

6 “A Window on China”: A History of Creating Cross-Border Economic Zones on the Sino-Russian Border

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Abstract This chapter provides a historical perspective on one of the most important cases in Sino-Russian regional cooperation: the development of cross-border economic zones, often seen as symbols of mutual trust and readiness for further integration. Paradoxically, however, in this case, a high level of intergovernmental relations between Moscow and Beijing still coexists with a “wheelspin” at the regional level because none of the proposed cross-border economic zones has yet been launched. On the basis of open sources, archival material, memoirs, and interviews with participants in cross-border cooperation, the authors explain why this is so. An important conclusion is that, from the late 1980s to the present, shifts in the governments’ attitudes toward local cross-border projects have been the main factor influencing their implementation. Now, large-scale infrastructural projects (such as trans-Amur bridges or cross-border pipelines) with proactive involvement of the two governments are successful, while the projects initiated by local business or officials remain uncertain.

Keywords China, Russia, Far East, cross-border cooperation, integration

Introduction

The current stage of global economic development has seen the rise of intense cross-border contact that has become possible both due to an increased level of population mobility and a continued increase in IT solutions. Many border areas, which previously were considered peripheries and military buffer zones, are seen now as territories of rapid development—at least within the discourse espoused by governmental authorities and area experts. This view necessarily searches for new forms of cross-border activity in order to justify

its legitimacy; one of these is cross-border zones for economic cooperation by two or more neighbouring countries, which usually feature simplified border-crossing regimes for visitors and goods, as well as other benefits for business. Although there are various terms for such zones, we choose to use one term for all of them: “cross-border economic zone(s)” (CBEZ(s)).

For the purpose of our research, it is of crucial importance to make a clear distinction between *cross-border* economic zones, located on both sides of the border, as the name suggests, and the more widespread *border* zones for economic cooperation (BZEC) located on the territory of *one* country close to its border with another. As an example, the Khorgos Region at the Sino-Kazakhstani border has both types: 1) the cross-border zone “Khorgos International Centre for Cross-Border Cooperation,” which is located on both sides of the border and provides its visitors with duty-free privileges for purchases; and 2) the Kazakhstan special economic zone “Khorgos – Eastern Gates,” which utilises the “dry port” model for transporting cargo and also provides some preferential policies for enterprises.¹ The focus of the current research is cross-border zones (the former) and *not* special economic zones (the latter).

This trend of increasing cross-border activity is also common for the Russo-Chinese border (RCB): both countries try to solve their regional economic problems by intensifying cross-border contact. Eastern Russia border areas are suffering from depopulation, and in recent years, the same process can be seen in the border areas of Northeast China (NEC) as well. A lack of large cities in these areas limits the development of a consumption-based economy while long distances and outdated cross-border infrastructure weaken connectivity. In Russia, the development of the Russian Far East (RFE) became a priority for national policy in 2013, whereas in China, the “Northeast Area Revitalising Plan” has been on the agenda since 2003. Border regions on the Chinese side also position themselves as important parts of the ambitious Belt and Road Initiative (BRI) under the nickname “China–Mongolia–Russia economic corridor”² and various regional programmes, such as the Eastern Silk Road Belt and Longjiang Silk Road Belt. Whichever name is chosen, experts of both countries agree that the key to successful development of border areas and connecting them to the global economy lies in cross-border

1 Ruehl, “Khorgos Hype.”

2 Chubarov, “Eurasia under the BRI.”

cooperation.³ It is naturally expected to be concentrated in hubs or growth poles on the border, which, among other options, could take the form of CBEZs.

2018–2019 was the time when discussions about CBEZs on the Russo-Chinese border were activated at an official level. In February 2018, Russian vice-premier and presidential envoy to the RFE federal district Yury Trutnev announced plans for the creation of a so-called “cross-border territory for advanced development” (a de facto CBEZ) between Russia’s Pogranichny settlement and China’s Suifenhe.⁴ In March 2018, news about the future of the Blagoveshchensk–Heihe CBEZ appeared in the media. In June 2018, a memorandum of understanding on the creation of a CBEZ between the Jewish Autonomous Oblast and Tongjiang town was signed by authorities.⁵ Another CBEZ, on Bolshoi Ussuriiskii Island near Khabarovsk, was mentioned in official documents of the Ministry of Economic Developments during the reconciliation of a new version of the bilateral programme of joint development of border areas between Russia and China, which should have replaced the previous programme (2009–2018).

However, the new programme for the Development of Russo-Chinese Cooperation in Economic and Investment Spheres (2018–2024), which was signed at the East Russia Economic Forum in Vladivostok (September 2018), did not mention CBEZs.⁶ The authors of the programme explained simply that the project required further improvement.⁷ In September 2019, cross-border zones were again mentioned by the high-ranking Russian central government official at the East Economic Forum, probably bearing in mind mostly the Blagoveshchensk–Heihe area.⁸ After the COVID-19 pandemic occasioned a pause in cross-border cooperation, both sides returned to discussions about the possibility and forms of creating cross-border zones between Russia and China, but still without practical details.⁹

In this chapter, we wish to highlight the fact that the history of CBEZs on the Russo-Chinese border did not start in 2018. In fact, it was in the early 2000s when the process began, in exactly the same locations; but in 2008,

3 Zuenko et al., “Programme for Cooperation,” 5.

4 Ministry, “Transgranichnaya TOR.”

5 “Tongjiang i EAO.”

