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Russian Far Eastern Border Regions and Chinese Immigration. Historical, Economic and Social Determinants of Cooperation

Introduction

The progression of globalization involves increasing importance of such issues as deepening of international economic interdependence, intensification of migration processes and changing the role of state borders. Adaptation to these new conditions is particularly difficult for countries like Russia being at the stage of transition. It can be displayed on the example of Russian Far Eastern border regions¹ which simultaneously face two problems: the ongoing transformation and the activity of Chinese immigrants, which significantly influences the regional economy. In the current situation, in which informal economy plays a leading role in transborder contacts, it is impossible to achieve the maximum benefit from the Chinese presence in the region. Moreover, in the long-term perspective such form of cooperation may turn into a threat for both the border regions and the whole Russian Federation. This paper will attempt to identify the main causes of the existing status quo as well as the challenges faced by Russia on the way to change it. Three interrelated issues will be discussed to meet this purpose. Firstly, while analyzing demographic situation in the Russian Far East and the tendencies to internationalization of its development, we will point out the potential opportunities offered by the presence of the Chinese in this region, particularly along the border. Secondly, the characterization of transborder “shadow economy” and selected causes of its prosperity will lead

¹ It refers to the southern part of the Far Eastern Federal District located right next to the Sino-Russian border, which includes Amur Oblast, Jewish Autonomous Oblast, Primorskii Krai and Khabarovsk Krai.

to the reflection on still unfinished transition, or in other words—necessity of internal legal and economic reforms in the Far East that could support the Russian immigration policy in eradicating the criminal, illegal and half-legal transborder activity. Thirdly, further discussion of the adaptation of Russian politicians and the general public to the new situation on the eastern borderland is intended to indicate the non-economic determinants of the current shape of interregional cooperation between the Russian Far East and northeastern provinces of the People's Republic of China (PRC).

In search of a new development strategy—Russian Far Eastern border regions after the collapse of the Soviet Union

Already in the 1990s, shortly after the collapse of the USSR, the need of multifaceted, long-term strategy for Far Eastern border regions development was emphasized by Russian scholars and some politicians. It became clear that old Soviet management practices were not applicable to the new socio-economic situation of those territories. A well-thought-out immigration policy, making the whole region more attractive to domestic and foreign business and internationalization of development processes were recommended.²

One of the biggest problems standing in the way of modernization of these territories is their depopulation. Unfavorable demographic situation is caused by consecutive years of negative birth rate (the death rate has exceeded the birth rate since 1993³) and what is the most important—a massive exodus of people from the Far East. The last factor is conditioned mainly by the previously binding Soviet development strategy and the consequences of its current abandonment. During the Cold War, especially after the deterioration of Sino-Soviet relations in the 1960s, militarization of eastern regions was politically reasonable. Significant economic incentives for the Russian Far East were provided due to establishment and development of heavy industry and a military complex. However, after 1991 the government in Moscow reduced subsidies for this region and cut down on funds for

² D. Trenin, *Russia's China Problem*, Carnegie Endowment for International Peace, Washington D.C. 1999, pp. 46-49.

³ During the period 1990–2008 mortality in the Russian Far East increased by over 65% (calculated per 1000 heads). See more: T. Komarova, *Modern tendency of death rate of the population in Far East region of Russia*, paper presented at the European Population Conference 2010, <http://epc2010.princeton.edu/download.aspx?submissionId=100416>, accessed on October 20, 2011.

providing consumer goods to the Far East on preferential terms.⁴ Moreover, the challenge of adapting regional markets to the requirements of liberal economy resulted in a drastic decline in living standards of the population. Closing down of unprofitable factories, low wages under high inflation and poor supply of consumer goods stimulated an outflow of people from eastern borderland. This problem concerned even Primorskiï Krai whose economy at the beginning of the 21st century was referred to as the largest and the most balanced one in the Russian Far East.⁵

