

УДК 504.062:33(510+470)

Resource Economics in the Frontier of the Asian Russia: Consequences, Problems, Suggestions

Arnold K. Tulokhonov and Darima A. Darbalaeva*

*Baikal Institute of Nature Management
Siberian Branch, Russian Academy of Sciences
8 Sakhyanovoy, Ulan-Ude, 670047 Russia¹*

Received 3.12.2010, received in revised form 10.12.2010, accepted 17.12.2010

The role of natural resources in the socio-economic development of frontier regions of Russia and China is discussed at the article. Transparency of national borders in the process of globalization is increasingly raised and different regions use this factor of economic development in different ways.

Keywords: frontier, Russia, China, socio-economic development, natural resources.

With globalization processes, the frontier areas acquire more and more important role for the development of international contacts of Russia, and one of the most important conditions for economic development of these regions is their geographical position, in particular, proximity to national borders, the presence of sea communication lanes, etc. The frontier geographical location of regions may largely determine the level of their development, with a reasonable use of this circumstance.

National borders affect to the development of frontier areas and to the countries as a whole through its fundamental properties – the barrier and contact. With the development of the globalization process the importance of the border's liaison function increasingly grows, which is expressed in the transparency of national borders for moving through them people, goods, finances, information, therefore,

borders should be transformed from a closed factor to tool of economic development of frontier territories. This in turn requires improving of the international cooperation legal framework, focus for the infrastructure development, strengthening of material base, increasing of investment attractiveness and improving of the business climate in the frontier regions. At the same time the main importance for the development of the Asian Russia frontier regions is mutually beneficial cooperation with China, Mongolia and the Asian-Pacific Region at the regional level.

It should be noted that frontier position of two countries regions is used by them in very different ways that appropriately reflects on the level of socio-economic development of their frontier. For example, in Russia the vector of economic development has traditionally been directed from the periphery to the center, and only recently has been paid more attention to

* Corresponding author E-mail address: atul@binm.bscnet.ru

¹ © Siberian Federal University. All rights reserved

the Siberia and Far East development. In China, in order to eliminate the existing backlog in the socio-economic development of outlying areas and thereby inhibit the growth of social tension in them, the government launched a number of regional development programs, such as Program development of western regions of China and Program on the Northeast of China Revitalization. Thus, the Program of development of the western regions of China, since 1999, according to its geographical coverage combined twelve administrative units at the provincial level, including Xinjiang-Uygur Autonomous Region and Inner Mongolia Autonomous Region. By the middle of the XXI century according to this Program primarily planned to complete the modernization of country's western regions, reduce gap in economic development between the central and peripheral regions, to end with the backwardness and poverty of the border provinces, to create their new image ensuring economic prosperity, social progress and stability, achieve national unity and welfare of population with significantly improvement of the ecological situation [17].

Since 2003, the Program on the Northeast of China Revitalization is realized, in which was planned to modernize the old industrial base of the three Northeastern provinces of the country (Heilongjiang, Jilin, Liaoning) and four eastern aimaks of the Inner Mongolia Autonomous Region (Hulunbuir, Hinggan, Tongliao and Chifeng). In this case, the main emphasis should be placed on accelerating of the region's economic development, ecologization of production, deepening of interregional and international cooperation. During the implementation of this Program the economy of the People's Republic of China has become more accentuated on the development of the country's frontier regions and the formation of new outlets to world markets.

The main directions of development of Russian-Chinese cooperation in the governing documents of China are the following: increase in harvesting and processing of Russian forest resources, cooperation in mining, increase of import of Russian oil and petroleum products, natural gas and timber in order to develop own economy. Same aims are subordinated to the plans promoted development of Chinese cities with Russian border. Russia's frontier regions in the governing documents of the Northeast China (NEC) are considered primarily as a market for products made in China, as well as a supplier of resource group goods. Besides, these places are actively used for employment of Chinese workers and production of agricultural products for its subsequent sale in Russia.

During the course of the Program of the Northeast of China Revitalization economic relations with frontier countries, including Russia, have become an important factor in development for the whole North-Eastern China, particularly Inner Mongolia Autonomous Region, and grown over the past decades on the border with the Russian Zabaikalie and Far East Chinese trading towns owe their prosperity especially to border trade and tourist flows from our country.