6 Ministry of Commerce of PRC, “Programme.”

7 Interview by I. Zuenko with a high-ranking official of the Ministry for the Development of the Russian Far East, September 2018, Vladivostok.

8 Krutikov, “Dal’nemu Vostoku.”

9 Roscongress Fund, “Sozdaniye.”

the project had, quite simply, failed. Surprisingly, despite the interest in this topic shown by the media and officials in 2018, proper analysis of the history of preceding Russo-Chinese CBEZs had never been conducted. There is not one single academic paper on this topic, while media materials rarely have any other information except official statements. Moreover, the results of the field studies in the Pogranichnyi District of Primorskii Krai (summer 2018) highlighted that CBEZs of the past and the future are not even a part of local discussions: interviewed officials learned about the revival of a Pogranichnyi–Suifenhe CBEZ from the authors.

The aim of this chapter is to fill that gap. It is dedicated to the history of the creation of CBEZs on the Russo-Chinese border, analysis of the reasons for its failure, and discussion of the prospect for its revival. The history of the Pogranichnyi–Suifenhe CBEZ's conception, attempts to develop it, and its following failure is the most representative one among the cross-border zones, so it was chosen as a research case.

Research Methods and Sources

This research uses various kinds of source (mainly Russian-language): Pogranichnyi–Suifenhe CBEZ (PSCBEZ) official documents from the authors' personal archive (during 2006–2008, Ivan Zuenko attended numerous PSCBEZ events as an interpreter. The authors guarantee that utilised documents are not confidential or classified, including commercially classified information); the results of semi-structured interviews with former PSCBEZ employees and regional authorities conducted in the summer of 2018 and winter of 2019 in Vladivostok, Ussuriisk, and Pogranichny District (Primorskii Krai); materials from the “Cross-Border Cooperation of Russia and China” conference (Suifenhe, 2006, August 15–17); a report titled “Strategy and Opinions on PSCBEZ Economic Development” drawn up by the Chinese Euro-Asian Social Development Research Institute of the State Council (November 2007); and materials from Russian and Chinese regional media.

An element of comparative analysis was applied to the research, taking into consideration the fact that PSCBEZ initiators appealed to other CBEZs on the Chinese border with Vietnam, Myanmar, Laos, and Kazakhstan. The main object of comparison was the “Khorgos International Centre for Cross-Border Cooperation” on the Sino-Kazakhstani border. A field study was conducted there in the winter of 2019 for the purpose of this paper, including several semi-structured interviews with local experts and zone

visitors (the administrative committee of the "Khorgos International Centre for Cross-Border Cooperation" refused to meet with the authors). The results of this field study are also published in Central Asian Analytical Network by the University of George Washington.¹⁰

This paper consists of two parts. The first gives a brief overview of the literature on the topic, with a focus on terminology and the legal framework of CBEZ development, while the second considers the case study of PSCBEZ in 2001–2008. Facts about this case are gathered in the Appendix.

Theoretical Background

The American specialist on economic geography Montague John Lord and his Thai co-author Pawat Tangtrongjita gave the following definition of CBEZ (they use the term "special border economic zone"): "It is a geographic region located along an international border crossing that is designated as a bilateral project area targeting a range of activities like infrastructure development, construction of transport and logistics hubs, and the overall facilitation of cross-border trade and investment. In some cases, it can include cross-border "sister city" pairing."¹¹ CBEZs operate under the same principles as "special economic zones": (1) investors are allowed to import and export free of duty and exchange controls; (2) licensing and other regulatory processes are facilitated; (3) firms are usually exempt from paying VAT, corporate taxes, and local taxes.

Cross-border free trade and a visa-free regime, which are common for countries enjoying a high level of cooperation, such as those in the EU, make it pointless to create CBEZs. Also, it is quite clear that bordering countries should share more or less similar economic characteristics, otherwise even minor disputes make the creation of CBEZs difficult or even impossible. This is why, in practice, just a handful of scenarios fit for the creation of CBEZs, which explains the lack of research papers on this topic.

