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Russian border regions in the economic corridor of China-Mongolia-Russia

Abstract: The object of the paper are the border regions of Siberia as a part of the planned China-Mongolia-Russia economic corridor in China's foreign policy initiative "One Belt One Road". The aim of the study is to reveal the nature of the interaction of these regions with the outside world to determine the ways of their development within a common economic space of the corridor. The study is based on the analysis of foreign investment flows to the border regions using macro- and microeconomic methods. The volume foreign capital goes mainly to mining, while other industries are dominated by small enterprises formed by foreign citizens, not corporations. In these areas, intermediary business prevails, which does not require increased human capital. China is gradually replacing other counter-partners in the use of natural resources, including mineral and forest ones. The problems of development of the border regions in common economic space of the corridor due to similar resource specialisation and weak development of the embedded economy have been identified. With the development of transit infrastructure, it is necessary to develop local industries integrated into large projects and capable of using this infrastructure to expand sales markets.

Keywords: border regions; cross-border relations; economic corridor China-Mongolia-Russia; foreign enterprises; geostrategic territories; integration

Received: 20 December 2020

Accepted: 19 April 2021

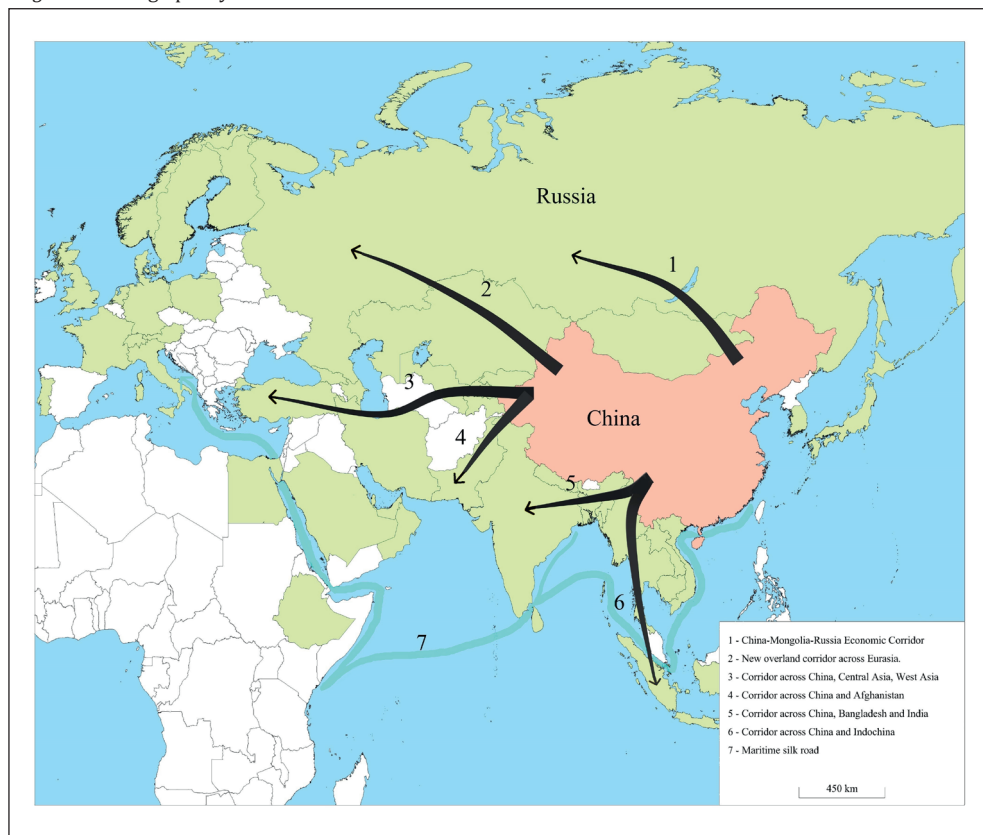
Suggested citation:

