

## 5. Balancing Resource Expectations in the Russian Far East and Belarus

This chapter offers a parallel set of case studies that explore China's entry into Russian territory and markets. Jiayi Zhou discusses the penetration of Chinese labour migrants of Russia's Far East Federal District (RFE), juxtaposing their commercial interests with local fears of land grabbing. She finds that these trends are more often guided by 'mercurial politics' than by regulations and institutions. Henrik Hallgren describes Chinese-Russian interaction in Belarus and how their divergent approaches have played out during such incidents as the 'potassium war'. In the longer-term, he maintains that while the Belarus Government might promote greater Chinese involvement, this is unlikely to directly challenge Russian interests.

### 5.1. Jiayi Zhou<sup>1</sup>

#### **Introduction**

Chinese agricultural engagement and land acquisitions in Russia's RFE in the past three decades show that media reports of Chinese 'land grabbing' and other unsavoury practices are more hype than reality. China and Russia share a long eastern border of over 3000 kilometres in Russia's far east—a region that constitutes one-third of Russia's territory but contains only 4 per cent of its population. Virtually all of the RFE's arable land is concentrated in its southernmost border provinces. At present, Chinese companies—either directly or indirectly through joint ventures with Russians—lease or own some 20 per cent of that land—amounting to about 670 000 hectares—on which they produce vegetables, grains and livestock, and engage in post-production processing.

Since the liberalization of the Sino-Soviet border in the late 1980s, Chinese labourers—predominately from Heilongjiang province—have been actively engaged in the RFE agricultural sector. They came first as agricultural workers to fill a labour gap, and later as more entrepreneurial and independent farmers. By the late 1990s and early 2000s, this flow had turned into a 'farm rush' (种地捞金), marked by robust networks of Chinese migrant farmers and farm workers capitalizing on opportunities in much more land-abundant Russia.

Relatively small-scale farmers rented from Russian rural residents, restructured the collective farms (колхозы) and state farms (совхозы), or leased from the state's regional land funds on relatively short-term leases of one, five or 20 years. In 2002, Russian legislation was altered to allow foreigners to lease Russian agricultural land for up to 49 years, including the purchase of land by Russian-majority shareholder companies. This, in conjunction with China's 'Going Out' (走出去) strategy, which encouraged Chinese enterprises to invest abroad, led to more reg-

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ularized investment in agriculture by state-affiliated and large corporate actors from China. As a result, these companies were able to acquire and develop much larger agricultural land concessions.

### **Commercial motives**

In contrast to the discourse surrounding China's land-grabbing and food security imperatives over the years, Chinese farming in the RFE has been overwhelmingly commercial in motive. Chinese produce for the local Russian market rather than for the Chinese market, capitalizing on higher market demand and greater profitability. Policy barriers and transportation costs are additional factors.

Far from being an extractive case of exploitative land-grabbing to support foreign markets, Chinese activity has actively contributed to the consumer market in the RFE, with Chinese supplying anywhere from half to two-thirds of the vegetable consumer market. These activities have driven down prices substantially. In this regard, Chinese investment and engagement in the RFE parallels other cases of Chinese cross-border agricultural investment—including in South East Asia and Central Asia—in that they are more reflective of the individual behaviour of enterprises and a desire to make profits, rather than any governmental macro-strategy.

It is important to note that China's Going Out in the agricultural sector is in many respects still quite a limited phenomenon. It still lacks any strategic coordination at the national level on bringing large-scale imports of products back into China. However, this picture may be changing. One of the first large-scale shipments of soya beans—the only major agricultural commodity and grain crop in which China is less than 50 per cent self-sufficient—from Chinese production bases in Russia into China occurred in 2014. Such exports from Russia to China quickly rose from around 80 000 tonnes in 2014 to around half a million tonnes in 2015.