Shortage of labor force is directly linked to the Far Eastern demographic problems. This issue significantly influenced the whole economy of the borderland already in the 1990s, but since 2005 labor demand gap has been growing consistently, regardless of the improvement in the economic situation in the region. Theoretically, the Russian authorities have two possibilities: they can initiate and sustain incentives for the Russians to migrate to the Far East from densely populated regions of the Federation and CIS countries or utilize inflows of foreign labor force.⁶ In practice, the implementation of the first conception appears to be very difficult, if not impossible. *The Strategy of socio-economic development of Far East and Baikal region for the period to 2025* approved by the Russian government in December 2009 contains an opinion that rich reserves of natural resources in combination with the strategy of their utilization may become the key factor in changing geopolitical importance of eastern Russia⁷. Among the basic objectives the document includes development and modernization of transport networks, social infrastructure and resource industry. All of these projects are intended to resolve the problem of depopulation and the growing labor demand gap and to create conditions for sustainable economic growth of the region. Their implementation, however, will be both capital- and labor-intensive. Currently, Russia has neither adequately large capital, nor a sufficiently large group of citizens prone to live and work in this region, which implies the need to seek necessary financial and human resources abroad. Foreign investments can be obtained from various countries of the Asia and Pacific region however China is probably the most competitive

⁴ K. Kumo, *Demographic Situations and Development Programs in the Russian Far East and Zabaikalye*, Russian Research Center Working Paper Series, No.24, 2010, pp. 2-4.

⁵ M.A. Alexseev, *Instrumental Internationalization: Regional Foreign and Security Policy Interests in Primorskiï Krai*, Center for Security Studies and Conflict Research Working Paper Series, No. 18, 2002, p. 13.

⁶ В.Ф. Галецкий, *Дальний Восток: поиск стратегии демографического развития*, „Проблемы прогнозирования,” No. 6, 2006, p. 135.

⁷ *Стратегия социально-экономического развития Дальнего Востока и Байкальского региона на период до 2025 года*, December 28, 2009, N 2094-p., p. 3.

supplier of labor force. Northeastern provinces of the PRC are struggling with the problem of unemployment and emigration is viewed as one of the methods of overcoming it. The Chinese are the largest group among all immigrant workers (legally or illegally employed) in the Russian Far Eastern borderland. Many of them represent a low-qualified and low-paid labor force ready to undertake any physical work (including jobs that Russians do not want to take up) without regard to harsh climate or difficult living conditions of the Russian eastern borderland. Moreover, Chinese shuttle-traders, small businessmen or seasonal workers, i.e. groups economically active on this territory, are well oriented in the situation on the local labor market. They can also adapt quickly to changing business conditions in the region.⁸

For the Russian Far East, including the eastern borderland, the history of economic cooperation at the international level dates back to the latter half of the 19th century. Due to high transportation costs of food and consumer goods from the western part of the country and harsh, unfavorable climate for cultivation of land this region remained dependent on foreign imports of these goods. Japanese, American, British, Norwegian, Finnish and other investors demonstrated their great interest in obtaining concessions in Far Eastern resource industries, therefore foreign ventures were created in this sector. Presence of immigrant workers was also accepted. Such policy was perceived as favorable for the development of the whole resource-rich region, so both the Tsarist government and Lenin continued it. The year 1937 brought a turnabout in this way of thinking—Stalin decided to exile Asian immigrant workers and started to force internal migration. Due to Cold War tensions the whole Far East became isolated and highly militarized for the next few decades.⁹

Although the Soviet policy of closed borders significantly influenced current socio-economic situation of the Far East its standards became outdated in the era of globalization. Due to incentives which are similar to those of the late 19th and early 20th century, for the last 20 years the region has gradually but consistently returned to the strategy of international economic engagement. For example, in Primorskii Krai the infrastructure for international trade and cooperation, like seaports, railroads or border shopping and business centers, is being developed. In Khabarovsk Krai main efforts are oriented at processing natural resources and production of military technology i.e. goods that are in demand abroad. Focusing on export and trade-oriented ventures resulted in unstable but clearly noticeable

⁸ Ж. Зайончковская, *Перед лицом иммиграции*, „Pro et Contra,” No. 3, 2005, p. 77.