Sysoeva, N., Rudneva, V. (2021). Russian border regions in the economic corridor of China-Mongolia-Russia. *Prace Komisji Geografii Przemysłu Polskiego Towarzystwa Geograficznego [Studies of the Industrial Geography Commission of the Polish Geographical Society]*, 35(2), 53–63, doi: 10.24917/20801653.352.4

INTRODUCTION

In recent years, China has been promoting a comprehensive foreign policy initiative "One Belt One Road". It includes several vectors or directions pointing to some regions of Russia (Figure 1). One of the directions of the Chinese "One Belt One Road" initiative is the China-Mongolia-Russia economic corridor (CMR), which enters the border regions of Eastern Siberia. The agreement on the development of the CMR economic

Figure 1. Foreign policy Initiative of China “One Belt One Road”



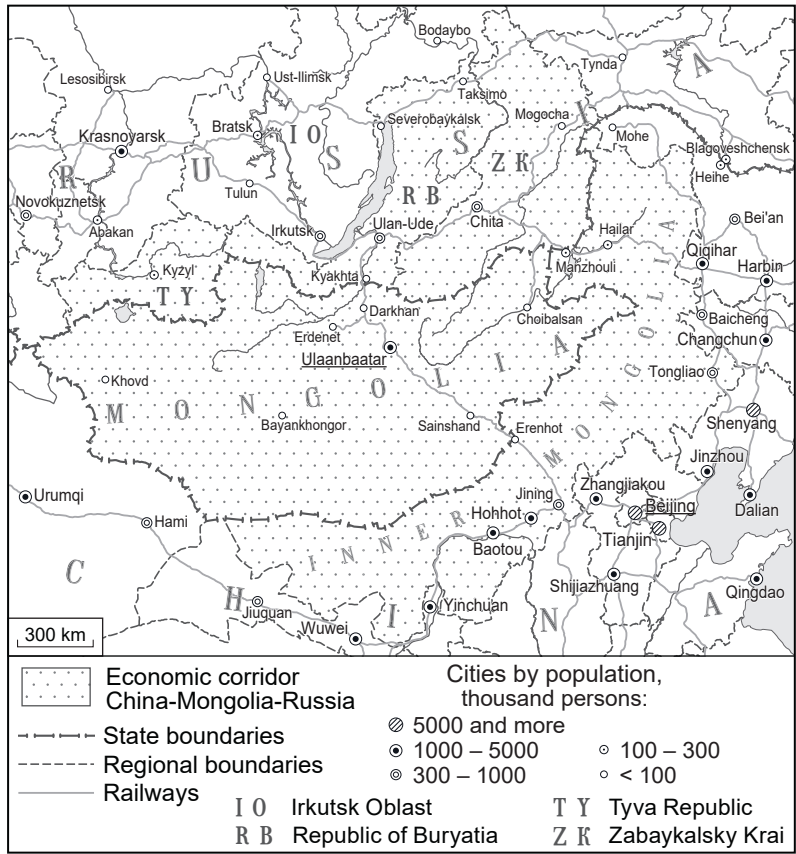
Source: authors's own work based on map of Mercator Institute for China Studies

corridor was signed by three countries in June 2016 in Tashkent. The main part of the CMR corridor includes Inner Mongolia (the Autonomous Region of China), the state of Mongolia and the border regions of East Siberia.

The economic corridor zone located in the central part of Asia is in many respects the periphery of the largest countries on the continent – Russia and China, and a significant share of its resources goes to support the economies of more developed regions. The main projects for the development of the corridor include the expansion of the road, pipeline and energy infrastructures, and the development of mining industries. These projects are expected to increase significantly the gross regional or national product, give new jobs and enhance the involvement of the area into global economic relations (Borisov, Dondokov, Namzhilova, 2017; Namzhilova, 2018). Currently, 13 priority projects have been identified and approved, including 8 projects of railway construction and 4 projects of automobile highways. The development of these projects is at different stages – determining economic efficiency or forming a legal framework and concluding intergovernmental agreements (Grayvoronsky, 2018).

