same time, the bureaucracy has multiplied in overlapping fashion around the newly created regional development instruments, while political control over the processes has become more diffused.⁹ Most observers would also agree that the Ministry for the Development of the Russian Far East has been underperforming.

As for economic development, the new instruments are being gradually implemented. To take the ASEZs: by spring 2018, 18 zones were already in operation. However, their further success is potentially threatened by unstable framework conditions (corporate tax exemption has, for example, already been reduced from ten to five years), the failure of cash-strapped regional authorities to implement necessary infrastructure upgrades, and the overall lack of synergy policies among the ASEZs.¹⁰ Moreover, as of March 2018, the ASEZ regime was transformed from being a regional development tool for the Far East to being applicable across the Russian Federation. That entails the danger of potential investors preferring to invest in other regions with more favourable geographical conditions or more well-balanced development than in the Far East. Apart from that, despite the new incentives, 90 per cent of investment in the region still stems from Russian domestic sources.¹¹ Non-state contributions, foreign direct investment (FDI) in particular, have remained negligible, and the number of potential investors has been limited by the European and North American-backed sanctions regime. The most positive exception to this rather bleak picture is the slow, but steady increase in Chinese FDI since 2010.¹²

As for trade, the picture is perhaps more optimistic. Whereas trade with Russia's main Asian partners stagnated in volume and declined in value the first two years after the Crimean crisis, there is now an overall positive trend in terms of growing exports and imports, with 2017 potentially being a game-changing year for trade between the Russian Far East and Asian partners, such as China, South Korea, and Japan. There has been a significant increase in exports from the Far East to China (from \$3,850.4 million in 2016 to \$5,080.6 million in 2017) and even more to South Korea (from \$4,870.6 million to \$6,138.1 million, respectively). The Russian Far East has also seen a noticeable increase in imports from China and South Korea from 2016 to 2017 and, to a somewhat smaller extent, from Japan.

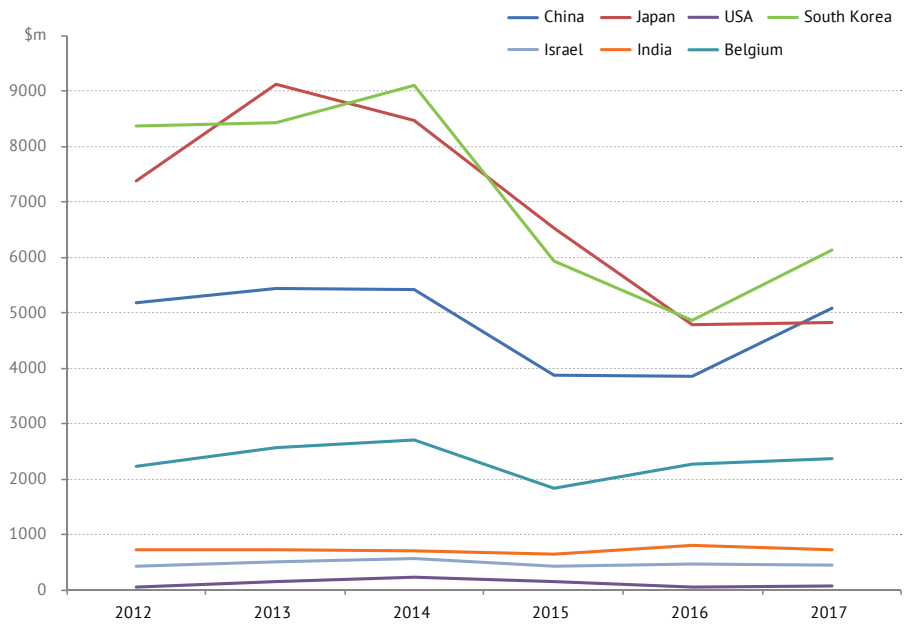
⁹ Blakkisrud. 2018. 'An Asian pivot'; Tamara Troyakova. 2018. 'Primorskii Krai and Russia's "turn to the East": a regional view', in *Russia's turn to the East: domestic policymaking and regional cooperation*, edited by Helge Blakkisrud and Elana Wilson Rowe, 31–49. Palgrave Pivot, available open access at <https://www.palgrave.com/us/book/9783319697895>.