Even twenty years ago the Chinese provinces, located on the border with Russia, considered as ones of the poorest in the country. Since 1990's, owing to border trade with our country, a period of rapid development of these territories has started. Here developed not only such stable trading border towns as Manchuria, Heihe, but new roads, international airports, hotels, sports facilities and other infrastructural items were built.

The analysis of Russia and China official statistical data allows to make some conclusions of the both countries transition to a market economy by example of their peripheral regions, while contribution of program implementation

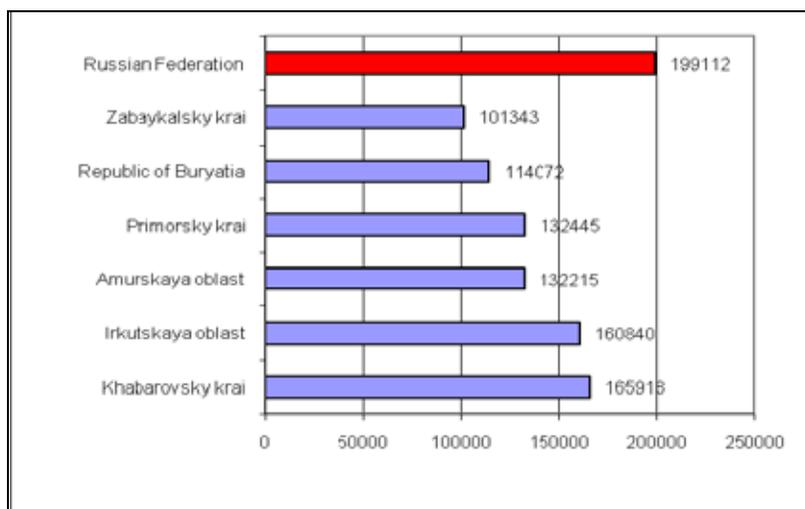


Fig. 1. Gross regional product per capita in 2008, roubles [14]

is quite noticeable at the Chinese side. The common development strategy of Northeast China and provincial plans pay a special attention to increasing of cooperation with the Russian Far East as a key partner of China in the region and use its resources to accelerate the economic development of the Northeast China. [7]

According to official statistic data at the Russian frontier regions the GRP growth rate is lower than country's average and as a consequence, low-income of population. The gap between the Russian average GRP growth rate and Far East, Zabaikalie in 2006 is 22.9 %. To overcome the backlog of GRP growth rate in the Far East and Zabaikalie must exceed the Russian average rate in perspective and to be not lower the average 6.5-9.2 % per year [13].

This situation can be considered on example of such frontier areas as Zabaykalsky krai with population of 1.12 million people and on the other side of the border Inner Mongolia Autonomous Region (IMAR) with a population of just under 24 million inhabitants. Until recent IMAR was one of the most backward areas of China with the prevailing agrarian economy.

To compare the rates of GDP and GRP are given in U.S. dollars at purchasing-power parity.

Thus, one see that the GDP of neighboring countries differ greatly and the GRP of regions on the order. Dynamic of GRP of Zabaykalsky krai reflects the significant impact of the crisis of 1998 and the gradual recovery of the economy, the dynamics of the IMAR demonstrates stable growth of GRP, outstripping GDP growth of China as a whole (Table 1).

GRP per capita of Zabaykalsky krai and IMAR in 2005 are on one level, but are the result of two different processes: in Zabaykalsky krai – stagnation, and in IMAR – the dynamic development which exceeded national average level as a result of program activities.

From 1990 to 2006 Russian frontier territories lost of quantity in the population. Thus, the population of Zabaykalsky krai decreased by almost 200 thousand persons, while in the Inner Mongolia, it has increased by 2.4 million persons. According to the pessimistic forecast, reducing quantity of population of the Russian region in the period 2015-2025 years would be catastrophic, if not taken extraordinary measures [1]. However, in 2007 and 2008 in Zabaykalsky krai a small but nevertheless, the growth of natural increase rate has been observed.