The border and transboundary zones around the world are characterised by heightened economic activity of the local population in neighbouring areas. In this paper we analysed the movement of capital to Russian border regions in the corridor

Figure 2. The area of the CMR corridor



Source: authors's own work

zone, identified the nature of foreign enterprises in this area and the way they could affect their future development. The spatial scope of the paper includes three border regions of Eastern Siberia – Republics of Buryatia and Tyva, the Trans-Baikal Territory (Zabaykalsky Kray) that are compared with Mongolia and Inner Mongolia in some aspects (Figure 2).

METHODOLOGY

The methodology is based on empiric study methods (observation, comparison and description) using the structured functional approach. Macro- and microeconomic approaches are used. To analyse the current status of interactions between the countries in the zone of economic corridor we used data from the Agency of economic information “Prime” (enterprises in Russian regions) and data from state statistics of the PRC and Mongolia (AEI, 2019; Mongolian Statistical..., 2020; National Bureau..., 2020).

To assess the degree of participation of border regions in cross-border relations, the volume of exports from the regions and cross-border capital movement were analysed. The intensity of trade was characterised by means of the export quota, which

shows the ratio of exports to the gross regional product, and the foreign trade quota, calculated as the ratio of foreign trade to GRP. Data on capital movements across the Russian border were based on regional statistics of the Bank of Russia. Accepted capital of regional economies from the outside was analyzed through the structure of foreign and joint ventures in the border regions and the geography of their founders.

RESULTS

All the regions of Eastern Siberia analysed are resource-based, i.e. there is a significant share of the export-oriented extractive industries in the structure of their economies. As a rule, the border regions establish active economic relations with neighbouring foreign states and have a more developed economy compared to internal ones. But the Trans-Baikal Territory, the Republics of Buryatia and Tyva are inferior to the internal regions of Eastern Siberia both in terms of economic development and involvement in foreign trade activities. The value of the coefficient of openness for internal regions calculated as a foreign trade quota is 1.5 times higher than that for border ones (Table 1) with the highest rate in Khakassia (0.68) and the Irkutsk Region (0.39). Internal regions perform foreign economic activities more efficiently with appropriate benefits.

Table 1. The level of economic development and foreign trade relations of the regions of Eastern Siberia in 2018

	Population, million	Gross regional product per capita (thousand rubles)	Foreign trade turnover (million US \$)	Export quota (export to GRP ratio)	Export to import ratio	Foreign trade quota (ratio of foreign trade turnover to GRP)
Russian Federation	146.76	578.7	688057.1	0.33	1.89	0.50
Internal regions						
Krasnoyarsk Territory	2.87	793.0	8885.8	0.18	3.53	0.24
Irkutsk region	2.40	580.2	8761.0	0.31	3.95	0.39
Republic of Khakassia	0.54	438.3	2583.1	0.58	5.99	0.68
Border regions						
Trans-Baikal Territory	1.06	305.7	982.4	0.08	0.79	0.09
Republic of Buryatia	0.98	230.0	1055.2	0.26	9.04	0.29
Republic of Tyva	0.33	212.9	141.1	0.12	9.77	0.13

Source: authors' own calculation based on *Regiony Rossii...* (2019); *Rossiiskij eksportnyj...* (2019).

These groups of regions also differ in the structure of exports. In the internal regions, export volumes are determined by products of the first processing – aluminum (64% of exports of the Krasnoyarsk Territory, 54% of Khakassia and 24% of Irkutsk region) and cellulose (41% of exports of the Irkutsk region), to a lesser extent energy raw materials – oil and coal (36% of exports of Khakassia and 32% of Irkutsk region).

In the border regions the export structure is more ordinary. Trans-Baikal Territory's exports of the unprocessed raw materials account for more than 80%, of which 70% are metal ores and 10% are coal. In Buryatia raw materials (mainly coal) account for 70% of exports. The exports of Tyva are almost entirely of raw materials, where 88% are metal ores and about 12% coal.