Higher-level agricultural deals by corporate and state actors in Russia and China have also been agreed. In May 2015, during a state visit to Moscow by China's President, Xi Jinping, a USD \$2 billion investment fund was announced to finance agricultural projects between the two countries. National companies such as the China National Cereals, Oils and Foodstuffs Corporation, China's largest grain-trading state-owned enterprise (SOE), are showing increasing interest in the Russian agricultural market. As of the first quarter of 2015, however, Russian supply accounted for only 1 per cent of China's total agricultural imports.

### **The human dimension**

Unique to Russia, however, is the human dimension of Chinese actors not only as corporate investors, but also as migrant farmers and farm labourers. In this regard, the phenomenon goes well beyond investment to touch upon Chinese–Russian migration dynamics. Beyond economic liberalization and profit-seeking, there have also been other more political drivers at play. Chinese local govern-

ment and local labour bureaus continue to work to find outlets for surplus rural labour, increase rural incomes and create off-farm employment. Labour exports to foreign countries have been one means of achieving this, although governmental support for these activities has diminished in the past decade.

As for where Russia's own policies and drivers fit into this picture, the Chinese media has labelled Russia's attitude to China 'tangled and fickle'. Such assessments detail Russia's dependence on and welcome for external sources of labour and investment, which are often limited by securitization imperatives and nationalistic or xenophobic discourses at home. At the investment level, Russia has been very welcoming of foreigners penetrating their agricultural market. This was evident at the Asia-Pacific Economic Cooperation (APEC) Summit hosted by Russia in Vladivostok in 2012, which focused on global food security.

At the summit, Russia unveiled an investment plan offering some 20 projects to outside investors, some involving 150 000–200 000 hectares of agricultural land. It was notable that while the Deputy Minister for Economic Development, Andrey Slepnev, listed Viet Nam, Singapore, Thailand and Japan as among the countries able to benefit from this tender process, he conspicuously failed to mention China. Around the same time, the Minister of Development of the Russian Far East, Viktor Ishayev, openly stated that in the field of agriculture, Russia preferred cooperation with Japan and South Korea to working with China.

### **Takeaways**

In practice, despite cases in which China has been left out of deals or targeted in official statements, there has been no real barrier to Chinese penetration of the RFE and the Russian land market. In contrast, labour migration, which is still poorly regulated and institutionalized, continues to be subject to more mercurial politics. For example, in 2013, the Amur Oblast and Krasnoyarsk outright banned Chinese agricultural labourers by providing them with no allotments as part of the foreign labour quota. This decision was attributed to alleged evidence of Chinese use of banned chemical additives, fungicides, insecticides and other toxic chemicals on Russian soil. While some of these cases of exclusion may have some foundation, linked to Chinese farming methods or other empirical data, the extent to which perception continues to drive these trends should not be underestimated.

## **5.2. Henrik Hallgren<sup>2</sup>**

### **Introduction**

Strategically sandwiched between Russia and the European Union (EU), Belarus is marked by rigid state-intervention in its economy and lacks substantial natural resources of its own. As such, it has remained politically and economically dependent on Russia since independence. Despite this reliance, the country is

<sup>2</sup> Henrik Hallgren is the Programme Manager for Eastern Europe and Central Asia at the International Council of Swedish Industry.

increasingly becoming a strategic hub for Chinese economic interests in Western Eurasia. While Belarus is not an arena for open competition between Russia and China, its recent history highlights some of the current and potential limits of Chinese–Russian cooperation and some of its effects on third countries.

### **Russia–Belarus Union State**

Since the creation of the ‘Russia–Belarus Union State’ in 1996–1997, a construct with no equivalent in the post-Soviet space, Belarus has consistently been the European country with the closest ties to Russia in both political and economic terms. Relations, however, have always been uneven. The absence of significant exportable natural resources, reduced industrial competitiveness and lack of political liberalization combine to create a low level of participation in European structures and undiversified trade with the EU, despite its shared borders with three EU member states.

All this has made Belarus economically dependent on Russia. It could further be argued that the only factor preserving Belarus as an independent state is its political balancing act between Russia and the EU. This effort has often been antagonistic, but for the most part has been skilfully played by the Belarusian leadership. This role vis-à-vis Russia has demanded that key industrial assets are kept from privatization, while sufficient concessions are made to political projects led by the Kremlin. Belarus was a founder member of the Collective Security Treaty Organization and the Customs Union. Compared with the economic development of neighbouring Ukraine, the strategy seemed to be working well, at least until the Russian economy ran into serious problems.