Table 1. GDP and GRP by purchasing power parity in U.S. dollars *

	1995	2000	2005	2008	Growth 2008/1995, %
Russia	953 528	1 123 181	1 697 957	2 263 633	237
Zabaikalsky krai	6 457	4 616	5 468	7 729	120
China	1 832 388	3 013 224	5 314 372	7 966 538	435
IMAR	25 846	46 739	112 980	196 900	762

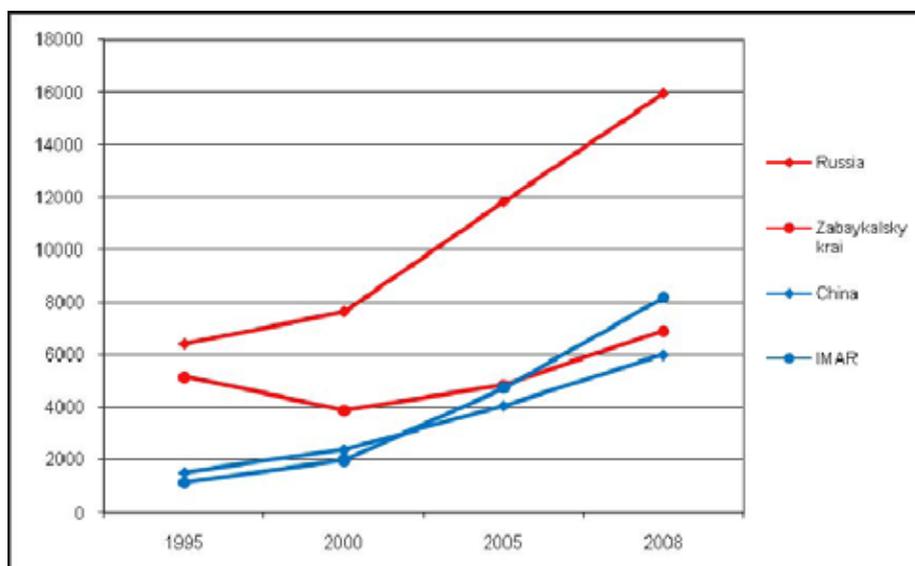


Fig. 2 GDP and GRP per capita by purchasing power parity in U.S. dollars*

It should be noted that population growth on the Chinese side is due to the increased lifetime expectancy and lower mortality, in contrast to the inverse of the Russian tendency (Table 2 and Fig. 3). Despite the fact that birth rates in recent years in the Zabaikalsky krai is higher than in IMAR, where is a significant decrease in birth rate due to the implementation of restrictive policies of childbirth of China, the population quantity growth in the frontier regions of China nearly a one and half time higher the appropriate indicators in Russia.

Since 1990 the situation in agriculture cardinally has changed so in Inner Mongolia the production of meat and grain per capita has increased significantly, which is higher than Zabaikalsky krai indicators several times (Fig. 4).

In general, the comparison of indicators of socio-economic development of Zabaikalsky krai and Inner Mongolia Autonomous Region not in favor of the first. Most bright contrast can be observed in the development of Chinese and Russian frontier towns, such as Manchuria and Zabaikalsk, Heihe and Blagoveshchensk, etc. Today, in contrast to the 1990's, situation is diametrically opposite there. Our «shuttle traders» helped to build a modern Chinese towns of Heihe, Manchuria, Mudanjiang etc., where Russian citizens are beginning to migrate, including pensioners whose Russian benefit one can live there quite comfortably, unlike in own native country.

It should be noted that the administration of frontier regions of China, unlike Russian, has a high degree of independent decision-making in the

