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Trans-Baikal's Economic Ties with the Countries of Northeast Asia

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The reality of the present day links the problems of Russia's integration into the world economy with the questions of joining in the economic relations of its federal constituencies. This is no accident. Originally, the country's involvement in world economic relations was done through the foreign economic activity of the individual regions. Russia's regions, finding themselves without Moscow's help during the difficult period of reform, under the conditions of collapsing interregional ties and being denied state orders for the military-industrial complex, independently sought ways of emerging from the economic crisis. The transition then under way to a market economy did not foresee independent regional projects, and, in the words of A. Livshits, the head of an RF presidential group of experts in 1992-1993, "The worsening of the regions' problems took us all by surprise – academics, politicians, and the public as a whole."¹ The regional policy of the Soviet period was built upon an administrative-command system and oriented not toward using the advantages of the regions' great variety, but toward subordinating the fate of the regions to the tasks of a totalitarian state. The regional authorities, on the basis of the proclaimed liberalization of foreign trade, actively entered into international economic ties, replacing their disrupted domestic economic relations with external, international ones. For the border regions, foreign economic activity is becoming one of the mainstays of their economies, evoking hopes of developing foreign trade and attracting foreign capital, technologies, and equipment. One of the Russian Federation's border constituencies is Chita Region.

The region's geographical situation favors the establishment of international economic relations. This is associated first and foremost with its being located in the heart of Eurasia, on the transcontinental route linking the countries of the European Union with those of Northeast Asia. With regard to the Russian Federation's system of regions, Chita Region occupies the southeastern corner of Eastern Siberia, most often referred to as Trans-Baikal.

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Trans-Baikal's position on the edge of the Federation all but ensures its collaboration with the economic regions of the neighboring states. Thus, tariffs inside the country are now 22,000 times higher than at the start of *perestroika*. If the cost of transporting one tonne of freight one kilometer was 0.003 rubles in the pre-*perestroika* era, it was almost 66 rubles in 1997. The rate by which transportation tariffs rose therefore surpassed that by which prices for industrial goods grew, by a factor of more than 8. For example, the transportation was 3.3 times less expensive in case of exporting Far Eastern and Trans-Baikal goods than sending them to Russia's central regions.²

The above has led to Chita Region's economic collaboration with the countries of Northeast Asia.³ Let us examine Trans-Baikal's economic ties with the nations of this region:

Table 1

Share of Chita Region's trade with the countries of Northeast Asia (%)

	1995	1996	1997	1998	1999	2000	2002	2003
Trade turnover	37.7	39.1	38.1	49.0	62.0	64.2	88.1	90.7
Exports	34.5	41.4	37.4	40.1	71.3	62.9	84.4	87.2
Imports	45.4	33.3	39.8	69.9	36.2	52.7	95.2	94.6

Customs statistics testify to a continual and substantial rise in trade with the nations of Northeast Asia. In the eight years from 1995 through 2003, their share of trade rose from 37.7% to 90.7%, i.e., it more than doubled. The total value of trade was \$153 million in 2003 (\$78 million in exports and \$75 million in imports), and had also doubled in the same eight-year period. In essence, all of Chita Region's foreign trade can be reduced to export and import operations with the Northeast Asia region. Imports from Northeast Asia do not merely predominate, they are the only ones of significance (94.5% of all imports).

It is interesting to see with which countries in this group the region has its closest economic ties:

An analysis of Table 2 shows that Trans-Baikal's main trading partner is China: it dominates in volume of trade turnover (97%-99%). Its other notable partner is Mongolia (1%-3.0%).

This is no accident, as the southern part of the region borders with both China and Mongolia. The length of the national border with Mongolia is 800 kilometers; that of the border with China, 850 kilometers.⁴

Trans-Baikal's economic collaboration with China. The level of contacts between the border regions is determined by their economic development. It is interesting in this context to examine the PRC Autonomous Region of Inner Mongolia. In terms of area, the Inner Mongolia Autonomous Region is 2.7 times⁵

Table 2

Chita Region's trade ties with the countries of Northeast Asia (%)

	1995	1996	1997	1998	1999	2000	2002	2003
Total trade turnover	100	100	100	100	100	100	100	100
China	94.5	96.0	96.1	76.0	98.2	98.8	96.0	97.9
DPRK	1.6	0.1	–	–	–	–	–	–
Mongolia	1.9	2.9	2.2	1.2	1.1	0.8	3.5	2.1
ROK	1.4	0.3	1.6	0.5	0.1	–	–	–
Japan	0.6	0.7	0.1	22.3	0.7	0.4	0.5	–

larger than Chita Region, and its population is almost 19 times larger. The territory of Inner Mongolia Autonomous Region is comparable in size to that of Russia's Siberian (Far Eastern) Federal District, while its population is three times greater than that of the Far East and Trans-Baikal. It is therefore appropriate to compare the level of economic development of Russia's Trans-Baikal with that of the Inner Mongolia Autonomous Region on the basis of per capita indicators.