The works that formed the theoretical base for this research are: a paper by Wang Zanxin that analyses potential places for CBEZs (he uses the term 跨境经济合作区, "cross-border economic cooperation zone") on the borders between China and Southeast Asian countries;¹² a paper by Lord and

10 Zuenko, "Transgranichnye zony."

11 Lord and Tangtrongjita, "Indonesia–Malaysia–Thailand Growth Triangle," 15.

12 Wang, "Cross-Border Economic Zone."

Tangtrongjita, which analyses the creation of CBEZs in the triangle of Indonesia–Malaysia–Thailand;¹³ and a paper by Galina Kostyunina and Vladimir Baranov, who claim to study CBEZs based on the Chinese cases but, in fact, study border zones of economic cooperation inside Chinese territory.¹⁴

The practical basis for this research can be seen through the experience of CBEZs along the border of China, in the following locations: on the border with Kazakhstan (Khorgos, since 2004), with Myanmar (Jiegao, since 2007),¹⁵ with Vietnam (Pingxiang–Dong Dang, since 2007; Dongxing–Mong Cai, since 2014), and with Laos (Mohan–Boten, 2002–2011).¹⁶

Cooperation along the Border

In 1984, Hu Yaobang, reformist leader of China, visited Heihe, declaring that this small border town should copy the success of Shenzhen, with the goal that these two border cities should be the “northern and southern wings by means of which the Chinese economy should fly.”¹⁷ This proves that even at the beginning of the 1980s, the Chinese government viewed cross-border cooperation as key to providing NEC economic growth. In 1986, China and the Soviet Union signed their first agreements on the development of cross-border trade in sister town pairs Zabaikalsk–Manzhouli, Suifenhe–Pogranichnyi, and Hunchun–Zarubino. It was a historical moment when, after thirty years of closure during the Sino-Soviet split, the border reopened in the late 1980s. According to new discourse on both sides of the border, former periphery and military buffer zones should now become areas of intense international cooperation.

These expectations did, indeed, become reality, but only partially. Border regions immediately witnessed a drastic growth in trade: from the very beginning, cheap China-made consumer goods were in huge demand in post-Soviet Russia. Thus, after the signing of several inter-governmental agreements regarding development of cross-border cooperation, the volume

13 Lord and Tangtrongjita, “Indonesia–Malaysia–Thailand Growth Triangle.”

14 Kostyunina and Baronov “Transgranichnye svobodnye ekonomicheskie zony.”

15 There is very little information available on the Jiegao Border Trade Zone. Official sources do not contain information about the CBEZ itself, but there is evidence that a *de facto* visa-free and tax-free regime exists for people and goods flowing from Myanmar to the Chinese part of the Zone.

16 Strangio, “The Rise, Fall and Possible Renewal.”

17 Zhang, “Hu Yaobang Went to a Sino-Soviet Border.”

of trade reached 7.7 billion USD in 1993—thirty-one percent more than year before¹⁸—but weak supervision, especially the lack of control over the quality of China's exports, meant that large numbers of fake and low-quality goods in the Russian market have damaged consumers' confidence in Chinese entrepreneurs and Chinese goods in Russia. Regions from the Chinese side of the border were capitalising on their access to the producers, who were usually located in more developed coastal areas. A decade later, quick growth in Russian household income and a strong ruble exchange rate not only enforced the existing trade model but also added a growing number of Russian short-term visitors, who enjoyed various consumption services on the Chinese side. The driving forces behind that cross-border economic cooperation model, which emerged in the late 1980s, stayed unchanged for more than two decades. Meanwhile, governments on both sides were weighing in to push the process in a favourable direction.

In 1992, the Chinese government approved a list of fourteen border towns (including Heihe, Manzhouli, Suifenhe, and Hunchun) which would see the development of BZECs, providing benefits for residents such as the tax-free importing of equipment for zone-based production, reducing corporate and value-added tax obligations, and the elimination of local fees. The idea of CBEZs became an extension of the concept of unilateral border zones, with the expectation of simplified access to the zones from partner countries.

In 1998, the Russian and Chinese governments came to an agreement about visa-free access for Russian citizens to Chinese BZECs. In 1999, they clarified the provisions of the previous agreement and established visa-free access for Russian citizens to BZECs in Heihe and Suifenhe. A fully-fledged bilateral agreement on visa-free access for citizens of both countries to BZECs did not exist at that time—it still does not—but according to documents dating from 1999–2006, experts and businessmen of both countries were sure that as soon as possible, there would be “a new model of cross-border cooperation.”¹⁹ A key element of such a model would be CBEZs.

The concept of border cooperation, accepted by Russia in 2001, encouraged this opinion. According to the concept, the federal government concludes international agreements, while regional authorities have a right to conclude agreements with the regional authorities of neighbouring countries, and municipalities have a right to conclude agreements with foreign

18 World Bank Trade Statistics. “China Product Exports and Imports.”

19 Analytical Report of Pacific Center for Strategic Researches (August, 2006, personal archive of I. Zuenko).

partners (including private companies and persons). Thus, in 2001, the administration of Primorsky Krai and Amur Oblast on the Russian side, and Heilongjiang Province on the Chinese side, started working on the creation of two CBEZs: Pogranichnyi–Suifenhe and Blagoveshchensk–Heihe. The official name for this experiment was the Border Trade and Economic Complex: (Russian: Приграничный торгово-экономический комплекс (ПТЭК); Chinese: 贸易综合体). Later on, CBEZs projects mushroomed, including ones for Zabaikalsk–Manzhouli, Poltavka–Dongning, and Khasan–Hunchun.²⁰