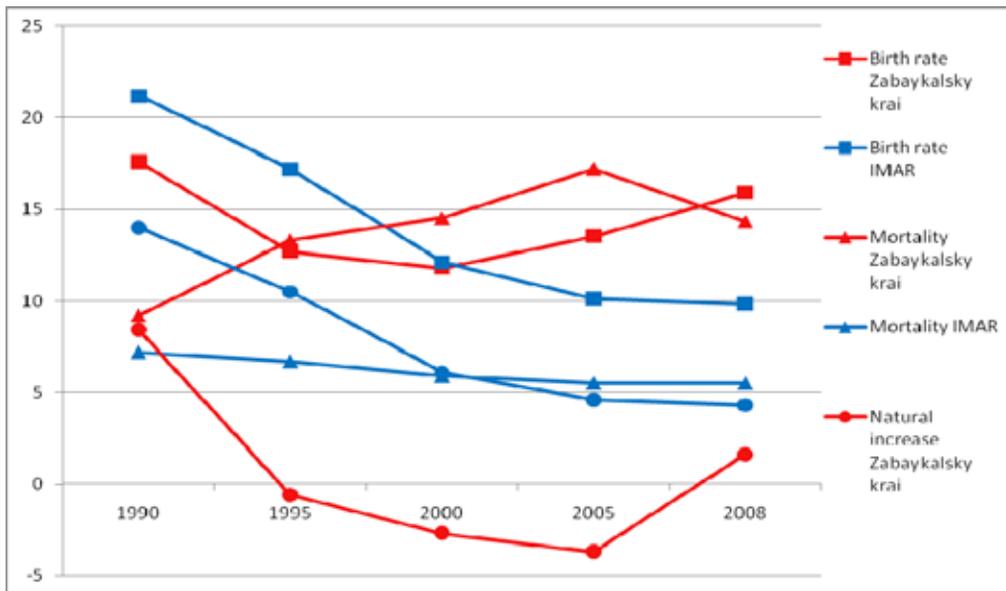


Fig. 3. Birth rate, mortality and natural increase per 1000 persons [14, 15]

Table. 2

	1990	1995	2000	2005	2008
Population quantity, thous. persons					
Zabaikalsky krai	1318	1248	1179	1128	1117
IMAR	21626	22844	23724	23864	24137
Life expectancy, years					
Zabaikalsky krai	66,8		61,5		
IMAR	65,7		69,9		

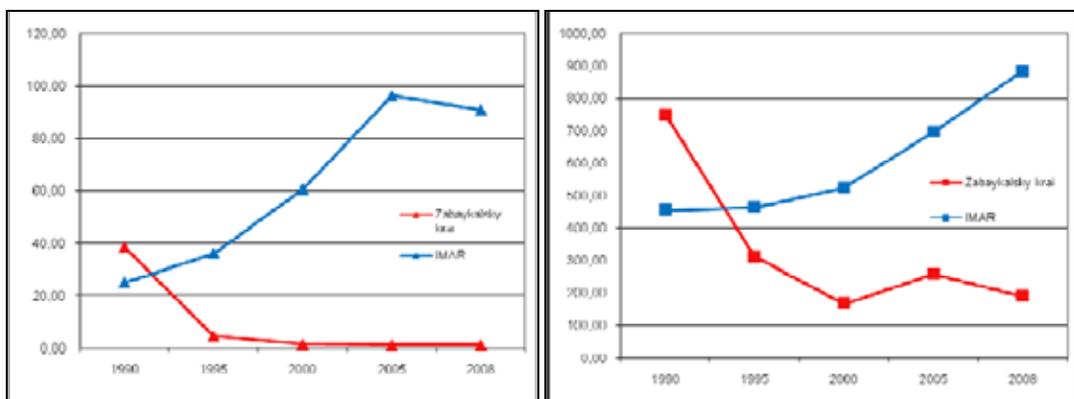


Fig. 4 Production of meat and grain, kg per capita

economy field and frontier trade. Implementation of accepted documents is controlled by a special body under the Central Government. However, for the Russian regions straight bordering or close enough to the borders of China, frontier cooperation could be an important lever for solution of socio-economic problems. Does, the effectiveness of this cooperation and its usefulness for our country depends primarily on the degree of self-dependence of regions and their ability to make important decisions for themselves. Nowadays, the volume of trade relations with China has almost no impact on population living standards of frontier Russian regions, and the documents signed by the regional authorities, still remain a cooperation agreements. It's necessary to adopt legal acts regulating trade relations with neighboring states, including Federal Law «On frontier cooperation in the Russian Federation» by the legislative level.

In the recent years Russian authorities began to pay more attention to the development of its peripheral regions. Thus, at the State level the meeting of the Security Council and a number of field meetings of the Government of Russian Federation in Vladivostok, meeting of the State Commission for the Development of the Far East, of the Republic of Buryatia, Zabaikalsky krai and Irkutskaya oblast, Russia-NATO summit in Khabarovsk have been held, the APEC Summit is planned in 2012 in Vladivostok. In addition, a new version of the Federal Target Program «Economic and social development of the Far East and Zabaikalie until 2013», which now includes the Irkutskaya oblast. Its implementation involves the construction of large objects of social and productive infrastructure, including the territory of the Russian-Chinese frontier.