⁹ E. Wishnick, *One Asia Policy or Two? Moscow and the Russian Far East Debate Russia's Engagement in Asia*, „NBR Analysis,” No. 1, 2002, pp. 40-44.

economic growth in some areas of the Russian Far East.¹⁰ The renewed influx of foreign workers and small entrepreneurs, particularly from China, is also not without significant for regional markets. In the Far East markets their activity fills a specific gap caused by economic transformation. Cheap consumer goods and services, offered by immigrants from the PRC, helped the residents of the Russian borderland to avoid pauperization resulting from the collapse of local economies and then their gradual reconstruction. Multifaceted activity of immigrants in the field of trade, transborder logistics, construction and agricultural projects in the host region creates opportunities for the residents to obtain additional income. The problem lies in the fact that this intense economic cooperation takes place mostly in the grey area which brings benefits to directly involved individuals but is unfavorable for in the Russian economy as a whole. On the assumption that artificial reduction of Chinese presence and activity in the Russian borderland would be economically unreasonable, if not impossible, the main challenge for the federal and local authorities is to control and effectively use the work and enterprise of immigrants.

Characteristics of Chinese activity in the Russian Far Eastern borderland

There is nothing new or particularly surprising in the Chinese migration towards the Russian eastern borderland. In the second half of 19th and at the beginning of 20th century Chinese immigrant workers were employed in this region in gold and coal mining, quarries, felling of forests as well as processing wood and other natural resources processing. They were also engaged in large construction projects such as building of the Trans-Siberian railway or the fortified port in Vladivostok. There were a lot of traders and entrepreneurs in the Chinese diaspora—by 1910 the number of enterprises with Chinese capital was almost equal to the number of Russian private companies in the Far East.¹¹ The total number of these immigrants was quite high—in 1910 it could reach about 200,000—250,000 people.¹²

¹⁰ В.Ф. Галецкий, *op. cit.*, p. 134.

¹¹ V. Karlusov, *Chinese Presence in the Russian Far East: An Economist's Perspective*, paper presented at the international seminar "Human Flows across National Borders in Northeast Asia," Monterey Institute of International Studies, Monterey, CA, November 2-3, 2001, p. 46, <http://gsti.miis.edu/CEAS-PUB/200104Karlusov.pdf>, accessed on October 25, 2011.

¹² А. Г. Ларин, *Китайские мигранты в России. История и современность*, Moscow 2009, pp. 26-28.

Already in the second half of the 1980s due to the gradual normalization of relations between the USSR and the PRC, Chinese workers were given an opportunity for employment in Soviet factories. The main suppliers of labor force were northeastern provinces of the PRC, particularly the Heilongjiang province.¹³ Full reopening of the Russian-Chinese border in the 1990s provided the basis for large-scale economic immigration and small businesses prosperity in the borderland. It is difficult to estimate the real amount of Chinese people in the Russian Far East, but we can assume that the numbers quoted from time to time in the Russian press were definitely exaggerated.¹⁴ According to Russian experts, the total number of Chinese immigrants in Russia ranges between 200,000 and 400,000, or maximum 500,000 people. Most of them remain in the Russian Central Federal District and in the eastern border regions.¹⁵

Apart of immigrants from the PRC works legally in the Russian borderland, but most of them function within the so-called “shadow economy.” For over 20 years the most common forms of illegal activities in these territories remain:

- a. Illegal employment. Both Chinese employees of Russian companies and “shuttle traders” from the PRC may fall within the category of “illegal immigrant workers.” Most of them cross borders officially—they have tourist visas, which allow them for a short stay in the Russian territory (depending on the host region and the law existing in a particular year, a short stay has ranged from a few days to a few months) without the right to take up any economic activity. Then the so-called “tourists” undertake jobs, trade in cheap and mostly low-quality goods or provide various services.¹⁶ Moreover, some of the immigrants with business visas remain in Russia after their expiration and continue employment, thereby transforming from legal into illegal workers;
- b. Running an unregistered business, tax evasion and currency offences. Every unregistered business is obviously linked to the problem of tax

¹³ В.Л. Ларин, *В тени проснувшегося дракона. Российско-китайские отношения на рубеже XX–XXI веков*, Vladivostok 2006, pp. 112–113.

¹⁴ Alarming newspaper articles about the “millions of Chinese on the Russian territory” have been appearing mostly in the 90s, however, even in the early 21st century such opinions publicly proclaimed could be found. See Ж. Зайончковская, *op. cit.*, p. 78 and N. Ryzhova, G. Ioffe, *Trans-border Exchange between Russia and China: The case of Blagoveshchensk and Heihe*, “Eurasian Geography and Economics,” No. 3, 2009, p. 351.