As is seen from Table 3, the Inner Mongolia Autonomous Region lags behind Trans-Baikal in the production of coal, electrical energy, timber, and the per capita volume of exports. It overtakes it substantially in the production of agricultural products (harvested grains, and head of cattle). If the Inner Mongolia Autonomous Region is almost 19 times larger than Trans-Baikal in terms of population, it surpasses the Russian region by only 2-3.5 times in agricultural production. This is proof of agriculture being the people's primary occupation, and of the labor intensiveness in this sector of the economy. It is curious that, as late as 1990, the Inner Mongolia Autonomous Region lagged behind Trans-Baikal in the production of steel. It overtook the Russian region in this indicator by 1995, and surpassed it to become 11 times greater by 2000.

By comparing the rates of growth in agricultural production and the production of steel inside the autonomous region, one can ascertain the processes of industrialization in this border region of China. Also of interest is the relationship between the export-import figures. Chita Region lags behind in exports, but surpasses Inner Mongolia in its *per capita* volume of exports.

Chita Region's foreign trade ties with China are maintained through Chinese border companies located in the Inner Mongolia Autonomous Region. Despite the professed openness of trade, Russian firms find it difficult to get their products through to the Chinese consumer on the basis of direct ties. The border trading and economic companies act as middlemen in shipping Russian goods to the markets in China's central and southern regions.

Export shipments to China are growing with every year (Table 4). The only

Table 3

**Comparative indicators of economic development
for Trans-Baikal and the Inner Mongolia Autonomous Region
(per capita, with the Trans-Baikal levels taken as the basic units)**

Indicator	1990	1995	2000
Population	16.35	17.58	18.87
Harvested grains	0.6	1.54	3.35
Head of cattle	0.47	0.79	1.85
Production of coal	0.27	0.33	0.29
Production of electrical energy	0.19	0.35	0.39
Production of steel	0.3	1.1	11.12
Production of timber	0.08	0.31	0.37
Foreign trade turnover	0.42	0.34	1.07
Exports	0.52	0.26	0.68
Imports	0.29	0.53	2.58

Source: *Chita Region in Figures: Statistical Yearbook for 2002 and 2001*. Chita, 2001. The Inner Mongolia statistics for 1990 and 1995 are taken from *Nemengwu banshi zhinan* (Inner Mongolia Business Compass). Beijing, 1997. The figures for 2000 are taken from *Hulunbeirmeng yaolan 2001* (Basic Figures for Hulunbuyir Aimak). Hailar, 2001. Quoted from A. Tarasov, *Trans-Baikal and China: Results from Analyzing International Ties*. Chita. Trans-Baikal State University Publishers, 2003, p. 130.

exception to this was 1998, while in the period 1995 through 2003, the volume of exports grew from \$43.9 million to \$77.7 million. Different goods vied for first place in the exports of this period. At the beginning of the 1990s, these were mineral fertilizers. Annual exports grew by more than 46,000 tonnes, worth a

Table 4

**Ratio of processed and unprocessed forest materials
in Chita Region's exports of wood products for the period 1995-2002**

	1995	1996	1997	1998	1999	2000	2001	2002
Raw timber, wood products	100	100	100	100	100	100	100	100
Unprocessed forest materials	71.5	97.6	99.0	96.5	93.0	93.0	89.6	87.8
Processed forest materials	24.9	2.4	1.0	3.5	3.0	7.0	10.4	12.2

total of \$7 million. In the mid 1990s, ferrous and nonferrous metals began to dominate. Thus in 1997, 173,000 tonnes of ferrous metals worth more than \$12 million, along with 24,000 tonnes of nonferrous metals worth \$19 million, were shipped to China. Between 2000 and 2003, raw timber and wood products began to dominate exports to China. In 2003, forest products worth \$63.5 million were exported to China. A trend toward an increased share of products that have undergone initial processing can be seen in the ratio between processed and unprocessed forest materials. Thus, in 1996, this ratio was 97.6% to 2.4%, in favor of unprocessed timber. In 2002, it was 87.8% to 12.2%.