The main foreign trade partners of the Russian border regions of the economic corridor are the countries of the Asia-Pacific region, with leading China, whose share has been increasing in recent years after signing the agreement on the CMR corridor development (Table 2). Buryatia has the most diversified market, where the share of China is about a third, and the exports of the Trans-Baikal Territory to China are increasing rapidly. In Tuva, the market is also diversifying due to other countries of the Asia-Pacific region, but Kazakhstan is being ousted by China as a leader. Mongolia as a buyer does not play a significant role for all three border regions, since it is a supplier of similar raw materials.

Table 2. The geography of border region exports in the area of the corridor CMR

Country	Exports			
	2016	2017	2018	2019
Buryatia				
All markets, USD million	960.0	756.0	950.2	910.7
China, %	21.7	32.4	34.6	29.5
Japan, %	13.5	19.5	20.4	20.4
Republic of Korea, %	7.8	17.1	14.6	16.7
Taiwan, %	5.4	10.9	8.7	7.3
Mongolia, %	3.0	4.5	3.8	4.0
Kazakhstan, %	2.7	0.8	0.7	3.5
Trans-Baikal Territory				
All markets, USD million	208.0	286.6	433.9	633.6
China, %	44.7	64.1	83.0	86.6
Kazakhstan, %	47.8	24.0	9.3	8.0
Republic of Korea, %	1.8	3.1	2.7	2.6
Japan, %	0.7	3.9	3.3	1.3
Mongolia, %	1.0	0.6	0.7	0.4
Tyva				
All markets, USD million	53.7	41.6	128.0	103.6
China, %	–	–	24.3	40.0
Kazakhstan, %	99.0	99.4	38.5	35.2
Japan, %	–	–	4.1	1.9
Republic of Korea, %	–	–	16.6	1.8
Mongolia, %	0.8	0.4	–	0.3

Source: Rossijskij exportnyj... (2019)

In international cooperation, the inflow of capital from outside is important for the development of regions. But this inflow is relatively stable only in Buryatia. In Tuva, after the launch of mining operations, funds began to leave the region (Table 3).

Table 3. Balance of foreign capital inflows in border regions (USD mln)

	2015	2016	2017	2018	2019
Republic of Buryatia	25	27	81	25	59
Trans-Baikal Territory	-78	96	75	63	-4
Republic of Tyva	12	-21	-56	-64	-6

Source: Bank of Russia (2020)

Large inflows in foreign investment and subsequent fluctuations are due to the activities of large enterprises, usually in the mining sector. This industry is the most attractive for foreign capital in this area. In total, 75 foreign mining enterprises and 37 joint ventures were registered in the area of the border regions. The largest foreign enterprise in the region is "Baikalrud", which belongs to the Chinese company "Central Asian Silver Polymetallic Group Ltd." registered in the Cayman Islands and develops the Noyon-Tologoy deposit of polymetallic ores in the Trans-Baykal Territory.

Most of foreign enterprises in the Trans-Baikal Territory, Buryatia and Tyva belong to China and are registered by individuals, not corporations (Table 4). These are rather small ventures of foreign citizens who live and work outside their own country. In this zone, the offshore capital is also presented in largest enterprises like in central Siberia. It is noteworthy that, according to the Prime Agency, despite the common border there are no enterprises from Mongolia in the Trans-Baikal Territory. There is also deficiency of investments from European countries and Central Asia, which predominate in the western part of Siberia (AEI, 2019).

Table 4. Foreign and joint enterprises in border regions (in brackets – formed by individuals)

Kind of activity	Buryatia			Trans-Baikal Territory		Tyva		
	Total	From China	From Mongolia	Total	From China	Total	From China	From Mongolia
Foreign enterprises including:	187 (168)	74 (68)	56 (55)	233 (173)	115 (94)	11 (5)	2 (1)	2 (2)
1. Wholesale trade	40 (36)	22 (22)	8 (8)	48 (42)	16 (16)	2 (2)	1 (1)	1 (1)
2. Mining	8 (8)	7 (7)	1 (1)	61 (39)	42 (37)	6 (0)	1 (0)	–
3. Construction	31 (28)	26 (23)	1 (1)	33 (27)	19 (15)	2 (1)	–	–
4. Logging and sawmilling	20 (16)	13 (12)	2 (1)	24 (20)	24 (20)	–	–	–
5. Retail trade	26 (26)	2 (2)	21 (21)	20 (20)	18 (18)	2 (2)	–	1 (1)
6. Cafes and restaurants	23 (23)	15 (15)	1 (1)	15 (15)	13 (13)	–	–	–
7. Agriculture	6 (6)	5 (5)	1 (1)	8 (7)	8 (7)	2 (2)	–	1 (1)
8. Joint ventures	80	44	16	59	49	7	1	1