¹⁵ А.Г. Ларин, *Китайские мигранты в России...*, pp. 149–151.

¹⁶ В.Л. Ларин, *В тени проснувшегося дракона. Российско-китайские отношения на рубеже XX–XXI веков*, Vladivostok 2006, pp. 118–119.

evasion. Moreover, some legally opened Chinese companies show losses or minimum income to the Russian tax authorities and their entire taxable income is declared in China. There are also Russian-Chinese “joint ventures” based entirely on Chinese capital but registered under the name of a Russian citizen. The main objective of these companies is to realize one or two export contracts. After exporting of some goods to the PRC, these businesses simply cease to exist, which results in losses due to the lack of foreign exchange accounts.¹⁷

- c. Avoidance of customs duties. Methods of transborder transportation of goods for sale are a typical example of this practice. While transporting large quantities of goods would involve high costs of official duties, the transport of a few items for personal use allows to pay a much lower duty. Due to this fact, it is favorable for Chinese traders to hire big and organized groups of people, the members of which take some goods “for personal use” and then give them back to the seller on the other side of the border. Many Russian citizens with an international passport work as such “tourists.”¹⁸

While discussing “shadow economy” we have to remember that all these forms of economic activity are based on the simple relationship between the Russian policy and law on the other hand, and the enterprise of the Chinese who circumvent many legal regulations on the other. The causes of the existing status quo are more complicated. Firstly, aside from immigrants from the PRC the main beneficiaries of such cooperation are the inhabitants of Russian borderland and Russian companies working in this territory, which thereby co-create the transborder informal economy. For example, one of the official methods of controlling the transborder human inflow to the Russian Federation are foreign workers quotas. Due to the expense and complexity of the procedures of obtaining licenses for legal employment of a large number of immigrants, Russian entrepreneurs prefer to hire those with tourist visas, thereby avoiding additional costs and liability for creating appropriate working and accommodation conditions for such workers. The growth of “shuttle trade,” observed since the mid 1990s was the answer for the enactment of visa regime in transborder human flows. The subsequent tightening of border control and restrictive customs regulations have led to the formation of organized groups of “tourists” carrying from the PRC small quantities of goods “for personal use” from the PRC, later sold on Russian markets at low prices. It is a comfortable solution not only for Chinese sellers,

¹⁷ *Ibidem*, pp. 318-319.

¹⁸ N. Ryzhova, *Informal economy of translocations. The case of the twin city of Blagoveshensk-Heihe*, “Inner Asia,” No. 10, 2008, p. 329.

but also for Russian citizens engaged in this practice which often constitutes an important source of their income. With regard to the problem of currency offences and Chinese companies registered under the names of Russian citizens, such practices are common and convenient due to a relatively simple procedure and low cost of establishment of companies with entirely foreign capital in Russia. Of course, the Russians gain financial benefits from being fictional owners. Secondly, regardless of the objections to the existence of informal economy in the borderland voiced by Russian policymakers, it seems likely that the local authorities and the officials deliberately turn a blind eye to numerous cases of tax violation and tolerate the existing legal loopholes that contribute to the development of such practices¹⁹. One of the reasons for this situation is the fact that the trade volume pursued within the framework of the “shadow economy” has the largest share in the whole interregional Russian-Chinese interregional trade cooperation, thereby providing a significant financial profits to regional economies. Moreover, in the conditions of country-wide economic transition, inhabitants of the Russian Far East cannot rely on the support from Moscow, and have to solve problems of shortages on the local markets by themselves. Bypassing official tax and customs procedures allows Chinese migrants to fill these demand gaps and simultaneously maintain low prices of their goods and services. Another significance issue is also the one of individual financial benefits received by Russian officials through corruption, which is inextricably linked to the functioning of the “shadow economy.”

In this context, the improvement of Russian internal legal regulations, methods of their enforcement and broadly defined business conditions in the whole Far East, is particularly important. As a result of unfinished transformation, in the whole Russia, especially in the Far East, the ability to attract foreign investment is low, the official procedures are onerous, the existing law is full of loopholes and corruption is still a widespread phenomenon. Due to these problems, the current immigration policy has focused primarily on the control of the influx of immigrants and tightening visa and customs regulations, which has led to the formation and development of the grey area rather than to the elimination of real threats to economies in borderline regions.