An increase in the degree of processing requires additional expenditures and the amalgamation of the timber market agents capable of effectively investing capital. There are now no fully-operating specialized companies. Until the 1990s, there was the *Chitales* combine, which had 16 large timber processing plants.

A small amount (up to 1%) of the region's overall volume of exports is included in the trade category Foodstuffs and the Raw Products for their Manufacture. These are basically rapeseed and oats. The proportion of machine-building products exported is steadily declining.

Table 5

Exports, millions of dollars	1995	1996	1997	1998	1999	2000	2001	2002	2003
In % of the previous year's earnings	43.9	41.81	45.9	36.7	57.9	59.2	62.2	72.8	77.4
Share of the region's overall volume of exports, %	100.0	95.2	110.0	79.9	158.0	102.2	105.0	117.1	106.3
	33.4	40.0	37.1	39.6	70.5	74.0	73.7	83.2	86.7

Chita Region's Exports to China in the Period 1995-2003

The narrowing of the categories of exports to China is cause for great concern. They have essentially been reduced to deliveries of forest products (82% of all the region's exports in 2003). China is poor in forest resources; for each Chinese citizen, there is an average of 0.11 hectares of forest, or 13% of the world figure. In 1998, the Chinese government began implementing a program for the preservation of natural forests. At the same time, however, the demand for forest materials is continually growing, leading to an increase in imports of them.

At present, the ways in which wood products are procured are less than optimal, just as the situation in the crossborder wood products market, in which the prices are set by the buyer, is far from satisfactory. There is a clear export trend toward reducing the number of countries with which the region deals. If there were in 1995 more than 20 countries to which Trans-Baikal delivered its prod-

ucts, there were only 5 such countries in 2003 (Table 6). Its main trading partner here was China. Let us compare this situation with that in the border region of the Inner Mongolia Autonomous Region:

Table 6

**Structure of the export ties of the Inner Mongolia Autonomous Region
and Chita Region with its trading partners in 2003**

Nation trading with Inner Mongolia AR	Share of volume of exports* (%)	Nation trading with Chita Region	Share of volume of exports (%)
Russia		China	
Japan	27.41	France	86.7
Hong Kong	15.62	Uzbekistan	11.4
ROK	12.05	Mongolia	0.8
Mongolia	8.22	Kazakhstan	0.6
United States	4.48	Great Britain	0.2
Taiwan	4.32		0.2
Italy	4.10		
Great Britain	3.40		
France	3.0		
Others	1.63	Others	
Note: Data for the year 1997.	15.75		0.1

* According to data from the Siberian Customs Bureau. *Statistical Report for Chita Region, 2003.*

We see here more than ten trading partners, and not one country draws more than a third of the Chinese market. One may therefore speak of the competitiveness of the Chinese market for export goods. Here, despite Russia's priority (27.4%), there is no overwhelming consumer influence, and the choice remains with the supplier.

The chronology of Trans-Baikal's imports from China shows the stability of the share of imported goods up to the year 2000 (30%-35%) and its sharp growth in the subsequent period (65%-90% from 2000 to 2003). The reason for the sharp increase lies not in the increased volume of deliveries, but in the reduction of the overall increase of imports to Trans-Baikal and the drop in the number of foreign suppliers. The relatively stable imports from 1996 through 2001 (\$13-\$16 million) testify to the stability of the economic niche the country occupies in the consumer demand of Chita Region. A threefold increase in Chinese imports is

seen in 2003, with the other countries being crowded out of the region's market. China's share in the overall volume of the region's imports was 91.1%, i.e. \$72.2 million. This clear rise in the dependence on imports from one country also indicates a loss of maneuverability on the Trans-Baikal market, accompanied by price pressure. Not too long ago (two or three years in the past), the market for fruit and vegetables was represented by products from the republics of Central Asia. Today, Chinese goods are in this market displacing producers from the nations of the CIS.

Table 7

Chita Region's imports from China in the period 1995-2003

Imports, millions of dollars	1995	1996	1997	1998	1999	2000	2001	2002	2003
In % of previous year's imports	22.9	13.5	16.5	11.6	11.2	13.8	16.8	40.8	72.2
Share of the overall volume of the region's imports, %	100	58.8	122.6	70.2	96.9	122.6	121.7	243.5	176.9
	42.0	28.7	36.2	31.3	35.7	65.8	73.7	88.5	91.1

It should be noted that the Chinese were once perpetually plagued by a negative balance of trade with Russia and its regions, particularly Trans-Baikal. In 1995, the difference between exports and imports was \$21 million, i.e., Trans-Baikal's exports to China exceeded Chinese imports by virtually two to one. The situation is different today: in 2003, the balance of trade favored Trans-Baikal exports by only \$5 million (or just 7% of China's imports).