On the initiative of the Chinese side a bilateral commission for preparing an intergovernmental agreement of «Pairing the Federal Target Program (FTP) of the economic

development of the Far East and Zabaikalie with the development program of old industrial bases in Northeast China» was founded. The main priorities of the Chinese side in this area are the extension of Russian raw material's imports; joint mining of nonferrous metals deposits and their subsequent transportation; and the increasing admission capacity of the border checkpoints; the development of transboundary roads and railways network, the increasing number of border trade centers; attracting of more number of the Russian tourists to China; Chinese labor force's export to Russia; participation of Chinese side in implementing activities under the FTP. All of this was reflected in the resulting «Program of Cooperation between the regions of the Far East and East Siberia of Russian Federation and Northeast of the People's Republic of China for 2009-2018 years», endorsed during a meeting in New York at the 23-rd of September, 2009 by the Chairman of the People's Republic of China Hu Jintao and the President of Russia Dmitry Medvedev. The cooperation program includes 205 key joint projects in frontier regions between two countries in various spheres of economy, most of which will be invested by Chinese capital. At the same time the construction of necessary infrastructure and various industrial facilities, among which for example, plants for deep processing of raw materials was planned on the territory of the Russian-Chinese frontier [12].

After promulgation of cooperation programs, some media have expressed concern about the tendency of the Russia's government to turn its eastern regions to the Chinese resource base, referring to projects that will be developed in the framework of this cooperation program. In the opinion of Vladislav Inozemtsev, the founder of the Center of postindustrial society research, it can be seen from bilateral cooperation program for years 2009-2018, that is clear understanding

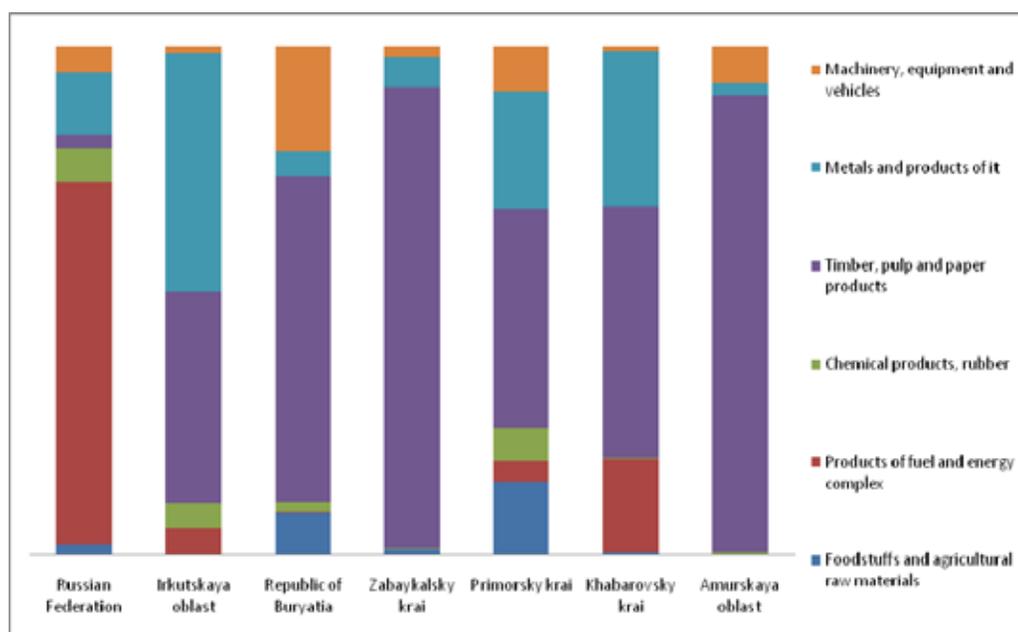


Fig. 5. Commodity structure of exports in 2008, %

of the Far East's and East Siberia's appointments as raw material base. A number of mineral and natural resources deposit will be elaborated and the infrastructure of these raw materials export will be founded on the territory of the Russian Federation mainly in one direction – Chinese. On the contrary industrial enterprises focused on processing of mined in Russia resources are built at the same territory of China.

According to the Russian government opinion, paradoxically, putting into operation time-consuming construction would have been unprofitable in the eastern regions of Russia at the current economic conditions with their underdeveloped infrastructure. For this reason, Russian companies prefer to invest in development projects of industrial facilities in neighboring Heilongjiang province of of the People's Republic of China, where for processing Russian raw materials will be exported, and it will be cheaper for both Chinese and Russian, that invested in these businesses. It means that future of the Far East will economically depend on China not only as a market, but as a large industrial complex,

where will be located processing industry for Russian raw materials [5].