The situation on different parts of the long border varies significantly. The Russo-Chinese border is extremely long (over 4,000 km), but due to the scarce population and difficult natural conditions, cross-border activity is highly concentrated in a few nodes around the most convenient border crossings. Both experts and governments identify just four such nodes: Zabaikalsk–Manzhouli, Blagoveshchensk–Heihe, Khabarovsk–Fuyuan, and Pogranichnyi–Suifenhe (Plan of Development, 2013). Westernmost Zabaikalsk has little consumption potential and few capital sources other than timber industry and mining. Heihe and Fuyuan and their Russian counterparts are divided by the Amur river, which significantly reduces their logistical capacity. The Suifenhe–Pogranichnyi border crossing is the most convenient one. It is located on a shortest route between the regional capitals of Harbin and Vladivostok and has sufficient available land resources. Proximity to Vladivostok also provides the necessary level of consumer pool and capital market.

In the case of Blagoveshchensk–Heihe, the Chinese side established a thirty-day visa-free regime as early as 2004. It became one of the main factors of rapid economic growth in the town, though still not satisfying Hu Yaobang's expectations. Zabaikalsk–Manzhouli established the practice of visiting the neighbouring town by private car (with a special permit that can be obtained from the authorities).

However, further CBEZ developments there were halted due to strong alarmist sentiments among the Russians as well as a lack of finances and capacity on the part of the local governments. Alarmist Sinophobic sentiments across Russia were especially strong during 1990–2000s due to the dynamic rise of labour immigration from China and general mistrust of officials suspected of corruption and betrayal of national interests. Alarmists usually appeal to population and, later, economic figures, arguing the huge disparity between the two sides of border constitutes an imminent threat to territorial integrity. Cross-border cooperation, under such circumstances, is

20 Goryachev, "Kitaiskie podkhody."

a harmful tool which requires strict control. Such sentiments, as a rule, were supported by media hype but rarely had any proof in real life. For example, communities on the Chinese side of the border are, indeed, more populous than their Russian counterparts, but the gap is not so wide when we move down from regional comparison to the community level.²¹ All in all, alarmist phenomena need special research, which is not the aim of the current paper. One can get an insight into the alarmists' agenda in works by Gelbras²² and counter-points by Far-Eastern specialists.²³

The most mature of all Russo-Chinese CBEZs is the case of Pogranichny–Suifenhe. Its history allows us to follow up the evolution of views of CBEZs, including the main expectations and the reasons for the idea's failure.

Despite both belonging to the peripheral parts of their respective countries, Suifenhe and Pogranichny still somehow differ in the degree of that belonging. Pogranichny is a border town that has a population of about 10,000 people. It is the seat of a district of 3,700 sq. km with a population of 25,000, close to the two largest cities of Primorsky Krai: Ussuriysk (170,000) and Vladivostok (600,000). The latter is the leading city of the Russian Far East. South of Primor'e can be found the most liveable and fertile areas in this part of the country. The climate here is similar to the northern parts of central Russia and presents a striking contrast with other, almost inhabited parts of Pacific Russia.

Suifenhe is a county-level city with an area of 460 sq. km and a permanent population of 100,000. It is subordinated to Mudanjiang prefecture-level city, which has area of 40.2 sq. km and a population of about 2.5 million people. Suifenhe has no specific climate or locational advantages compared to other places along the long borderline. Such positioning means that any Russia-related projects are of great importance to the Suifenhe government (see Figure 1).²⁴

21 Chubarov and Mikhailova, "Problemy preodoleniya."

22 Gelbras, "Kitaiskaya real'nost'."

23 Ivanov, "Pragmatizm i konspirologiia."

24 Ivanov, "Uchastie vlastei," 133–134.

The Pogranichnyi–Suifenhe Case

Despite the governmental agreements of 1998 and 1999, even after the 2001 concept of border cooperation in Russia, there were no documents which specified the procedures for the creation of a CBEZ. Moreover, in China the situation was the same: visa-free access to the border area of Heihe was implemented only in 2004, five years after the signing of the respective agreement.

However, since the late 1990s, Chinese authorities have proposed, and Russian regional experts and business community have supported, the idea of creating a CBEZ with the possibility of visa-free access for not only Russian citizens into Chinese territory but for Chinese citizens into Russian territory as well. The main figures from the Russian side were two local businesspeople with strong connections to regional government. Gennady Lysak was born in 1950, served as a vice-mayor in Vladivostok, was a member of the Legislative Assembly of Primorsky Krai in 2002–2011, and was owner of several companies, including the largest bread maker in Vladivostok. Igor Ivanov was born in 1965, served as a vice-governor of Primorsky Krai between 2001–2004, and was the 2004–2007 representative of Primorsky Krai in the Federation Council (the Russian parliament's upper house).