Throughout this period (1995-2003), the bulk of China's exports were foodstuffs and raw materials for their production; these accounted for 50%-65% of all Chinese exports and brought in \$7-11 million annually. They consisted of meat products, potatoes, fresh tomatoes, onions, garlic, cabbage, carrots, fruits, nuts, popcorn, citrus fruits, flour and grain products, cooking oils and fats, juices, sauces, seasonings, etc. A permanent and unvarying component of imports from China are fruits and vegetables (Table 8). They complement beautifully Trans-Baikal's consumer market and its hard-to-substitute-for Russian goods, in terms of both delivery time and cost. Traditional Chinese goods are tea and spices.

Another invariable component is imports of "Products of the Technical and Economic Complex" (0.5%-3.0% of Chinese imports). According to the commodities nomenclature of the foreign trade, these include the delivery of cement. Most often, the cement is used in construction projects in nearby border areas. Approximately the same volume of "Products of the Petrochemical Complex" are also imported. These are mainly plastics and dyes. Around \$200,000-\$300,000 worth are imported annually. The textile, clothing, and shoe categories

Table 8

Structure of Chita Region's Foodstuff Imports from China (in %)

	1995	1996	1997	1998	1999	2000	2001	2002
Meat	12.9	1.99	11.17	9.92	3.0	–	7.2	9.3
Vegetables	3.63	1.61	10.09	15.84	15.08	8.99	15.7	20.4
Fruits	19.42	11.72	30.58	31.71	24.98	26.18	29.7	28.5
Tea	1.45	0.12	0.06	0.12	0.19	–	1.45	1.6
Peanuts	–	–	0.17	0.63	15.6	15.9	25.3	8.9

of goods are growing in terms of both share and value. In 2003, they accounted for 12.8% (\$9 million worth) of Chinese imports. This was due partially to the legalization of imports while clamping down on the “shuttle” channels of trade from China. It was also associated in part with a reduction in the number of barter deals, due to the increased strength of the ruble and the greater attractiveness of ruble accounts, and as a result of deliveries of better quality (and, hence, more expensive) products on the Russian market in Chita Region.

Interest is undoubtedly being generated by the increasing deliveries of construction materials, machine-building tools, and metal wares. These imports testify to the growing liveliness of the region's economic life and reflect the implementation of joint Russian-Chinese investment projects to create, in particular, infrastructure in the border regions. The construction of residential and public buildings is now visible across the region. The construction materials for these buildings are largely being delivered from China.

The comparative diversification (in terms of country of origin) of the imports of Chita Region and the Autonomous Region of Inner Mongolia (Table 9) can be interpreted as meaning that, as distinct from Inner Mongolia, Trans-Baikal is basically dependent on Chinese imports. Thus, Inner Mongolia's economy is less dependent on the demand in Chita Region than Trans-Baikal's economy is on its Chinese trading partners.

A comparison of Chinese exports and imports over the last ten years allows one to draw several conclusions. First, the share of Chinese imports that relates to deliveries of the consumer market's foodstuffs sector is seen to be stable. It will almost certainly remain a complementary rather than a substitutional element of Trans-Baikal's consumer market. Second, China is moving away from being a supplier of consumer goods to becoming a supplier of investments for Chita Region; hence the growing importance of trade and economic ties with its Chinese neighbor. Third, it can be viewed as negative that trade and economic ties with other countries are being lost and largely replaced by collaboration with the People's Republic of China (91.1% of the region's foreign trade turnover in

Table 9

**Structure of the Import Relations of the Inner Mongolia Autonomous Region
and Chita Region with Their Partner Nations in 2003**

Nations trading with the IMAR	Share of volume of imports* (%)	Nations trading with Chita Region	Share of volume of imports (%)
Russia	39.7	China	91.1
Mongolia	8.9	Mongolia	3.5
Australia	7.0	Germany	1.4
Japan	6.0	Great Britain	1.1
Italy	3.9	France	0.4
Great Britain	3.8	Sweden	0.5
Sweden	3.1	Poland	0.5
United States	2.8	Italy	0.4
ROK	2.8	Australia	0.3
Germany	2.5	Ukraine	0.2
Others	19.4	Others	0.6
<i>Data for the year 1997.</i>			
<i>* According to data from the Siberian Customs Bureau. Statistical Report for Chita Region, 2003.</i>			

2003). Fourth, the scope of Trans-Baikal's exports is shrinking. It is essentially being reduced to deliveries of timber (82% of all the region's exports in 2003), the main buyer of which is China. In this market, China is in fact a monopoly buyer, dictating the price of the commodity.