Lack of natural resources at high rates of economic growth makes China to focus on the export of raw materials from Russia. One of the major projects is the construction of the pipeline route from the «East Siberia – Pacific Ocean». Russia has received a loan of 25 billion dollars for the construction of the pipeline route, and Chinese side will receive annually approximately 15 million tons of oil. Oil will be supplied to China at a reduced export duty and by preferential tariffs for transport, so that the state budget will receive very few – \$ 30 million per year, which will go to repay the loan [11]. Simple calculations show such a defect of the Russian export policies.

The Government of China encourages the creation of added value, especially in the export sector, attracting significant foreign direct investment, while the Government of Russia emphasis on mining, as well as the spillover effects of export resources and the import of cheap Chinese goods.

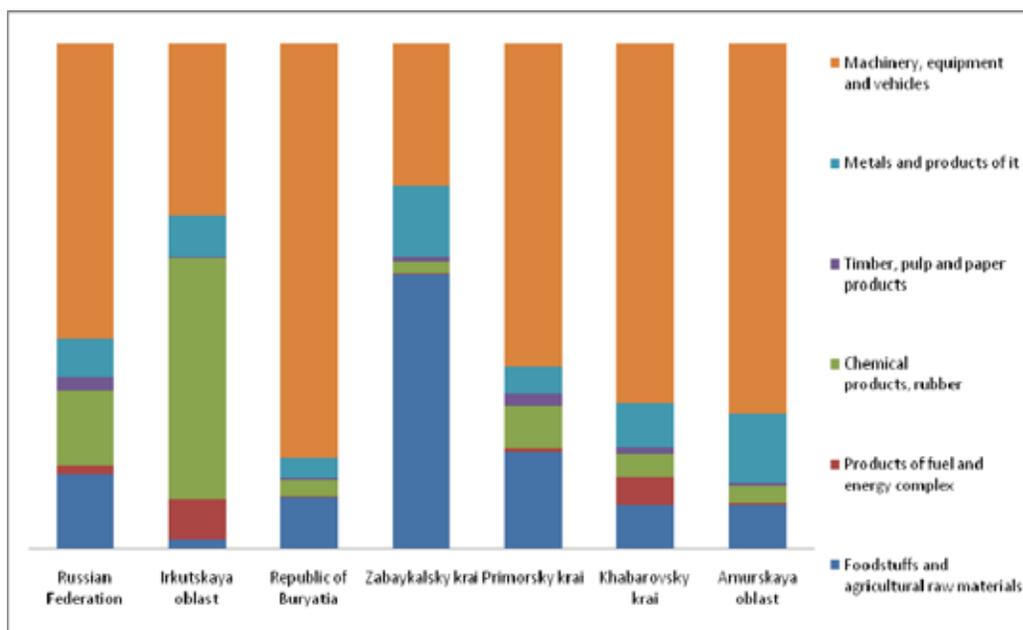


Fig. 6. Commodity structure of imports in 2008, in %

The fuel and energy complex of Russia occupies over 70 % of exports. Same as Russian, the article export structure of frontier Russian territory is characterized by extreme imbalances, but prevailed export of timber and pulp and paper products. In 2008 in the Zabaikalsky krai and the Amurskaya oblast the export of forest products amounted to 90.5 % and 90.1 % respectively, in the Republic of Buryatia – 64.3 %, in the Khabarovskiy krai – 49.7 %, in the Primorsky krai and Irkutskaya oblast-43% and 41.8% respectively (Fig. 5). And by some estimates the actual export of illegally prepared timber exceeds the official statistics in three times. It's explained by steady growth in demand of forest products, mainly of the timber, due to, the China's government, on the one hand, banned lumbering on its own and, on the other hand, supported their own timber industry. For example, in 2003 in Manchuria, a modern wood processing complex was put into operation, which based on Russian raw materials, with an annual capacity of 1 million cubic metres, including the 17 wood-processing factories with a total investment of one billion yuans [3]. The

Russian timber is processed in these factories and then is exported to Japan, USA, occupying up to 50 % of their export quota.