Political and social reactions to the opening of eastern border as non-economic determinants of transborder cooperation

While striving to secure the border area against criminal activity and organized crime is understandable and reasonable, restricting the freedom of

¹⁹ *Ibidem*, p. 332.

immigrant workers and entrepreneurs does not appear to be fully consistent with the economic needs of the Russian Far East, not to mention that so far it has been unsuccessful. This leads to the question why the Russian side has been trying to limit the Chinese influence on regional markets on the one hand but has left the space for informal cooperation on the other. The answer is, *inter alia*, the pace of transformation of the Russian mentality which occurs much slower than economic changes determined by the opening of the eastern state borders and the need for adaptation of the Russian internal market to the requirements of the globalized economy. The reopening of the borders which remained completely closed and militarized for 30 years as well as the resumption of contacts between inhabitants of the Russian Far Eastern borderland and the Chinese (previously presented by the Soviet propaganda as enemies of socialism, the Soviet Union and its citizens) brought extremely diverse reactions—from alarmist to moderate and even favorable to immigrants and their activity.

At the political level differences in the perception of Chinese activity in the region are noticeable mainly between the federal and local politicians. The sharpest divisions existed in the 90s. While policymakers in Moscow strove to improve relations with the PRC, and then in 1996 even declared the Russian-Chinese “strategic partnership,” some local Far Eastern authorities publicly proclaimed the growth of the “yellow peril” and the forthcoming “inevitable colonization of Russian lands by Chinese immigrants.” The most active authors of such anti-Chinese campaigns were the politicians of Promorskii Krai and Khabarovsk Krai²⁰. There are several possible explanations for this openly declared hostility to immigrants, and even manifestations of xenophobia in some cases. Firstly, shortly after the collapse of the Soviet Union, when the transition in Russia was at a very early stage, Moscow’s ability to control the remote regions of the Federation (as well as to support them economically) significantly decreased. Due to this, for a few years there were two “eastern policies” in Russia—federal and local. The latter might have been oriented to raising additional funds from the capital in order to “protect Russian interests in the Far East from the hostile designs of China.” Secondly, slogans about the potential external threat helped to distract public attention from the growing economic problems in the region. Thirdly, by emphasizing the “yellow peril” and then presenting themselves as the “defenders of Russian lands and national interests in the Far East,”

²⁰ To learn more about the struggle between the Far East local authorities and the government in Moscow in the 1990s see: В.Л. Ларин, *В тени проснувшегося дракона...*, pp. 257- 264; D. Lockwood, *Border Economics versus Border Mentality: The Politics of Russia/China Border Trade*, “CERC Working Paper Series,” No. 2, 2001; F. K. Chang, *The Unraveling of Russia’s Far Eastern Power*, “Orbis,” No. 2, 2001, pp. 257-264.

local politicians were continually increasing their popularity in the society. Such campaigns, supported by alarming opinions proclaimed in articles in local and some country-wide newspapers strongly influenced public opinion and significantly contributed to Russia's resignation from the policy of "open borders" and to gradual tightening of the border control regime.

In spite of the fact that the internal political tensions in Russia were significantly reduced at the beginning of the 21st century, the federal and Far Eastern authorities still have a divergent perceptions of China's role in the regional development. The government in Moscow views cooperation with the PRC as a factor strengthening the security of the eastern border and geostrategic counterbalance to the U.S. influence in Asia, and therefore declares that the Sino-Russian partnership is a priority in the eastern policy of the Russian Federation. In contrast, the Far Eastern politicians, especially in the borderland, view China as the main competitor or even a potential threat to the security and development of the region.