Initially, their partner from the Chinese side was Suifenhe Zhicheng Business Service Co. Ltd (绥芬河市志城事业)—a small local company with headquarters in the borderland town of Suifenhe that was interested in creating a casino at the cross-border zone.²⁵ After new Suifenhe Communist Party secretary (de facto head of the town) Xu Guangguo took his post in June 2003, he refused to support the casino business. The main partner from the Chinese side changed to Suifenhe Shimao, a subsidiary of Shimao Group (世茂房地产), one of the largest private corporations in China with business in real estate, construction, and hotel management.

The project initiators received support from the government of Primorsky Krai and the People's Government of Heilongjiang Province as “implementers” of the PSCBEZ.

Work on the project on the Russian side began in 2001, when Lysak established a special agency known as IAA Primor'e (for a detailed timeline, see Appendix A). IAA stands for “information analytical agency,” but in practice, it was an operator of the Russian side of the PSCBEZ project. In November

25 Russia and China Plan for Cross-Border Casino. *South China Morning Post*. September 14, 2003. Accessed August 23, 2023. <https://www.scmp.com/article/427813/russia-and-china-plan-cross-border-casino>.

2001, IAA Primor'e rented 300 hectares of land on the Russian side of the border for forty-nine years. They planned to build a border trade area, the same as one which was under construction in Suifenhe. The idea was that the two areas should be linked into one zone, with the possibility for citizens of both countries to move freely between the two parts. Practically, this meant visa-free access to the territory of a neighbouring country, though strictly limited to a specific area (300 hectares in Pogranichnyi, 153 hectares in Suifenhe).

The initial concept included development of hotel, shopping, and entertainment industries inside the future zone alongside some industrial component. The target audience was Russian citizens, potentially attracted inside by duty-free prices on Chinese commodities and other consumer opportunities. Manufacturing facilities (clothing, footwear, and electronics) were supposed to use Chinese pre-produced components kits and use a Russian labour force mostly to assemble them. In an ideal scenario, development of the PSCBEZ would provide several hundred new jobs for locals in trade and manufacturing for the Russian and Chinese borderland population.

2001–2004 was the preparation period, after which, in June 2004, the project was officially presented to the public. At that time, IAA Primor'e and Suifenhe Shimao signed an agreement on PSCBEZ development, while Primorskii Krai and Heilongjiang signed a protocol on the functioning of the PSCBEZ. In 2004, the government of Primorskii Krai and Lysak's structures worked out a draft agreement on cross-border economic zones, planned to be signed by the governments of Russia and China.

It worth noting that, according to Lysak, all draft documentation regarding the PSCBEZ was also provided to the initiators of the Khorgos cross-border zone (not the Khorgos–Eastern Gates SEZ). Due to this help, China and Kazakhstan signed inter-governmental agreements in 2004 and 2005 that, in 2012, the CBEZ would open its doors to visitors.²⁶

In 2005, the construction of the PSCBEZ started. Local media outlets announced that the project's first stage (hotels, office buildings, and exhibition centres) would be completed in 2006–2007, and all planned infrastructure would be completed in 2015.²⁷ Investors promised to create assembly facilities on the Russian side (manufacturing of TV sets, electronic devices, and

26 "Gennadii Lysak: Zhivu v Slovenii, rabotayu v Kitae, myslyami i serdtsem s Primor'em" [Gennady Lysak: I Live in Slovenia, Work in China but My Heart Is in Primor'e]. *Prima-Media*. August 2, 2017. Accessed August 23, 2023. <https://primamedia.ru/news/610204>.

27 Khabalov, Dmitry. "Novoe litso trgovli s Kitaem" [New Face of Trade with China]. *Konkurent*. June 8, 2004. Accessed August 23, 2023. <http://konkurent.ru/article/2433>.

footwear) and trade and entertainment infrastructure on the Chinese side. However, the legal framework for the operation of the CBEZ had never been signed into law, either during the preparation period (2001–2004) or the period of construction (2004–2006). A “legal vacuum” was obvious even to the initiators of the project,²⁸ but it didn’t impact the construction process.

Field studies show that the Chinese side was misled about the lobbying potential of their Russian partners; moreover, they underestimated the number of different interest groups in the Russian political elite, both central and regional, involved in the decision-making process. Initially, the project gained the support of the government of Primorskii Krai and Governor Sergei Darkin personally (his partner relations with Igor Ivanov were very well known).²⁹ According to the authors’ estimations, the project got the red light from the Krai authorities in 2006. The government of Primorskii Krai halted support for the project, did not lobby its interests at the federal level and, moreover, compromised its reputation. The question of why this happened remains open due to internal reasons of elite relations dynamics (and the impossibility of conducting research interviews with many of the erstwhile elite with certain criminal backgrounds). However, we can suggest that Lysak and Ivanov failed to coordinate their business interests with business circles close to Governor Darkin. An advisor of the former governor stated that the CBEZ, from the very beginning, had been aimed only at investor profits and could not bring the region desired benefits such as investment inflow, job creation, and taxes.³⁰ What it could bring were problems with trafficking and other criminal activities—a fact that became crucially important to the regional authorities in the context of gradual political “re-centralisation” in middle-2000s Russia. For that reason or another, at that time Darkin focused his support on another Russo-Chinese flagship project: an industrial zone in Ussuriysk.³¹

