

## **The Russian Far East: Opportunities and Challenges**

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The Russian Far East, a vast territory lying east of Lake Baikal, is a valuable and strategically desirable piece of real estate and a potential focal point of international conflict in northeast Asia. The geopolitical significance of the RFE rests on its natural wealth—oil, natural gas, coal, gold, diamonds, rare earth metals and the like—and on its strategic situation in the North Pacific, where the interests of several major powers intersect. Its significance is likely to grow with the shift of gravity of the global economy to the Asia-Pacific and as U.S.-China rivalry increasingly defines the contours of international politics in the Far East and beyond. My testimony today will explore several core propositions:

1. Moscow’s ability to control and develop the RFE will have important implications for the economic and political balance in northeast Asia.
2. Current trends in the RFE toward economic integration with China could eventually weaken Russia’s real sovereignty over that vital region.
3. China’s evolving special relationship with the RFE could enhance the PRC’s overall geopolitical weight, posing potential challenges to U.S. and allied security interests in the Asia-Pacific.
4. Despite China’s increasing penetration of its Asian periphery, including the RFE, Washington does not yet take Pacific Russia seriously as an economic or security partner.
5. The United States and its Pacific allies should increase their presence and engagement in the RFE, not just to exploit commercial opportunities there, but also to limit China’s growing power and reach.

Let me start with some comments about the setting of the RFE. This vast land encompasses 36 percent of Russia’s entire territory – some 6.2 million square kilometers, or about two-thirds the size of the United States. But it has only 6.3 million inhabitants or about 4.4 percent of Russia’s population, and its regional product amounts to just 5.6 percent, of Russia’s total GDP.

Also, the RFE is rather inconveniently situated: far removed from Russia’s European core and centers of power but uncomfortably close to dynamic and ambitious Asia-Pacific powers. Consider that Vladivostok is about 4,000 miles from Moscow but just 830 miles from Beijing and 660 from Tokyo, and that the RFE’s southern provinces share a 3,600 kilometer frontier with China. So here’s

a huge territory that is at once isolated, seriously underdeveloped, demographically challenged, and geographically exposed to the machinations of outside players.

To make a long story short, the RFE was practically abandoned by the central government after the collapse of the Soviet Union in 1991. Because of steep budget cuts in the 1990s, the region lost about 20 percent of its population, and up to 90 % of its heavy industry, plus a lot of its Pacific-based naval and air force capability. The general disintegration of the state apparatus encouraged regional bosses to assert a measure of independence from the center and to make their own deals on trade and migration issues, which was really a survival strategy for the RFE's provinces in this difficult time.

In the past decade, though, Russia has moved to enhance its power and presence in the Far East and the adjoining Trans-Baikal regions. Geopolitical considerations have spurred Russia's renewed interest in the eastern territories. Russia's leaders began to see the RFE's isolation, general backwardness, and hemorrhaging population as a threat to the security of the Russian state. Fears that the RFE provinces might detach themselves from the center, and that Russia as a whole could break up, and that outside powers could gain a major foothold in the region, began to pervade the national discourse.

With these concerns in mind, Moscow decided to make economic growth in the RFE and adjoining Siberian regions a top national priority. Moscow's modernizing strategy in the Far East has proceeded along two major tracks.

The first is to strengthen Russia's administrative and economic footprint in the RFE. Moscow recently has created a new State Ministry for the Far East and has planned a giant state company that would be responsible for the Far East and eastern Siberia. Massive state investments of \$31 billion were pledged to uplift the RFE's economy, infrastructure, and living standards. Some 95 percent of the funding was allocated to the RFE (as opposed to the Trans-Baikal provinces) and most of this was earmarked for an extreme makeover of the city of Vladivostok – new roads, 2 big sea bridges, reconstruction of the airport, a conference center, a university campus, and so forth – in preparation for the 2012 APEC summit.

The second major thrust of strategy is to strengthen economic links with Russia's Asia-Pacific neighbors. According to some recent numbers, Russia accounts for only about one percent of regional Asia-Pacific trade; Russia is making a deliberate tilt eastward to harness the RFE's future to the dynamic and fast-growing economies of the Pacific region, as opposed to the sluggish, stagnant and crisis-ridden economies of the European Union. Obviously no amount of Russian state resources will suffice for the gargantuan task of developing an area two-thirds the size of the United States. Russia's Ministry of the Far East now says that 11 trillion rubles, some \$370 to \$380 billion U.S., will be needed for the RFE, more than half from extra-budgetary sources, and this will have to come largely from foreign investment.

Moscow hopes that its development plans will reaffirm and strengthen Moscow's sovereign control over its remote eastern territories, and send a clear message to outside foreign actors that Russia is a serious player in the Asia Pacific. Yet things may not work out to Russia's advantage. Moscow has made a strategic and possibly fateful decision to link RFE's future development closely to the economic requirements of neighboring China. China arguably can leverage geographical propinquity and its superior economic dynamism (not to mention its demographic advantage) to advance an integrationist agenda that eventually could undermine Moscow's real sovereignty over the RFE.

Consider that China is the dominant trading partner for the RFE border provinces and represents a vital market for the RFE's most important products such as metals, coal, and timber, and is an essential supplier of foodstuffs, clothing, and electronic products to RFE consumers. Practically speaking, large RFE populations already are economically integrated with China. Consider also the very long Sino-Soviet border and the huge population imbalance between China's Manchurian provinces and the Russian Far East – a ratio of about 16:1 or more. Indeterminate numbers of Chinese already have crossed into the RFE legally and illegally, and provide vital labor services in agriculture, construction, trade, forestry and other fields, though they do not yet constitute an organized political force (like, say, Mexican immigrants in the United States).