At social level we can observe two opposite and co-existing trends: the perception of Chinese immigrants as both "locals" and "strangers" among the residents of the eastern Russian borderland. The impact of the Soviet propaganda identifying China and Chinese people as enemies, increasing public awareness of the growing economic power of this country with simultaneous observation of transitional difficulties of the Russian Far East, and various cultural differences, determine the perception of immigrants as "strangers." On the other hand, transborder cooperation sustained for over 20 years contributed to strengthening of the image of Chinese people as partners or in other words—"the locals," who are connected with Russian residents by common economic interests. Due to these facts, a unique social space with continuously intertwining manifestations of cooperation and resentment has developed along the Russian-Chinese border. Moreover, after the opening of the borders these complicated social interactions have been evolving. L. Blakher and N. Pegin have identified three stages of transformation of the relations between Russian entrepreneurs and Chinese immigrants. In the first period, which lasted until the end of the 1990s, citizens of the PRC in the Russian borderland were treated primarily as "strangers." Later, at the turn of the 20th century, some manifestations of acceptance of the immigrant population were noticeable alongside the hostility dictated by political considerations. Finally, at the third stage initiated in 2008, the Chinese presence and entrepreneurship are seen as an "economic resource" that should provide benefits to border regions rather than to Moscow.²¹ It means that the "shadow economy" has been accepted by

²¹ Л. Бляхер, Н. Пенин, *Представления населения Дальнего Востока о Китайских мигрантах (на рубеже XX-XXI вв.)*, „Диаспоры,” No. 1, 2011, pp. 162-171.

some residents of Russian borderland, especially those who find such form of transborder cooperation profitable.

Conclusions

Increasing globalization has radically changed the prospects for development of the Russian Far East. The region has now gained the opportunity to return to the strategy of involvement in international economic cooperation held in the Soviet era. The orientation of regional markets to foreign trade and attracting foreign labor force may become a solution for many socio-economic problems that have appeared as a result of the state's transformation.

The opening of Russian-Chinese border and the influx of Chinese immigrants in conditions of unfinished transition have created new challenges for the Russian Far Eastern border regions. The existing immigration policy, along with all restrictive procedures of transborder movement control regarding goods and people have contributed to the development of the informal economy. Limitation of this so-called "shadow economy" requires internal reforms in Russia, including particularly the improvement of the economic law, effective control of its implementation and enforcement, simplification of administrative procedures for business activities and establishment of transparent rules of running foreign business in the territory of the Russian Federation. Providing the basis for convenient for entrepreneurs as well as legal forms of transborder cooperation certainly will not eliminate all problems, but it may definitely contribute to the reduction of illegal and half-legal economic activity. As a result, immigrants could begin to contribute to the real and long-term development of their host regions instead of merely reaping the benefits of meeting their immediate needs.

Finally, it should also be noted that in the political and social debate on Chinese immigration to Russia, both those who suggest that it may be a source of serious threats and those who emphasize its expected positive effects are right. The main problem lies in the fact that many of those potential threats and opportunities are wrongly identified. Authors of the most alarmist views on the Chinese presence in the Russian Far East and theories of the "yellow peril" focus on the issue of demographic disparities between the neighboring regions of Russia and China. Such disparities obviously exist, but the statistical data and estimates of Russian experts undermine theories about the mass exodus of China's citizens to Russia over the past 20 years or the existence of a huge Chinese diaspora in the Russian Federation. Moreover, an analysis of immigrants' current activity of immigrants in the border regions allows to assume that they are primarily interested in making money in the host

territory rather than its colonization. Enthusiasts of intensive transborder economic cooperation while emphasizing a variety of its benefits for Russian residents relatively rarely notice that most of it, as taking place within the “shadow economy,” is in the long term detrimental both to the development of local markets and to the entire Russian economy.

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A b s t r a c t

Since the collapse of Soviet Union, local and federal authorities in Russia are facing with two interrelated problems: economic transformation in the region and involvement of Russian Far East in the integration processes in North—East Asia as an equal trade partner. Both issues are associated with dynamic economic growth in China and high transborder activity of Chinese migrants. Problems such as shuttle trade on a large scale, illegal or half-legal employment of immigrants in Russian Far East and specific structure of trade (goods and services from China in exchange for raw materials from Russia) reveal the need for new forms of regional governance in this area. On current stage of globalization the consistent and transparent development strategy of depopulated and economically weakened Russian Far East requires taking account of Chinese potential. Many inhabitants of borderland, previously indoctrinated by the Soviet authorities, still consider the Chinese as an enemies. Therefore, adaptation to the new conditions should involve legal and economic reforms on the one hand and mental changes in Russian society on the other.

Key words: Russian Far East, Chinese immigration, economic reforms, mental changes, Russian society.