

Cross-Border Trade and Economic Complexes in Primorskii Krai: A New Approach to Maximize Benefits and Minimize Social Tensions Arising from Migration

Primorye in a search of the right place

Primorskii Krai remains a territory of enormous potential, most of it unrealized. The industrial output in Primorye has slumped over the past fifteen years due to the breakdown of the economic ties of the Soviet Union. All major industries have experienced a decline in production. During the last 15 years, Primorye has become increasingly reliant upon trade with its regional partners in Northeast Asia, rather than with the rest of the Russian economy. Trade with China, Japan, and Republic of Korea is increasingly important to Primorskii Krai. Unlike in the 1990-s when much of the commerce was “shuttle trade”, since 2000 legal trade and investment is more important than illegal or quasi-legal trade.

The economy of Primorye depends to a great extent on the state of its economic sectors, the investment climate, and the successfulness of implementing investment projects. In last year Primorye got an enviable economic growth because of developing its transit advantages. However, the economic development of Primorskii Krai remains dependent on decisions made in Moscow. These decisions will have great impact on whether the region will maintain its historical role as a provider of raw materials as well for Russia as for Northeast Asia, or become a more diversified region.

The state of socio-economic development in the RFE is a subject of concern among Russian state authorities. In December 2006 President Vladimir Putin on the meeting of the Russian Federation Security Council said that the current situation in the region is “a national security threat.” Putin also spoke of “the lack of a systematic, integrated view of strategic planning in territorial development and the need to remove infrastructure restrictions on the socio-economic revival of the RFE¹.”

The China issue

In the beginning of 1990s was a short period of hope for a massive inward of Chinese investments into Primorye. A first wave of immigration came to Primorye in the early 1990s, when the local population was struggling to get hold of the most basic

necessities in this remote region. The Chinese opened giant markets in Vladivostok and Ussuriysk, where even the poorest could buy what they needed. But during the 1990s, fear of invasion gave way to an acceptance of immigration.

Russian-Chinese relations have improved over the past few years as a result of both geopolitical ambition and clear economic necessity. Russia enjoys its role of bridging East and West and benefits from the diversification of oil and gas flows eastward, giving Moscow more trump cards in the global energy game.

The outlook of federal and regional authorities concerning cooperation with China differs. In the 1990s the attitude of regional cooperation between Russia and China was diverse. Primorye had profitable business with China and did not ask federal authorities for permission. And Governor Nazdratenko used “the Chinese threat” as a motivation in his struggle for more benefits from federal government.

But during the last several years the situation was changed. The relationship on inter-regional level has been placed under severe federal control. The interests of federal authorities not always coincide with the interests of local authorities. Moreover the Russian government is increasing state control over the “commanding heights” of the national economy and the Asian model of development is becoming better and better visible in Russia. Special economic zone as one of these instruments are broadly used in China and other Asian countries. It also means that the nature of its economic development will resemble the Asian growth based on investments. To be strong and enhance its security, Russia had to re-establish the absolute primacy of politics over business.

The Chinese side has actively developed cross-border trade to meet the needs of Primorye. The Chinese firms have suggested that they be allowed to build new railroads from Northeast China to the coast and to Vladivostok. The Chinese businessmen have asked to lease and develop Zarubino port in Khasanskii rayon. The Chinese have proposed building several cross-border trade and tourist zones. However, the federal government has blocked all of these proposals.

The free trade zone experiment launched a few years ago in Nakhodka is now considered a failure. Neither the federal nor local authorities adopted the legislation necessary to make it work in practice. However, the Ministry of Economic Trade and Development remains enthusiastic. In 2005 a new Russian legislation on free economic

zones was signed by president. Minister German Gref predicted that the Far Eastern Federal district would be place as many as five free trade zones.

It is problematical to expect that free trade zones would bring significant change to the regional economy. After all, its backbone is natural resources, which are subject to taxation mechanisms that are not affected by the establishment of free trade zones. There were no free trade zones in the region yet.

Pogranichniy - Suifenhe Complex

The Russian-Chinese coordinative commission on interregional and border trade and economic cooperation was established in 1998 to promote cooperation of Siberia and the RFE and Northeast of China. China came to exercise its influence over the RFE by peaceful economic, not political means. According to Russian-Chinese intergovernmental agreement the cross-border trade and economic complexes were planed to construct in Primorye, Khabarovsk Krai and Amurskaya Oblast. In September 2003 the official delegation of Heilungtsyan province visited Primorye to encourage border trade and to begin the construction of cross-border trade and economic complex Pogranichniy-Suifenhe. The preliminary cost of the project was about \$120 million.

According to the plan PTEK would be a free trade zone, where Russians and Chinese can mingle freely without visas, make purchases at a huge department store, be treated at an "eastern medicine" clinic, produce duty-free goods in factories and stay at a five-star hotel. Governor Sergey Darkin was very actively of PTEK as chance for Primorye to overcome obstacles. Pogranichniy is the border town with the symbolic name that means "on the border." For many decades in Russia, "on the border" meant military duty, but now it means making money.

In June of 2006 the Russian part of PTEK was open. In August of 2006 the Chinese part near Suifenhe was open. Forum on trade-economic cooperation of border territories of Russia and China was held in a new business center. Shimao Corporation spent about 1 billion yuan to construct hotel and shopping mall and infrastructure. Corporation is planning to invest about 10 billion yuan in near future to create "the north Shenzhen"².

The main problem for PTEK is a need of special legislation to visit and to work on the territory for Russian and Chinese citizen. Vladimir Stegnyy, representative of "Primorye" company, supposed that the special status will be issued in 2007 as a part of

agreement of Russian and Chinese foreign ministries³. He also said that the Chinese colleagues support proposal of Primorskiy Krai administration to issue a special status to PTEK. Establishing a stable and friendly relationship with China would benefit Russia and Primorye. However, the policy of the federal government is combination of tightening and flailing carries risks. Primorye needs a new regional development policy, based on infrastructure development, as well as scientific and technological advancement and PTEK would be a positive movement to the bright future.

Neither regulations nor plans are permanent.

To understand the current state of development, one must understand the relations between the regional and central authorities.

In December 2006 on Security Council meeting Vladimir Putin said that the RFE has proved a problem area in the government's development efforts. Putin put the critical situation in the region down to the lack of a comprehensive approach to strategic development in the Far East, and called for a socioeconomic commission to be set up in the region and devise a development strategy. "It is crucial to improve coordination between all levels of power for the sake of successful development of the Far East," Putin said.

The president also called for developing the infrastructure including development of the energy sector, communal and border infrastructure, the transportation network, modern logistics and telecommunications hubs. "Such ambitious and costly projects require the use of budget funds, partnership between the government and the private sector, concessions, and special economic zones", Putin said.

However, no extraordinary measures are required to keep Primorye in Russia. There is a need to "remove infrastructure restrictions," or "take an integrated view of planning in territorial development". There is no need to set up a special RFE commission. All we need to do is ensure that a state actually has plan to power over those territories and to set a state with the rule of law, an open economy, and an open society. Only precise coordination between different ministries and departments, between the center and the regions, between the state and business is an essential condition for Primorye unbeaten development.

¹ Zolotoy Rog. 26.12.2006. P. 11.

² Dalnevostochnii capital. September. 2006. P. 9.

³ The author interview with Vladimir Stegnyy in January 15, 2007.