Despite initial difficulties, the first stage of the project was completed in 2006. On the Chinese side, a Holiday Inn hotel with 354 rooms and large shopping centres appeared just a few metres from the border (see Appendix B), costing Shimao a total investment of more than 1 billion yuan.³² On the Russian side, they built a small office building (called the “Centre for Business

28 Goryachev, “Kitaiskie podkhody.”

29 “Gubernator i ego komanda” [Governor and His Team] *Vladivostok*. June 17, 2005. Accessed August 23, 2023. https://vladnews.ru/ev/vl/1769/73598/gubernator_komanda.

30 Interview by I. Zuenko with one of the former officials from the Administration of Primorsky Krai (January, 2019).

31 Interview by I. Zuenko with one of the former employees (January, 2019).

32 Ivanov, “Uchastie vlastei,” 120.

Communication") and the Orthodox Chapel of St. George the Victorious (see Figure 2). It is interesting that on Bolshoi Ussuriyskii island near Khabarovsk at another part of the border, which is also regarded as a location for active cooperation, another Orthodox chapel stands—in the name of Saint Victor of Damascus, devoted to all Russian soldiers killed while defending its Far Eastern borders. As we can see, the coexistence of two diametrically opposed discourses—cooperationist and alarmist—is typical of local bureaucracy.

2006–2008 became a period of crisis when the remaining sides, who were still struggling to launch the project, had to start new talks with local officials and find new ideas in order for the PSCBEZ to continue. For example, IAA Primor'e proposed to establish a gambling zone in the PSCBEZ (in 2006, Russia banned gambling nationwide in all but four regions, including Primor'e). But according to the negotiation protocol, Suifenhe authorities perceived this idea negatively and even declared they would quit the project if casinos were to be constructed. The case of Boten proves that these threats were not empty words.³³

In late 2006, it became obvious that the original plans for establishing simplified access of Chinese citizens to the Russian part of the CBEZ, including construction builders, had failed. The position of the Russian authorities, both central and regional, toward the project became negative. Russian investors left the project for various reasons. In October 2006, Gennady Lysak announced to his employees that the company could be liquidated because the CBEZ had not launched yet, and there was no profit accrued from the project. Maintenance costs from the beginning of the year reached 21 million rubles (around 800,000 USD).³⁴ In August 2007, under Putin's 2006–2007 anti-smuggling campaign, both Lysak and Ivanov were accused of organising smuggling and put on the police wanted list. Both fled abroad, to Slovenia and Spain. The PSCBEZ project was discredited as a "mechanism for smuggling."

On the Chinese side, the situation was different: the necessary legal arrangements were also not approved in time, but unlike Russia, new lobbyists from local Suifenhe government circles appeared. Between 2006–2008, they seized the initiative from Shimao Group, who lost interest in the project. The only remaining force that wanted to develop the project was the Suifenhe government (new party chief E Zhongqi and mayor Fu Yangcheng). After several attempts to agree with the Russian side on bilateral access of visitors to the PSCBEZ territory, they gave up as well.

33 Strangio, "The Rise, Fall and Possible Renewal."

34 Interview by I. Zuenko with a former employee of IAA Primor'e (January, 2019).

Later, Suifenhe city implemented these ideas for the CBEZ unilaterally. In 2009, Suifenhe established its own free economic zone for cross-border trade (互市贸易区) with benefits for residents such as the duty-free importing of goods and export-tax refunds.³⁵ This includes measures helping enterprises to list on Chinese stock exchanges and giving access to Chinese domestic equity for the expansion of Sino-Russian joint ventures. In 2014, they let Russian citizens cross into the whole city of Suifenhe visa-free in groups consisting of just two people or more and, later, even let them use Russian rubles in Suifenhe. Hotel and entertainment infrastructure built by Shimao Group is still in operation, but its popularity among Russian tourists is low due to the remoteness from the Suifenhe downtown area and the absence of any specific benefits.

So, why did the PSCBEZ fail?

It is obvious that there are several reasons, including some that are very subjective and internal. The role of personalities in all of this appears to have been very important. Two Russian businessmen, Lysak and Ivanov, started the project when they had ties with regional authorities and received their support. Worsening relations with authorities, and the large-scale 2006–2007 anti-smuggling campaign, led to the demise of their business empires, including the PSCBEZ.

It is also appears that, from the very beginning, they did not have enough administrative influence to get all necessary approvals for visa-free and duty-free access to CBEZs. Even if regional authorities maintained their support for the project, in the middle of the 2000s, due to re-centralisation in Russia, their impact on international cooperation projects of such size was shrinking. The key policy-makers were federal authorities – and for them, the PSCBEZ seemed to be a private initiative of local businessmen with a bad reputation, with a lot of uncalculated risks and no guaranteed profits.