¹⁰ Jiyoung Min and Boogyun Kang. 2018. 'Promoting New Growth: "Advanced Special Economic Zones" in the Far East', in *Russia's turn to the East: domestic policymaking and regional cooperation*, edited by Helge Blakkisrud and Elana Wilson Rowe, 51–74. Palgrave Pivot, available open access at <https://www.palgrave.com/us/book/9783319697895>.

¹¹ Roman Vakulchuk. 2018. 'Russia's new Asian tilt: how much does economy matter?', in *Russia's turn to the East: domestic policymaking and regional cooperation*, edited by Helge Blakkisrud and Elana Wilson Rowe, 139–57. Palgrave Pivot, available open access at <https://www.palgrave.com/us/book/9783319697895>.

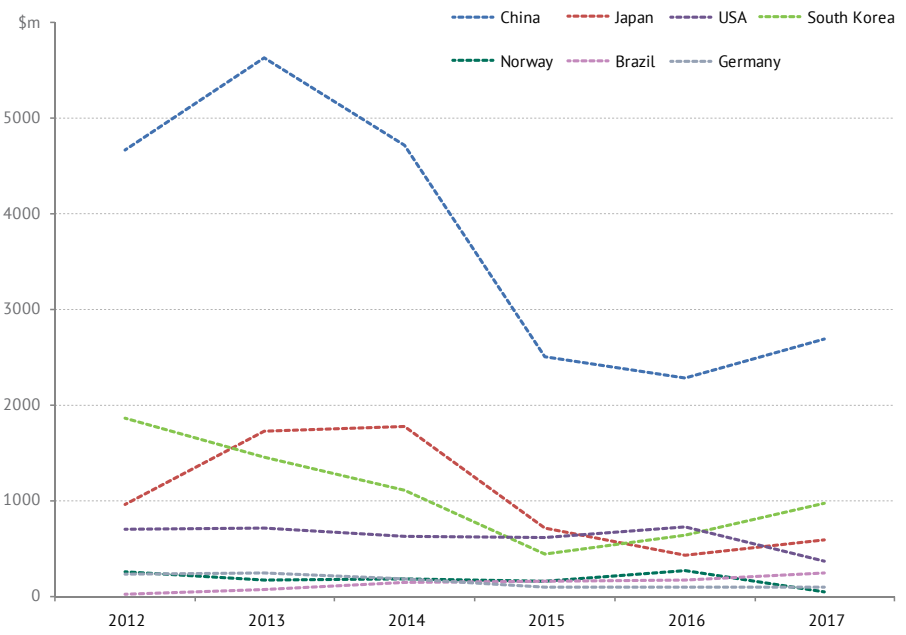
¹² Vakulchuk. 2018. 'Russia's new Asian tilt'.

EXPORTS FROM THE RUSSIAN FAR EAST



Source: Federal State Statistics Service (Far East Customs Administration).

IMPORTS TO THE RUSSIAN FAR EAST



Source: Federal State Statistics Service (Far East Customs Administration).

While the full potential for economic cross-border cooperation in the Russian Far East is still far from being realized, there is also reason to remind that the 'strategic partnership' between Moscow and Beijing is gradually deepening, with both parties being committed to multifaceted engagement. This creates favourable framework conditions for further breakthroughs at the regional level.

Additionally, several upgrades to regional infrastructure have been implemented, such as the international transport corridors Primorye-1 and Primorye-2, linking China's northeast with the ports of the Russian Far East and improving the Far East's connectivity. Although the overall investment climate in the Far Eastern Federal District has not improved significantly since 2014, the region has become more diversified. In the long term, these developments might contribute to attracting new investors. An important consideration, then, is the ability to follow the course politically and make the region a long-term budgetary and investment priority for the state.

What Are the Driving Forces Behind the 'Turn to the East'?