It follows from the above that economic action must be taken to relieve this unfavorable situation. It would be impossible to eliminate the single orientation of Trans-Baikal's exports all at once. What is needed is an energetic program to restore the health of Trans-Baikal's economy as a whole. Obviously, this must be done first of all in its traditional sectors, among which are agriculture (the cultivation of grains in the southern part of the region) and sheep farming. This line of development is now gathering momentum in the region's economy. Also traditional for the region is the mining industry. Signs of revival are being seen here as well. In the future, these will undoubtedly strengthen the region's export potential and expand its categories of exports. This will, however, be a prolonged and capital-intensive process.

In the near term, exports can be improved by more rational and efficient deliveries of timber and timber products and expanding the degree to which they are processed. To accomplish this, new production capacity and equipment capa-

ble of manufacturing wood products to world standards are needed. The production capacity of the prereform period has been lost: part of it has become worn out and obsolete, part of it has simply been carted off by persons unknown. Hopes for Chinese investment in the wood processing industry proved to be unfounded as China set up processing plants, operating on the base of Russian timber, in its border regions. Chinese businessmen were prepared to invest only in the procurement of timber and the purchase of logging equipment, sawmills, etc. One can therefore consider a success the investment agreement on the construction, in the village of Armazar (Mogochinsk area), of a cellulose combine for the production of bleached wood products, with 100% of the finished goods being shipped to China. The facility's production capacity is 400,000 tonnes per year.

One other thing is obvious, however: these steps are not enough. At present, the market is represented by dozens of small firms (with ten or fewer employees) specializing in the procurement of timber. Under such conditions, it is difficult to determine which firms will be in operation for more than a year, or those whose methods of procuring timber are not of a predatory or criminal nature: cut it down and sell it fast, then shut down the company and re-register it later under a different name. There must therefore be institutionalization of the market in order to optimize the timber trade with China: large-scale partnerships must be created, either in the form of single companies with a network of self-financing branch units (a variation of the Chinese organizational style) or via the creation by the regional authority (i.e., associations of entrepreneurs) of conglomerates to help unite the efforts of suppliers and shape a coordinated pricing policy (a kind of cartel agreement). There is yet another version of market organization: that of creating a commodities exchange for the sale of timber. This third version is now being practiced in Khabarovsk Territory; in our view, it is capable of functioning throughout the borderlands of Russia's Far East.

The channel for collaboration between Chita Region and China has long been *international shipments of freight and passengers*. The Trans-Baikal Railroad, one of the first in the region, has begun to take advantage of the opportunities provided by the liberalization of economic relations. This relates not only to the supplying of goods, but to the wide-scale recruitment of Chinese workers for the construction of public works, railroad repair, and the loading and unloading of railroad cargoes. International freight shipments ensure trade and economic ties and reflect their dynamics. An increase is being seen in the receipt and shipping of foreign trade cargoes at the main Zabaikalsk–Manchuria railroad crossing. Not counting transit cargoes, up to 75% of all shipments from China and 50% of those bound for there are concentrated at this crossing. According to data from reports by the Trans-Baikal Railroad Authority, export cargoes in 1999 totaled 3.9 million tonnes; in 2003, the figure was 9.2 million tonnes. Shipments of transit cargoes are also growing. At present, the construction of an Eastern Siberia–Northeast Asia oil pipeline is still only in the planning stage. A two-year contract for the delivery of 6.5 million tonnes of oil in 2004 and 9 million tonnes in 2005 has

therefore been signed between Russian Railways and Yukos on the one hand, and the Chinese companies CNCP and Sinopec on the other.⁶ This contract increased the volume of cargoes from Russia to China in 2004 by almost 35%.

Automotive transport is now a noteworthy competitor for passenger cargoes. Regular international coach traffic has since December 1, 2003, been open along the Zabaikalsk–Manchuria, Borzya–Manchuria, and Chita–Manchuria routes. The overall number of automotive transports crossing the border increased by 30% in the five years from 1998 to 2003, while that of buses grew by 20%.