### **A special relationship?**

‘Comprehensive strategic partnership’ is not a concept that exists in the official Belarusian vocabulary, but it has been used by China to label its relations with select countries around the world. In the case of Belarus, these relations have existed since 2013. In a sign of the importance of bilateral relations, President Aleksander Lukashenko issued a presidential directive in 2015, only the fifth in a series of strategic command documents and the only one to involve foreign relations. This document tasks government officials with boosting bilateral relations with China.<sup>3</sup> Given the close security cooperation between Russia and Belarus, the rationale cited for cooperation emphasized security and stability. As such, the agreement includes military industry cooperation and joint military exercises.

Meanwhile, China’s economic influence, including its foreign direct investment, has been the core of its cooperation with Belarus. Russian direct investment is estimated to exceed that of China by approximately 50 times, but this does not factor in the substantial Chinese credits provided through the Export-Import Bank

<sup>3</sup> Official Internet Portal of the President of the Republic of Belarus, [Directive no. 5 of 31 Aug. 2015: On the development of bilateral relations between the Republic of Belarus and the People’s Republic of China], 31 Aug. 2015, <<http://president.gov.by/uploads/documents/5dir.pdf>> (in Russian).

of China.<sup>4</sup> The China–Belarus Industrial Park (CBIP), or ‘Great Stone’, developed by state-owned Sinomach and the China Merchants Group and managed jointly with the Belarusian authorities, is a key Chinese investment in Europe.

In fact, the CBIP is reported to be the largest overseas industrial park with Chinese involvement anywhere in the world.<sup>5</sup> Its projected significance for the Belt and Road Initiatives (BRI) is twofold. It serves as a logistics hub for the European Union terminus of the Silk Road Economic Belt (SREB) and as a manufacturing site primarily for production intended for the Eurasian Economic Union (EAEU). Belarus, the only remaining country in the EAEU that is not a member of the World Trade Organization (WTO), offers several investment incentives as part of the special economic zone (SEZ) established for the industrial park. However, these efforts have, thus far, provided only limited attraction for non-Chinese investors.

Citing social stability as the most important factor in economic development, President Lukashenko claims to have ‘adopted China’s step-by-step reform process’.<sup>6</sup> However, the reform programme is not only dependent on the applicability of this model to Belarusian economic conditions, but also constrained by the government’s political agenda. This has resulted in limited and selective implementation. Thus, it appears that the Chinese model for SEZs pioneered in Suzhou has been cited, in part, because it allows some isolation of economic experiments.

Significantly, Chinese workers constitute the largest group of new labour migrants to Belarus, ahead of Ukrainians.<sup>7</sup> This has had some unexpected consequences, such as in the summer of 2015 when approximately 200 Chinese workers employed at a Chinese-owned paper factory in the Homel region began a march on Minsk to protest about unpaid salaries. This was a rare event in Belarus, which had to be contained by an intervention by the police and the Chinese Embassy.<sup>8</sup> Questions remain, however, about whether such incidents might become more common if not in Belarus, then at other outposts along the SREB.

### The potassium factor

Belarus is not a resource-rich country, but it does possess one natural resource in internationally significant quantities—potash, or potassium salts. This caused one of the most serious recent strains on relations with Russia. Potash is an important fertilizer on the global market and state-owned Belaruskali is one of the leading

<sup>4</sup> National Bank of the Republic of Belarus, ‘Foreign direct investment in the reporting economy for 2010–2015’, <<https://www.nbrb.by/eng/statistics/ForeignDirectInvestments/>>, accessed 3 Mar. 2017.

<sup>5</sup> *China Daily*, ‘Sinomach: China merchants build “a pearl on Silk Road” in Belarus’, 28 Dec. 2015, <[http://europe.chinadaily.com.cn/business/2015-12/28/content\\_22835888.htm](http://europe.chinadaily.com.cn/business/2015-12/28/content_22835888.htm)>.