We must say that these doubts were reasonable. Even according to IAA Primor'e former employees, Chinese investors had no serious interest in starting any real manufacturing activity on the Russian side of the PSCBEZ. Both they and their Russian partners were interested mostly in simplified customs procedures for importing consumer goods.³⁶ It made the project economically profitable as a “show-room” for Russian goods or a “cargo hub” for further shipments to the Russian market (both legal or illegal) and “shuttle trade.” That's what we see in the case of the Khorgos cross-border economic zone.³⁷

35 Kostyunina and Baronov, “Transgranichnye svobodnye ekonomicheskie zony.”

36 Interview by I. Zuenko with a former employee of IAA Primor'e (January, 2019).

37 Zuenko, “Transgranichnye zony.”

The PSCBEZ is one of many prominent experiments in cross-border cooperation, but it failed due to numerous factors, including the negative opinion of the Russian border guard and national security authorities, strong alarmist discourse all over Russian society, the absence of administrative support after 2006 even on a regional level, and the trend towards centralisation in the international agenda.

The project fell into a coma in 2008, though officially it was not finished.³⁸ Its revival (albeit in the form of a "cross-border territory of advanced development") occurred ten years later (see above). The initiative came from the Russian government, which changes the situation. However, learning from previous experience shows that the creation of a "window" on a Russo-Chinese border will require as long and painful an approval by the authorities as it did in the past. It is true that CBEZs require additional consideration and probably cannot be a part of the new programme of Russo-Chinese cooperation in the RFE at the present moment.

Conclusions


The Pogranichnyi–Suifenhe CBEZ's history shows an evolution of the Russian approach to cross-border cooperation. The PSCBEZ was initiated in the liberal political climate of the late 1990s–early 2000s. It was a time when the inertia of decentralisation in Russia was strong enough to stimulate activity in regional actors. This was also supported by the federal government (2001 concept of border cooperation). The project was ready to launch when the political climate crucially changed—in the middle of the 2000s, when Putin's re-centralisation drive firmed up. The federal centre started to "put things right," regional elites lost their influence on important decisions, and the corruption of regional authorities and businesspeople took a knock. Cross-border cooperation processes became less dynamic and, at the same time, more regulated and controlled. From this point on, the agenda was formulated by Moscow.


The federal grip became even tighter from the middle of the 2010s, when all cooperation projects turned out to be under the control of the newly established federal "development bureaucracy," the Ministry for the Development of the Far East and its agencies. Their task is to develop the economic prospects of the RFE and support the Russo-Chinese "strategic partnership" with new

38 Avdeev, "Gosgraniitsa v Primor'e."

regional projects. To fulfil this mission, they need new ideas, new concepts, new results; this makes them open to reconsidering previously failed ideas. In 2018, we witnessed the revival of the PSCBEZ. But its characteristics are still too liberal for alarmist discourse among Russian elites, media, and the expert community. The example of the Khorgos International Centre for Cross-Border Cooperation shows that positive impact on the regional economy is limited, while the negative impact is visible: smuggling, corruption, and shuttle trade beyond tax duties are still big problems, while at the same time, the increase in legal production is not a consideration. This is why one cannot expect that CBEZs on the Russo-Chinese border will quickly become a desired growth pole for the regional economies.

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Appendix A. Timeline of PSCBTEZ Development

- 1998, February 17* – The governments of Russia and China signed a memorandum on the organisation of simplified access for Russian citizens to trade zones on Chinese territory near the border.
- 1999, June 2* – The governments of Russia and China reached a memorandum on the organisation of simplified access for Russian citizens to trade zones in the Chinese towns of Heihe and Suifenhe.
- 1999, September* – Suifenhe administration declared an opening of a full-town-sized “Suifenhe trade zone” with visa-free access for Russian citizens (in practice, this concept was introduced only in 2014).
- 2001, February 9* – The Russian government approved the concept of cross-border cooperation.
- 2001, November 13* – ZAO IAA Primor’e (Closed Joint Stock Company Information Analytical Agency Primor’e) was established by Gennadiy Lysak to run the PSCBTEZ project in cooperation with Suifenhe Shimao (a Shimao Group subsidiary company).
- 2003, January 21* – According to a Russian government resolution, 300 hectares of land with “wooded lands” status near the Russo-Chinese border at Pogranichnyi municipality were officially transferred to “non-wooded” lands (Resolution no. 79-p) and then leased out to IAA Primor’e for forty-nine years for building infrastructure in a cross-border economic zone.
- 2004, June 1–2* – The “Cross-Border Cooperation between Russia and China” conference was held in Suifenhe to discuss PSCBTEZ perspectives.
- 2004, June 18* – The leaders of Primorskii Krai and Heilongjiang province signed a protocol for creating a PSCBTEZ during a cross-border cooperation conference in Harbin.