As you probably know, Russia and China have evolved a close-fitting strategic partnership in recent years, and the partnership right now is riding high. The countries have apparently resolved their outstanding border disputes, and they enjoy shared understandings on such international issues as Iran sanctions, Syria, NATO enlargement, and threats of ethnic separatism. But the partnership also includes a strong component of cross-border economic integration. According to a recent “agreement in principle” reached between Russian and Chinese leaders, Russia plans to increase the supply of oil to China from 15 million tons per year currently to 45 to 50 million barrels possibly as early as 2018. Already, China is Russia's largest trading partner, surpassing even Germany, with \$90 billion of turnover in 2012 and \$200 billion projected by 2020.

But especially noteworthy was an agreement between presidents Dmitry Medvedev and Hu Jintao in 2009 to link the development of China's northeast provinces (Manchuria) to the development of Russia's eastern regions. Under this agreement, Russia would initiate projects for mineral resource extraction, forestry, agriculture, water supply and power generation while China would establish or reconstruct factories to create an internationally competitive manufacturing base. The countries would build cross-border transportation networks to facilitate the supply of Russian raw materials to the PRC's northeast. Russian critics argue that this scheme relegates Russia to the role of a resource colony serving the needs of a “metropolitan” China. Discussion reportedly is underway on a \$5 billion loan from China to Russia's Ministry of the Far East to speed implementation of the cooperative agenda. If economic relations continue down that path, the RFE eventually could become more a part of Asia's periphery than a territorial extension of Russia, and increasingly subordinate to China's industrial requirements.

Why is China so anxious to secure a major foothold in the RFE? Perhaps three main reasons: First, the PRC is short of just about every resource needed to sustain the country's pace of development, and the RFE possesses most of these materials in abundance. A second reason is that the RFE offers a secure resource base in Eurasia – a hedge against a conflict situation in which adversaries (like the U.S. Navy), could cut off maritime lines of communication to China. A third and more hypothetical reason is that a measure of control over the RFE—a buffer of sorts between the China and the United States—could change the balance of power in the Western Pacific to the PRC's overall advantage

So what is likely to happen to the RFE in the long term? The basic realities already mentioned – serious economic and geopolitical vulnerabilities, combined with China's relentless quest for sources of raw materials on its periphery--suggest to some a rather grim outlook: a gradual soft power assimilation of the RFE into a resource appendage of China's northeast. But such a judgment might be premature. For example, a look at trade patterns shows that while China clearly dominates trade with the RFE's border provinces, democratic countries (not all of them Asia-Pacific ones) are the dominant partners for the non-border ones. Also, the vast majority of foreign investment in the RFE, 84 percent, flows to just two provinces, Sakha-Yakutia and Sakhalin – world-class repositories of gold and diamonds, and oil and gas respectively – where China plays a relatively minor economic role. Indeed, China's overall investment in the RFE in 2011, a puny \$169 million, was only about 2 percent of total foreign investment there in that year. Yet this figure will doubtless increase. For instance, in 2013 China paid \$238 million for a stake in a Russian company with iron ore mines in Amur province. The RFE, especially its northern reaches, is still a land of opportunity, but may not remain so indefinitely.

So what are America's interests in the future of the Russian Far East? The main strategic interest is to prevent the domination of that region by any single outside power, in this case China. Right now the United States exercises little influence in that part of the world. In the economic sphere, U.S. trade with the RFE accounted for just 2.2 percent of all RFE external trade in 2011, and U.S. investment in the region has dwindled to near zero in recent years. In general, Washington has failed to take Russia seriously as an economic and security partner in the Western Pacific. Underscoring this reality, a November 2011 article in *Foreign Policy* by Hillary Clinton entitled "America's Pacific Century" which outlined America's national security priorities in Asia (open markets, nuclear non-proliferation, freedom of navigation etc.) mentioned just about every country in Asia, but left out Russia. Since Russia's Far East represents a vast potential market, harbors significant nuclear assets (some of them inadequately protected) and occupies a commanding maritime location, the omission seems rather startling. Actually, the RFE –Pacific Russia--could be central to U.S. security calculations in the Western Pacific, if the objective is to balance China's looming regional clout.

How, then, to respond to the Chinese challenge? Outright containment is unlikely to work, given America's limited resources and geopolitical distance from the region (not to mention the

reservations of other Pacific powers.). But some sort of coordinated action is needed to prevent China from dominating the RFE and surrounding regions by default. The United States should take the lead in putting together the pieces of an engagement strategy for the RFE. A partnership of America and its Pacific treaty allies can collaborate with Russia in sponsoring a range of economic projects, in energy and transport, high-tech manufacturing and other fields. Additionally, to promote investment interest, the partners should engage Russian regional leaders on RFE's unruly business environment, advocating international "best practices" in areas such as transparency in procurement and protection of physical and intellectual property. The partnership could even involve some common understandings on Pacific security issues, including informal consultations on economic, demographic and military trends that might affect the stability of the RFE and northeast Asia generally.

Finally, a regional development strategy for the Far East will require substantial government support. In the United States, funds for development assistance to Russia today are only a fraction of what they were in the 1990s, which partly accounts for the poor recent representation of U.S. business in the RFE and other Russian regions. The scale and level of China's economic (and increasingly, military) power argues for some redirection of overseas funding priorities, and the RFE certainly should be the beneficiary of such a shift, for the reasons cited above.