

foreigners

## Selling Off Siberia

Why China should purchase the Russian Far East.

By Kim Iskyan

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Seven million people live on the frozen resource-rich taiga of Russia's Far East, a region nearly as large as the contiguous United States. Roughly 1.3 billion Chinese are packed like pickles next door, where corruption, spiraling unemployment, environmental disaster, and growing rural unrest are taking the luster off the Chinese economic miracle. Unfortunately for China's dire need for new demographic and economic horizons, Russia isn't eager to share its chilly sandbox with the neighbors. The struggle between Dr. Malthus and *Doctor Zhivago* threatens the balance of power in the Far East. But economics—rather than a Tom Clancy-style showdown—will likely decide the winner.

If the Earth's territory were divvied up according to demographic need and by potential for economic development, China would play Pac-Man at the expense of the Russian Far East. Four time zones wide, the RFE extends from the Bering Sea—a few miles from Alaska—in the northeast, to the Sea of Japan in the southeast, to China in the south, and Siberia to the west. The 100 million inhabitants of the RFE's Chinese neighbor, the Northeast Provinces (also called Manchuria), live in an area that is roughly one-eighth the size of the RFE.

The RFE's poor manufacturing base, crumbling physical infrastructure, high transportation costs, and small natural markets discourage local enterprise. The perversions of Soviet economics were accentuated in the RFE, resulting in economic dislocation even more severe than elsewhere in the former Soviet Union. Moscow's make-work, value-destructive factories that struggled to survive after the command economy collapsed at least had a natural local market of millions of Muscovites. But after Soviet subsidies ended, similar facilities situated on RFE Frozen Plain No. 948,373 had a more difficult time getting raw materials—and selling their shoddy goods to markets thousands of kilometers away. On another front, periodic power shortages plunge large swaths of the RFE into Arctic darkness every winter—an eight-month-long exercise in frostbite that makes North Dakota seem balmy by comparison. Tiny cadres of progressive businesspeople who have managed to unlearn the lessons of 70 years of Soviet-style communism have to battle local politicians who set the Russian standard for incompetence and corruption. The RFE is Russia's Wild West, but post-Soviet Russia doesn't have the patience, time, manpower, or money to wait for Manifest Destiny to take hold—nor to exploit the RFE's superabundance of natural resources, including timber, oil and gas, minerals, and fish. It's no wonder that the region's population has declined by 10 percent over the past decade.

China—and Manchuria in particular—has its own set of problems. Overpopulation, resource misallocation, and twisted economic incentives that are a result of the Chinese capitalist experiment are pressuring economic growth, particularly in the inland areas. According to the *Economist*, the Chinese Academy of Social Sciences has projected that unemployment could rise to 15 percent (compared with an official rate of less than 4 percent), with comparatively underdeveloped inland areas hit the hardest. The shuttering of state-owned enterprises throughout China—and especially in parts of Manchuria—part of the painful process of dismantling the infrastructure of the state economy, has resulted in widespread labor unrest. Private companies and rural enterprise have failed to pick up the employment slack: Arable land is scarce and exhausted, and land loss has accelerated as aquifers have dried up, resulting in declining grain harvests. The absence of a political safety valve has raised concerns that rural unrest could derail China's slow economic liberalization process.

The endless horizons of the RFE would create new opportunities for land ownership for tens of millions of unemployed Chinese rural dwellers. Unlike Russia, China has the ingrained entrepreneurial spirit, as well as the incentive and cash, to make the best of the Russian Far East. The RFE's natural resource wealth—especially oil and gas on Sakhalin—would provide Beijing with a significant measure of energy—security comfort. Moving in on Vladivostok, Russia's only temperate Pacific port, would at once end Russian trade in the Pacific; terminate any lingering relevance for Russia's Pacific navy; and enable China to pose an immediate threat to Japan. Russia's focus, though, long ago shifted west, just as its influence in East Asia has long been on the wane.

China's designs on the Russian Far East have strong historical roots. China controlled most of what is now the RFE until the 1850s, when Russia took advantage of China's preoccupation with the Opium Wars to take control of a large swath of the area. A few additional land grabs, followed by a prolonged series of pogroms and deportations, meant that by 1937 Russia had effectively eradicated the Chinese presence in the RFE. But China has subsequently been cagey about recognizing the treaties that resulted in the confiscation of its territory and unwilling to definitively admit defeat.

China is already hip-deep into a stealth economic invasion of the RFE. The region is heavily dependent on Chinese imports for its food supplies and consumable items. The vast distances between Russia's economic center and the RFE have meant that the area frequently looks south, rather than west, for economic opportunity. Anecdotally, the Chinese presence in markets, restaurants, real estate, and investment throughout the RFE is significant; according to the U.S. government's Commercial Service, China is one of the three largest foreign trade partners of at least five of the nine administrative regions of Russia's Far East Federal District. Wildly imprecise estimates of the Chinese population in the RFE range between 100,000 to an improbable 10 million, on the back of illegal immigration facilitated by the sievelike nature of the 2,700-mile border between the two countries. In July 2000, intelligence provider Stratfor.com forecasted that the Chinese could become the RFE's dominant ethnic group by 2020; it later warned that the Chinese government's crackdown on domestic crime gangs, and the criminal opportunities offered by the untamed nature of the RFE, compounded by the incompetence and corruption of Russian law enforcement, was leading to the dramatic expansion of Chinese criminal activities in the RFE.

The conflicted xenophobia that characterizes much of Russia's attitude toward foreigners is exacerbated when it comes to the "Chinese question," as RFE residents delicately term it. The RFE welcomes Chinese investment and tourism but fears the loss of local jobs and the RFE's natural wealth flowing across the border. Russian vendors periodically protest the encroachment of Chinese sellers in local markets, and Russian authorities often treat visiting Chinese with the heavy hand normally reserved for dark-skinned people in Moscow. The Russian parliament confirmed the country's anti-Chinese credentials (and allowed xenophobia to trump greed) in December 2002, when it strongly encouraged the China National Petroleum Corp. to withdraw from a privatization auction for Slavneft, at the time Russia's seventh-largest oil producer. CNPC had indicated that it was willing to pay \$1.3 billion (or 75 percent) more than what turned out to be the winning (Russian) bid.

Still, for Moscow, the RFE is a distant underperforming colony that is gradually slipping into economic and demographic irrelevance. China needs an outlet for simmering rural unrest, and it has historically had designs on the Russian Far East. Admittedly, the likely difficulties of negotiating a fair price (the \$2.5 trillion suggested by a usually sane Russian legislator as Russia's price for turning over the disputed Kurile Islands to Japan suggests that Moscow would aim high) is one barrier to the transaction. And Vladimir Putin would have a spot of trouble trying to convince the Russian electorate that selling off the motherland's crown jewels is a good thing

But a Far East version of the Louisiana Purchase—the Siberian Bargain, to take a bit of geographical

license—would allow Moscow to get rid of its Far Eastern headache and raise some cash to see it through the next dip in commodity prices, and it would pave the way for China to buy a few more decades in its capitalist experiment. Occasionally, economic rationality prevails. Might Russia and China see the (snow-blinding) light?

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