- 2004, August – The draft of “Agreement between the Governments of Russia and China about Cross-Border Economic Zones” was developed by Primorskii Krai administration and the Pacific Center for Strategy Studies (a think tank affiliated with Lysak’s business empire).
- 2005, October – PSBCTEZ infrastructure building was started in the Russian and Chinese zones.
- 2006, February–March – The governor of Primorskii Krai, Sergei Darkin, and the presidential envoy to the Far Eastern federal district, Kamil Iskhakov, petitioned the Russian government for the introduction of amendments to Russian regulations in connection with the PSBCTEZ’s functioning (Primorskii Krai Document no. 11-2/669, Apparatus of Presidential Envoy Document no. A56-763).
- 2006, April – Russian president Vladimir Putin started an anti-smuggling campaign.
- 2006, June 18 – PSBCTEZ’s Russian part’s first-stage objectives (centre for business communication, church, maintenance infrastructure) were officially opened.
- 2006, August – PSBCTEZ’s Chinese part’s first-stage objectives (hotel, exhibition centre, shopping mall) were officially opened.
- 2006, August 15–17 – “Russo-Chinese Cross-Border Cooperation” forum was held in Suifenhe to discuss the problems of PSBCTEZ functioning.
- 2007, July – Experts of PRC State Council’s think tanks visited PSBCTEZ to research the zone’s problems.
- 2007, August 1–3 – A meeting of the Russo-Chinese joint expert commission on PSBCTEZ development was held in Suifenhe.
- 2007, August 12–14 – A meeting of the Russo-Chinese permanent working group on inter-regional and cross-border cooperation was held in Vladivostok. Its final protocol mentioned plans to conclude a Russo-Chinese agreement on “About Measures for Economic Development and Cooperation of Border Regions of Russia and China” on the basis of 2004’s “Agreement between the Governments of Russia and China about Cross-Border economic zones” draft (in practice, it was never signed).
- 2007, August – The main investors of the PSBCTEZ, Gennadiy Lysak and Igor Ivanov, were accused of organising contraband in the framework of the 2006–2007 anti-smuggling campaign and were put on a wanted list. Both disappeared abroad (to Slovenia and Spain). IAA Primor’e fell into crisis.
- 2007, November – A PRC State Council think tank published “Strategy and View of the Economic Development of PSBCTEZ.”
- 2008, February 21 – Negotiations between the Department of International Cooperation and Tourism of the Administration of Primorskii Krai and Suifenhe People’s Government on the issues of the simplified access of Russian citizens to the Suifenhe border trade zone (the PSBCTEZ Chinese zone) were held in Suifenhe. Start of access was scheduled for the current year in May but was delayed.
- 2014, January 1 – The Suifenhe government, on a unilateral basis, permitted visa-free access for Russian citizens to Suifenhe municipality territory (for “groups” of two persons and more).
- 2018, February 8 – Russian vice-premier Yury Trutnev announced the creation of the so-called “cross-border territory of advanced economic development” Pogranichnyi–Suifenhe, with a concept very similar to that of the PSBCTEZ.

Appendix B. Maps of the PSCBEZ Area



Fig. 1 PSCBEZ surrounding area (Map data from OpenStreetMap [<https://www.openstreetmap.org>]. Additional drawings by the authors).

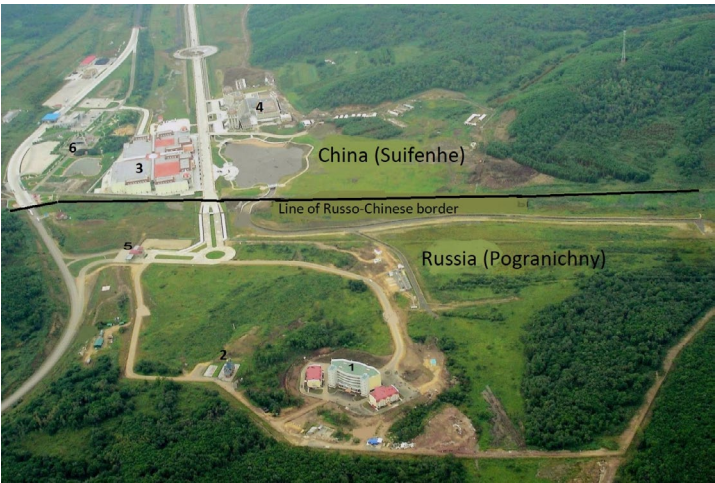


Fig. 2 Sketch of PSCBEZ, 2012, air photography. 1. Centre for business communication; 2. St. George the Victorious Chapel; 3. Shimao Shopping Mall; 4. Holiday Inn Suifenhe; 5. Pogranichnyi Border Point (not launched; the current border point is in Sosnovaya Pad', located 5 km from the border, not on the sketch); 6. Suifenhe Border Point (Map data from Yandex Maps [<https://yandex.ru/maps/>]. Additional drawings by the authors).

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