Chinese efforts to secure leading positions in the area of automotive transport have increased markedly in recent years. Russian transport companies operating under an agreement signed by Russia and China in 1992 have already been affected by these. However, following China's admission to the World Trade Organization and Beijing's ratification of the Convention on Road Traffic, the Chinese government can, at any moment it sees fit, bar the entry of Russian vehicles that do not have international mechanical inspection certificates onto PRC territory. They can thereby eliminate Russian companies from this competitive market entirely. Of all the buses crossing the Russian-Chinese border in the Chita sector (62,438 in 2002), 67% (42,323) are now already Chinese.

Investment collaboration is a new, rapidly developing form of borderland economic ties between the region and China's northeastern provinces. The construction of infrastructure facilities along the border marked the start of this valuable cooperation. In its first stage, Russia and China were equal partners in constructing and opening a bridge across the Argun River in Russia's Olochi district, connecting it with Shiwei in China. A bridge of similar design across the Amur River in Prokrovka area, leading to Laguhe and financed equally by both sides as well, is now being planned; it will allow an increase in the border crossing capacity for the region's eastern districts and neighboring Amur Region. It will also make possible a significant reduction in the cost of communications between Chita Region's contiguous administrative districts (Mogochinsk, Kalarsk, and Tungiro-Olekminsk) and China's northern provinces. The bridge's primary function is to eliminate unreliable and costly ferry crossings, and to ensure year-round links between the two neighboring countries. In the long run, the bridge over the Amur will function not only as an automotive crossing but as a rail crossing too. This will provide new access to the forests of Trans-Baikal.

Yet another part of the borderlands' infrastructure will be completed in the near future: the Trans-Baikal Border Trade Complex. On the Russian side, the center of the complex will be the village of Zabaikalsk; on the Chinese side, the city of Manzhuriya. It is proposed that a crossing point, complete with passport, customs, and sanitary control, be built on the territory of the complex. Proposed too is the construction of a business center that incorporates the following: exhibition halls for displaying samples of international goods; hotels; customs warehouses; small retail stores; and parking lots. The construction of an office building to house the complex's administration is also planned. In the long run, the

creation is planned of a manufacturing zone within the confines of the complex. Other facilities, financed by purely Chinese capital, are also springing up in the region. At the start of 2004, the *Xiyang* trade complex opened in downtown Chita. It was a unique pilot project for Chinese investors; on the strength of this collaboration, the Chinese have since proposed the construction of a trade complex for building materials and the erection of a hotel.

As of January 1, 2003, the overall volume of foreign investment in Chita Region was \$7.177 million and 6.579 million rub.⁷ The bulk of the aggregate ruble investments for 2002-2003 came from China (85%, or 5.592 million rub.). Foreign investment was made primarily through joint enterprises, with investors from 13 countries around the world taking part in their creation. Most of these joint enterprises (70.8% in 2003) were set up with partners from the People's Republic of China. The enterprises specialized in trading, construction, the acquisition and processing of timber, and the production and processing of foodstuffs.

China is experiencing a serious shortage of arable land and fresh water; this is holding back the development of its agriculture. The desert zone continues to expand across Chinese territory at an average rate of 10,400 square meters annually. China now has 2.67 million square kilometers (27.9% of the country's territory) of desert. In the Inner Mongolia Autonomous Region, it is being planned to limit agricultural activity to 2 million hectares per year, and to exclude completely 66,700 hectares of land from the production of fodder.

At the same time, Trans-Baikal contains abandoned, unused lands. It is possible that rentals in Trans-Baikal of plots of land by Chinese agricultural companies will increase in the future. In the 1990s, Chinese organizations negotiated for the rental of tracts in Chita Region's borderland Priargun area, where the conditions for grain cultivation are good.⁸

One promising area of collaboration in the region is *tourism*. Thanks to visits by Russians on shopping tours, the people of China's border regions are prospering. The town of Manchuria was hardly known for its beauty. From a town with unprepossessing single-storey buildings, unpaved streets, and one mode of transport-rickshaws-it has, however, been transformed into a modern Chinese city with a developed network of restaurants, cafes, hotels, and department stores, along with multi-storey apartment buildings and broad avenues. The data in Table 10 testifies to the substantial rise in the number of tourists. A drop was seen in 2002, but not because there were fewer people crossing the border; it was the stated purpose of their visits that had changed. The number of visits declared to be "business" and "private" grew. "Shopping" tourism, as such, began to disappear: the economic conditions had changed. Tourism for rest and recreation started to become more important.