In the frontier regions the main share of the import structure occupies the import of machinery and equipment. In Buryatia, its maximum share amounts 82.3 % in 2008, in the Amurskaya oblast – 73.3 %, in the Khabarovskiy krai – 71.2 %, in the Primorsky krai – 64 % (Fig. 6). The smallest share is in the Zabaikalsky krai – 28.1 %, however, a high proportion of imported food and agricultural raw materials – 54.2 %.

According to different estimation, the export of natural resources in Russia exceeds 10 % of GDP [10], in 2003, raw materials and semi-finished products accounted for the lion's share of Russian exports (at least 75 %): petroleum and petroleum products – 40.4 %, gas – 14.0 %, iron and steel – 6.5 %, non-ferrous metals – 6.0 %, paper and cellulose – 3.7 % [8]. In 2005, the contribution of mining, processing and transportation of oil and gas production in total GDP was 26 %, carbohydrates provided 59 % of total exports [9]. According to another assessment in the same

2005 in the export structure the share of energy resources are 63.8 %, wood and cellulose – 3.5 %, ferrous and nonferrous metals – 14.6 %, and overall exports are resource-stuffed – 94.6 % [4]. According to the Economic Expert Group share of oil incomes to GDP in 2007 amounted to 18.7 % [18]. On the one hand, such a scale involvement into the economic circulation of natural resources is contrary to the conservation of these resources for future generations, by the concept of sustainable development, and on the other hand, a too great temptation now to obtain quickly in this moment and sell the resources as the raw materials. And this behavior is actually facing a slowdown in economic growth, but not in the distant future, with the full exhaustion of resources, but now an abundance of natural wealth has a negative impact on economic development.

J. Sachs and A. Warner, in their book «Natural Resource Abundance and Economic Growth», analyzed the situation in 97 countries of the world for the period from 1971 to 1989 and concluded that there was a negative statistical relationship between resource wealth and rate of economic growth. The country is richer of mineral, natural and agricultural resources, than its economy grows more slowly. Conversely, the most resources disadvantaged country grew faster than anyone else (Japan). As a measure of the wealth of natural resources, Sachs and Warner consider the share of natural resource's exports in GDP, or the whole export. Governments, receiving to the budget a large part of taxes from export of raw materials, tend to have less democratic political structures and less-developed civil society as rule. This is the «curse of natural resources» [10].

Abundance of natural resources leads to a politically influential special interest groups associated with industries that exploit this abundance. Seekers of rent by any means trying to gain control over access to resources. As

a research result of selection of 45 countries Gylfason identified clearly observed statistically significant pattern – corruption increases from one country to the next in accordance with the increase of natural capital. He concluded that in the absence of other changes increase by 12 percentage points in the natural capital share from one place to another tends to reduce per capita growth by one-half a percentage point per year on the average, merely by encouraging corruption [2]. The situation of corruption in Russia clearly demonstrates deduced by Gilfason relationship with the natural capital.

According to an American journalist and political analyst Fareed Zakaria, who reviewed economic factors at the book «The Future of Freedom» necessary for successful democratic societies, surplus derived from the sale of raw materials do not bring freedom to the population of these countries. In fact, these states are using their resources to «buy» modernity: new buildings, automobiles, technologies, televisions, etc. However, their societies remain underdeveloped, and business class – is not autonomous from the state, and completely depending on it. Nevertheless, in some countries, the incomes from exports of raw materials have improved the education system. So, for example, occurred in Botswana, where the share of public spending on education in GDP is among highest in the world [19].

Experience shows that growth is damaged by not only the mere existence of natural resources so as the inability of government agencies to deal with problems caused by the abundance of natural resources, and adjust the related market failures.

The presence of rich natural resources implies a greater risk and requires a more careful choice of economic policies. To overcome resource-dependency it is needed to avoid distortions in the structure of GDP, reduce bureaucracy and fight with corruption and invest in education, science

and technology, social and legal institutions, to promote civil society. In addition, it is necessary to carry out measures for the physical and moral renewal of industrial capital, in order to shift at a later time stress from the removal of the natural rent to receiving technological, science-based rents. In particular, using existing and creating new opportunities for processing raw materials into products with more advanced processing of high value-added in order to increase profitability of production and overcome the role of the «raw material appendage».

It is required to develop in the border regions instead of export of fuel resources, electricity, refined products and gas products, foodstuffs, machinery and equipment. Despite the challenges, manufacturing industries are the basic foundation for the formation of clusters, aimed at the complete cycle «production-processing». It concerns the development in these areas of mining clusters, light industry, construction cluster and building materials, forest industry clusters. In addition, it is necessary to complete the formation in the border regions of integrated transport and logistics cluster.