Source: AEI (2019)

The largest number of enterprises with foreign capital is registered in the wholesale trade, followed by mining and construction, i.e. a priority activity in the zone of corridor is intercountry mediation in the supply of goods to markets. In industrial

production, a significant presence of enterprises with foreign capital is observed in logging besides the extraction of mineral resources. Remarkably, there are several hundred enterprises in Buryatia registered by Mongolian citizens, indicating business and market consulting as the main activity. But the financial data of such enterprises do not show any revenue, therefore, they were not included in this analysis. It can be assumed that this form of employment for migrants from Mongolia reflects part of the shadow market for other services.

The sectoral structure of joint ventures is similar to the structure of foreign ones, with the exception of the mining industry in Buryatia, where the foreign corporate sector is represented by numerous joint ventures only.

In this zone the diversification of the activities of foreign companies occurs due to infrastructural and intermediary industries which are most accessible to firms and individuals with minimal investment. Such structure of small business is typical for all resource regions of Siberia, and capital flows at the local level in the corridor zone reinforce this type of business outside of corporations.

The expansion of local or embedded sectors of economy based on local initiative allows both to raise the standard of living of the population and to differentiate the structure of the economy. The border regions of Russia in the zone of the economic corridor were compared with other territories according to data on the structure of the population's income. The indicators of the economic activity of the population are the shares of income from entrepreneurship and from property (Table 5). In this respect the Russian border zone is inferior to Mongolia and especially to the Chinese part of the corridor. As to Mongolia, it can be said that, due to a relatively low level of GDP per capita, a significant part of entrepreneurship is necessitated, while in Inner Mongolia with the development of processing industries there is expansion of proactive entrepreneurship.

Table 5. Share of income from entrepreneurship and property in the regions of the corridor zone (2018)

Region	Share of income from entrepreneurship (%)	Share of income from property (%)
Buryatia	8.7	1.3
Trans-Baikal Territory	5.8	1.7
Tyva	8.1	0.9
Mongolia	14.8	n.a.
Inner Mongolia (China)	25.2	5.1

Source: Regiony Rossii... (2019); National Bureau... (2020)

DISCUSSION

In general, cross-border interaction in the corridor area is of low intensity. This is typical for a significant part of the Asian borders of Russia, especially if they connect sparsely populated resource regions (Vardomsky, 2017). On the border within the corridor analysed (more than 4 thousand km) there are 9 automobile border crossings and 3 railway crossings. The Russian border with Mongolia is open and has a contact function, while the barrier function prevails on the border with China. Integration processes are especially intensive in the visa-free border areas of Russia and Mongolia (Larin,

2016), and the Russian territory is of greater attraction for Mongolian citizens. Interaction occurs mainly from South to North, i.e. from China to Mongolia and Russia and from Mongolia to Russia.

In general, Chinese business founders dominate in the zone of economic corridor. The predominance of China is most characteristic of Transbaikalia, gradually decreasing from East to West. In Buryatia, there is noticeable presence of Mongolian founders, mostly comprising citizens, not companies; counterparties from Kazakhstan appear in the western part of the corridor zone.

In addition, ethnicity is a significant unifying factor. Exports and imports both in Russian Transbaikalia and in Mongolia are also determined by connections with China.

In connection with the above it is possible to outline the main problems of the formation of a common economic space in the area of the CMR corridor and improvement of the well-being of the local population. The first of these problems is the strengthening of the role of a supplier of primary products or semi-products to world markets. This leads to the concentration of dividends from development in the hands of external corporations and in the state budget. The main economic sectors of the area – mining and agriculture – are not advanced in terms of technological expansion and do not provide much incentives for human development. It leads to a lag in the growth of incomes of the population not involved in these projects.