It must unfortunately be admitted that Russia's infrastructure base was unprepared for such a transition. There is in the region an acute need to create a modern system of hotels and to expand everyday services and the entertainment industry. It should be noted that both Chinese and Russian investors are now

Table 10

**Number of Russian and Chinese Citizens Crossing
the Chita Border for the Stated Purpose of Tourism**

	1998	1999	2000	2001	2002
Number of individuals	187,110	235,693	319,319	224,638	113,864
Growth in the number of tourists, %	100.0	125.9	170.6	120.0	60.8

responding to this demand for investment.

Collaboration between Chita Region and Mongolia. Chita Region is bordered by sparsely populated areas of Mongolia: the Hengti, Eastern, and Selenging aimaks. The quantity of livestock per capita in each aimak exceeds considerably the analogous figure for Trans-Baikal (Table 11). They are agricultural regions, and their economic orientation is, incidentally, basically the same as that of Mongolia as a whole. Agriculture forms the base of the country's economy and accounts for 40% of Mongolia's GDP. Priority is given to raising livestock, which provides a major part of all agricultural production. The raising of livestock is considered the most important branch of Mongolia's economy, and it is more profitable than simple farming. In addition to satisfying domestic demand, livestock products are exported; they are, in fact, Mongolia's main export. The number of livestock in 1998 reached the record figure of 32.9 million. There are today an estimated 30 million head of livestock. In the opinion of Mongolian experts, the rational use of pasturelands will allow the number of livestock to be increased to 60 million.

Nomadic herding continues to dominate within the country, despite the

Table 11

**Economic Characteristics of Chita Region and
the Bordering Regions of Mongolia in 2001**

	Territory (square m.)	Population (individuals)	Population density (people per square m.)	Head of livestock (per capita)	Area of pas- turelands (per capita)
Chita Region*	431,500	1,227,000	2.8	0.72	0.28
Hengti aimak	80,300	72,600	0.9	15.8	1.26
Eastern aimak	123,500	84,581	0.7	7.0	*
Selenging aimak	41,100	106,287	2.58	4.8	2.86

* For the year 2002. Chita Region in Figures: A Statistical Annual; Chita Statistical Handbook. Region Committee for Statistics. 2003, pp. 5, 219, 216.

worldwide trend in recent decades of moving away from grazing to intensive industrial methods of feeding livestock. This is associated with the rural population's traditional way of life, maintained to this day; the continuing presence of sufficient pasturelands; and certain economic factors: relatively low material and financial outlays for the production of an ecologically pure final product.

Mongolian livestock raising has considerable potential and is capable not only of providing food security for the country but meeting its export needs as well. In this context, its unfolding trade and economic relations with other countries acquires special importance. The question has arisen today of restoring the traditional trading partner relations between Mongolia and Russia. According to data from Mongolia's National Bureau of Statistics, the country's overall foreign trade turnover in 2001 was \$940 million; of this, exports accounted for \$385.2 million, while imports totaled \$534.8 million. Mongolia's main trading partners were the People's Republic of China (40% of trade turnover), Russia (22.3%), the United States (10%), Japan (8%), and South Korea (5%). Mongolian-Chinese trade has developed especially fast in recent years; it thus totaled \$380 million in 2001. The growth of these relations occurred as a result of Mongolia reorienting its exports to meet the needs of its southern neighbor. At present, Chinese business is breaking into virtually all spheres of the Mongolian economy. The Chinese government is doing everything it can to support its entrepreneurs.

Russia is also interested in opening up its economic relations with Mongolia. Until 1992, the Mongolian economy was in fact oriented almost entirely towards dealing with the Soviet Union, and the volumes of bilateral trade reached \$1.2 billion per year. In the 1970s, under a program of the Council for Mutual Economic Assistance (COMECON), the following were built: the Choibalsan Thermal Power Station, a rug factory, a primary processing plant for wool, a dairy plant, a factory for producing mixed fodder, and other enterprises. The Soviet Union provided Mongolia with technical and economic assistance during the Virgin Lands program in 1959, and in the development of farming as an independent branch of Mongolia's national economy. Russian President Vladimir Putin's official visit to Mongolia of November 13-14, 2000, was dedicated to restoring bilateral economic relations.