For Russia it would be very useful experience of China in the management of own border territories. Example of China annually invested heavily in the development of their national regions, shows how much can change «facade» of the country for a slight period of time. China is purposeful developing own northern border regions, effectively demonstrating the superiority of own economic policy, providing

the foundation for entering the Russian and European trading markets. In this situation, Russian side should provide decent arguments in their favor, and in particular, regulations governing the legal relations with the border neighbors.

One of the most effective forms of international economic cooperation at the regional and municipal levels is the establishment of border «Euro-regions». Such forms of cooperation are widespread in the EU, in this way the most rapidly developing economic ties with neighboring created in Republic of Karelia with Finn territory. It may be proposed for the eastern borders the creation of special «Asia-region», which could be an act of supreme manifestation of economic cooperation between Russia and its neighbors at the regional and municipal levels. Currently, the geopolitical situation on the western borders from time to time is compounded by political and economic conflicts.

In these circumstances, it is more important than ever to increase its influence at the borders with traditional neighbors, China and Mongolia. The real exit to the rapidly developing Asia-Pacific Region lies down through this territory. In the coming new world administrative borders will lose its original meaning, therefore, will be increasingly the role of frontier territories of states, as zones of contact between different peoples and cultures. The Russian border areas are the beginning of Russian land and its main «face» that should be worthy of the country, claiming the occurrence of a group of world leaders.

References

1. L. Abalkin, «Reflections on the long-term strategy, science and democracy», *Voprosy ekonomiki*, 12 (2006), 4-19.
2. T. Gylfason, «Resources, agriculture and economic growth in the countries with transition economics», 2,1, *Ecovest* (2002), 81-110.
3. S. Gribova, «Zabaikalsky region and China in forest trade: new approaches», *Spatial Economics*, 4 (2008), 139-152.

4. S. Gubanov, «Growth without development, and its limits», *Economist*, 4 (2006).
5. «Far East of Russia: fear against local authorities to cooperate with China», <http://www.partnery.cn> (2009), 11-26.
6. M. Dmitriev, «Russia 2020: the demographic challenges of economic growth», *Economic policy*, 2 (2007), 123-134.
7. D. Isotov, V. Kucheryavenko, «Northeast of China under the Plan of rebuilding economy», *Spatial Economics*, 2 (2009), 140-158.
8. Ch. Cordonnier, «Diagnosis: the natural rent», *Strategy of Russia*, 3 (2005)
9. A. Kudrin, «Stabilization Fund: foreign and Russian experience», *Voprosy ekonomiki*, 2 (2006)
10. V. Matveenko, «Resource-dependent and economic development: on the example of Russia», *Materials of 7-th international conference in Saint Petersburg University*, 2 (2006), 109-142.
11. «Oil to China», «*Argumenty i fakty*», 12 (2010), 5.
12. «The Program of cooperation between the regions of the Russian Federation Far East and Eastern Siberia and the Northeast of the People's Republic of China (2009-2018)», www.kp.ru
13. Project of strategy for socio-economic development of the Far East, the Republic of Buryatia, Zabaikalsky region and Irkutsk region for the period till 2025, www.minregion.ru
14. Federal State Statistics Service, www.gks.ru/bgd/
15. Inner Mongolia Statistical Yearbook 2009, *Beijing: China Statistics Press*, (2009)
16. International Monetary Fund, World Economic Outlook Database, 3, (www.imf.org, 2010)
17. Selection of Laws and Regulations on Ethnic Policies of the People's Republic of China, *China Civil Aviation Press*, (1997)
18. www.cir.ru
19. www.moldova.ru

Ресурсная экономика в приграничье азиатской России: следствия, проблемы, предложения

А.К. Тулохонов, Д.А. Дарбалаева
Байкальский институт природопользования СО РАН
Россия 670047, Улан-Удэ, ул. Сахьяновой, 8

В статье рассматривается роль природных ресурсов в социально-экономическом развитии приграничных регионов России и Китая. В процессе глобализации все больше увеличивается «прозрачность» национальных границ, и разные регионы по-разному используют этот фактор развития экономики.

Ключевые слова: приграничье, Россия, Китай, социально-экономическое развитие, природные ресурсы.