Another problem is the similarity of specialisation of the affected regions, which hampers the development of internal production chains. At the same time, in some aspects these regions can compete on world markets.

All the three parts of the corridor form the so-called Mongolian world, which implies the territory inhabited by related nations with a similar attitude to nature and the world, with nomadic cattle breeding as the traditional economic activity (Badaraev, 2016). Livestock specialisation remains relevant in the structure of the gross regional product for all regions of the economic corridor, including Russian Transbaikalia. In all three regions, the share of coal in the mining industry and energy generation is high. The abundance and diversity of other minerals is also not a base for interchange, since the mining is initially focused on the export and processing outside the corridor.

The third major problem is the development of markets for the products of small and medium enterprises. In the coming decades, the economic growth of the corridor zone will be based on the mining and energy industries, as well as on the transport and pipeline infrastructures. Only Inner Mongolia has its own resources for the structural transformation of the economy as part of the State development plans of the PRC, but with conservation of its mining specialization. Mongolia has no resources for it, and the Transbaikalia is peripheral in the system of federal spatial priorities.

CONCLUSIONS

Now Russia is going to intensify its spatial policy, so the official Strategy of Spatial Development of Russian Federation was adopted in 2019 (*Strategiya prostranstvennogo...*, 2020). Among the numerous provisions, particular attention was paid to the relationship of various parts of the country with the outside world. The Strategy identified the geostrategic importance of border territories, which are essential for ensuring sustainable socio-economic development, territorial integrity and security of the Russian Federation. After the downgrade of relations with the European Union a turn to the

East was announced, therefore, it is China that will exert the greatest influence on the development of eastern strategic areas in coming decades.

Exports of goods and imports of capital both in Russian Transbaikalia and in Mongolia are determined by connections with China. In fact, Mongolia is a buffer between the growing Chinese part of the corridor and the geostrategic Russian territories, smoothing out and restraining the direct penetration of Chinese business into Russian zone.

At the present time it is China that uses advantages of cross-border interactions, making it easier for itself to enter neighbouring countries for resources. The development of transport infrastructure can enhance this trend. The most efficient way is to stimulate the embedded economy of this zone ensuring the economic security of the border regions.

The main directions of such a policy are facilitating economic interaction between the citizens of the three states, expanding markets and prospects for small business in this zone as well as financial support of local ventures.

The prospects for embedded entrepreneurship are related to services for the main projects and it is necessary to regulate the terms and to facilitate involvement of local firms and individuals in production chains in mining, energy and transportation industries. The prospects also include the development of environmentally-oriented industries focused on the expansion of green and nature-saving technologies, which, on the one hand, should improve the quality of life and the environment in these areas, on the other hand, provide new opportunities for realizing human potential, since they offer application of intellectual work.

Another way is the expansion of processing of agricultural products, especially of animal husbandry. The transport corridor should promote the expansion of markets for food processing products. The state should stimulate the development of joint entrepreneurship encouraging the creation of joint ventures by means of additional benefits.

In view of investment deficiency, resource and financial support for small and medium-sized business is largely provided by the state within the development programs. However, another source of financial support that gets little attention is real estate, which according to H. de Soto, turns into capital under certain conditions (de Soto, 2004). It is particularly important for land in the context of transformation of traditional land-use institutions of land use in regions with high agricultural employment (Janzen, 2011). Incidentally, among the economic activities of the tertiary sector, typical for both small business and foreign economic agents, the most numerous are real-estate enterprises, which develop the market of not only consumer, but also commercial real estate.

Thus, a prerequisite for successful development in the corridor zone is an increase of the zone residents' participation both in international investment projects and in diversification of their own economy so that benefits from new ventures can mostly remain in these regions.

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The article was written as a part of the research grants 19-45-240004 and 20-010-00990, financed by the Russian Foundation for Basic Research.

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