Chita Region's traditional trade and economic relations with Mongolia have been revived against this general backdrop of friendly relations. In 2003, foreign trade turnover more than doubled compared to the 1995 figure, totaling \$3.25 million. Exports for 2002, though failing to reach the 1995 level of 94%, totaled \$1.012 million; they then dropped sharply to \$492,000 in 2003 (Table 12). As the region supplies Mongolia with grain and grain products, the dramatic decline can be attributed to the 2003 drought in Trans-Baikal. Imports from Mongolia were nine times those of the 1995 level, totaling nearly \$2.759 million. These were represented mainly by quality shipments of inexpensive Mongolian meat. Due to Mongolia's proximity and the consequently low transportation costs, exports of

Table 12

Dynamic of Chita Region's Trade with Mongolia, 1995-2003 (%)

Category	1995	1996	1997	1998	1999	2000	2001	2002	2003
Overall trade turnover	100	120.6	104.8	77.5	54.1	38.2	24.8	295.8	235.7
Exports	100	98.7	39.2	84.2	71.3	11.9	20.8	94.1	45.7
Imports	100	194.4	352.6	32.1	27.5	131.8	39.2	10 times	9 times

this product are in high demand in Chita Region.

In examining the relation between exports and imports over these nine years (1995-2003), one notes the predominance of exports. Exceptions are 1997, 2000, and 2002. In these years, more than 70% of the overall trade turnover was due to the imports. In 1997, the region's main imports were items of heavy machinery: electrical equipment, tractors, ferries, buses, trucks, and specialized motor vehicles. In 2002-2003, they were deliveries of meat.

The structure of Chita Region's exports to Mongolia is characterized by an imbalance in deliveries of different types of trading goods. Shipments of foodstuffs, petrochemical products, heavy machinery, and metals and metalwares can be considered permanent components of the export structure. Mongolian imports can be reduced to supplies of meat. Under the conditions of economic revival, this is exceptionally pertinent. A large number of Trans-Baikal meatpacking plants, built in close proximity to the Mongolian border, were oriented toward supplies of raw meat from Mongolia. They include such major enterprises as the meatpacking combines in Borzya, Nerchinsk, and Chita. The reform years disrupted their earlier economic ties. Restoring their volumes of production demanded the renewal of their raw material bases. Across the border, the Mongolians were also interested in reviving the partnership. Their nearest meatpacking plant was in the city of Choibalsan. Starting in July of every year, livestock from the border *somons* would be driven to Choibalsan, a distance of around 400 kilometers, to be slaughtered. The option of driving Mongolian livestock from the country's borderlands into Russian territory is now seen to be more profitable. The immediate prospects for collaboration with the Mongolians are likely to be oriented in this direction.

In summing up this analysis of Trans-Baikal's foreign trade ties with the countries of Northeast Asia, one can state the following:

- The border regions' hopes for the liberalization of foreign trade as a means of expanding trade across the board, aiding the diversification of the local economy, and attracting investment from South Korea and Japan have proven to be unfounded. Foreign trade initially supported the region's economy, but it has not become a factor of sustained economic

growth.

- The liberalization of foreign trade does not in and of itself guarantee economic success. Also needed is a clear and distinct foreign trade policy, both at the level of the Russian Federation itself and that of its regional divisions. We are speaking here primarily of a consolidation of efforts and the selective protection of regional markets across the spectrum of trade goods, but with consideration given to Russia's regional diversity. In world practice and in Russia, there are well-developed mechanisms for managing the organization of trading activity. One of these is of coming up with dedicated programs. One such program for the eastern regions is the Federal Program for Economic and Social Development of the Far East and Trans-Baikal, which has been extended to 2010. The task now is to make it an effective governmental tool.

NOTES:

1. Livshits, A.Ya., Novikov, A.V., Smirnyagin, L.V. "Russia's Regional Strategy." *The Regions: Economics, Politics, Sociology*. 1994, p. 28.
 2. Ishaev, V.I. "International Economic Collaboration: The Regional Aspect." Vladivostok. Dal'nauka, 1999, pp. 68-69.
 3. Northeast Asia encompasses North Korea, South Korea, China, Mongolia, the Russian Far East, and eastern Siberia.
 4. *An Encyclopedia of Trans-Baikal: Chita Region*. R.F. Geniatulin, Editor-in-Chief. Vol. 1, *General Description*. Novosibirsk, Nauka, 2000, p. 14.
 5. The area of the Inner Mongolia Autonomous Region measures 1.183 million square kilometers.
 6. *Biznes-Ritm* (Business Rhythm), August 6, 2004 (27), p. 3.
 7. *Chita Region's International Collaboration and Foreign Trade Ties in 2002*. Chita. Chita Region Administration, Office of ICFTT, 2003, p. 12, Updated for 2003, pp. 13-14.
 8. Tarasov, A. "Trans-Baikal and China: Experience from Analyzing International Ties." Chita, Regional Information Service, Trans-Baikal Border Administration, 2003, p. 115.
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