How are the blueprints for the 'turn to the East' and their partial implementation best understood – as a proactive, opportunity-driven policy or as a reactive policy, diversifying away from Europe and the Western vector?

As regards the economy, it is probably most fruitful to see Russia's economic growth plans and policy stimuli for the Russian Far East as efforts aimed at realizing the untapped potential of the region, rather than as alternatives to economic relations with Europe. The Russian Far East's trade with Asian partners initially contracted after 2014 and it has been challenging for Russia to balance openness to the East Asian region against its politically driven import-substitution policy.¹³

As for large-scale energy projects, on the whole, the post-Crimean cooperation with China on such projects has generally been a continuation of already established trends.¹⁴ Moscow presented the May 2014 deal on the construction of the Power of Siberia gas pipeline as a major diplomatic success and a sign of the strong Sino-Russian bilateral relationship. That same year, exports of oil from Russia to China increased by 36 per cent. However, the failure to reach agreement on the Vankor project, where the Chinese were replaced by new Indian partners in 2016, shows the limits of the political willingness to develop bilateral relations with China at any cost.

The main conclusion to be derived as regards Russia's vacillation between an Eastern and Western foreign policy and economic orientation is that the key policy initiatives aimed to develop the Russian Far East were formulated well before the onset of the current crisis in Russian–Western relations. However, the post-2014 breakdown

¹³ Min and Kang. 2018. 'Promoting new growth'.

¹⁴ Indra Overland and Gulaikhan Kubayeva. 2018. 'Did China bankroll Russia's annexation of Crimea? The role of Sino-Russian energy relations', in *Russia's turn to the East: domestic policymaking and regional cooperation*, edited by Helge Blakkisrud and Elana Wilson Rowe, 95–118. Palgrave Pivot, available open access at <https://www.palgrave.com/us/book/9783319697895>.

seems to have added an element of urgency to Russia's 'turn to the East', as witnessed in the heightened level of diplomatic celebrations around successfully concluded cooperation agreements with countries of the Asia-Pacific region.

Looking Ahead

More than 6,400 kilometres separate Vladivostok from Moscow. With its status as a potential 'bridge to Asia', the Russian Far East attracts important federal-level attention – together with a specific set of security concerns. And yet, some challenges are shared across this geographical vastness. For example, the Russian economy's overwhelming reliance on international natural resource markets remains a challenge for all parts of the country. In general, growth, or the lack thereof, in the Russian Far East tallies with the average performance of the Russian economy overall.¹⁵

When it comes to realizing Moscow's ambitious plans, perhaps the most urgent element is the financial one, and ties into the politics of federal budgets. Despite the public fanfare, the post-Crimea period has been marked by a steady decline in the scope of state investment in the Russian Far East. From the peak that accompanied the adoption of the lavish state programme in 2013, state funding and promises have been cut back, year after year. These budget cuts are the result of heavy pressure on limited resources – the fall in the oil price and the effect of the sanctions regime have forced the government to introduce austerity measures. Even if the cuts thus do not reflect an actual down-prioritization of Moscow's 'turn to the East', they might come to undermine and obstruct realization of the policy aims that inspired the pivot in the first place.

The question remains as to whether the new governance model and associated programmes will prove capable of producing sustainable change and new opportunities. Still, even if the original ambitions are not met, Moscow's interest in turning the Russian Far East into an Asia-Pacific gateway may nevertheless have the side effect of integrating the Far Eastern federal subjects more closely with the rest of the country, thereby providing more balanced development throughout the Russian Federation. For a long-neglected region, this in itself would be an important and welcome outcome.

While a certain rebalancing of the Western and Eastern vectors is clearly taking place, there is still a long way to go before Russia's 'window to the East' can match its 'window to the West'. President Xi's optimistic declarations about 'harvest time' aside, only sustained commitment on the part of Moscow can transform the Russian Far East from a neglected periphery and a military outpost into a viable gateway to the Asia-Pacific.

¹⁵ *Min and Kang. 2018. 'Promoting new growth'.*



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