<sup>6</sup> *Xinhua.net*, ‘Interview: Belarus willing to be platform for China’s Silk Road Initiative, Lukashenko’, 10 May 2015, <[http://news.xinhuanet.com/english/2015-05/10/c\\_134225399.htm](http://news.xinhuanet.com/english/2015-05/10/c_134225399.htm)>.

<sup>7</sup> Gavrushcheva, V., [Belarus Segodnya, borderline state: migrants fill the gap in labour market], 11 Nov. 2016, <<http://www.sb.by/articles/pogranichnoe-sostoyanie-migranti.html>> (in Russian).

<sup>8</sup> Dzesiatava, G., ‘Made in Belarus: by the Chinese’, *Belarus Digest*, 29 Sep. 2016, <<http://belarusdigest.com/story/made-belarus-chinese-27244>>.

global producers. Until 2013, a consortium of Belaruskali and a Russian registered stock company, Uralkali, accounted for some 40 per cent of the global supply.

However, when Uralkali left the consortium after mutual accusations of contract breaches, this pushed global prices lower. What followed was the unexpected arrest in Minsk of the Russian managing director of Uralkali. A short ‘potassium war’ or ‘fertilizer war’ ensued that same year, when Russia imposed trade restrictions. The issue was resolved only after the leadership of Uralkali was replaced.<sup>9</sup>

Belaruskali is not just an important source of revenue: it also represents an exception to the rapid increase in the number of loss-making SOEs.<sup>10</sup> SOEs are vital to the Belarusian economy in that under normal circumstances they represent around 70 per cent of gross domestic product (GDP) and employ around one-third of the economically active population. To the Belarusian Government, managing potash exports is a matter of national stability. As a result, the 2013 ‘potassium war’ and the subsequent Chinese response can be seen as tests of Chinese–Russian accommodation.

China is the world’s largest potash importer and is normally able to set the annual price floor. In 2013, the China Investment Corporation, a sovereign wealth fund, bought a stake in Uralkali in a rare investment in Russian natural resources and helped facilitate a deal with the Belarusian Government. By 2016, the China Development Bank had provided USD \$1.4 billion for development of the long-prospected, high-yield Slavkali potash mine, an investment venture controlled by the well-known Russian billionaire businessman, Mikhail Gutseryev. According to President Lukashenko, Slavkali will make Belarus the ‘complete master of the potash market’.<sup>11</sup>

For China, its interventions in what was already a tense market were part of a pattern to secure sufficient availability and to restrain global price levels. Chinese engagement made use of the dynamics constraining smooth economic and political cooperation between Russia and Belarus to strengthen its political position in the latter, as well as its foothold in the global market of a strategic natural resource.

## Takeaways

Chinese engagement in Belarus is heavy, but clearly not solely driven by access to natural resources. Nor is Belarus at the centre of competing integration projects driven by Russia and China. Nonetheless, in a more indirect way than the resource-rich states of Central Asia, Belarus is becoming a test of Chinese–Rus-

<sup>9</sup> Yeliseyev, A. and Autushka-Sikorski, A., *Belarus’s Potash Sector: Reasons for and Consequences of Break-Up with Uralkali*, Research Study SA 1/2015 EN (Belarusian Institute for Strategic Studies: 16 Apr. 2015).

<sup>10</sup> The proportion of loss-making SOEs rose sharply from 4.8 per cent to 26.3 per cent between 2012 and 2016. Mazol, A., *Plans for a Miracle: Digest of Belarus Economy*, Belarusian Economic Research and Outreach Centre (BEROC), 29 June 2016, <<http://belarusdigest.com/story/plans-miracle-digest-belarus-economy-26323>>.

<sup>11</sup> CTV *Stolichnoe Televidenie*, ‘President Lukashenko on Belaruskali-Uralkali row and possible reunion’, 23 June 2016, <<http://en.ctv.by/en/1466677998-president-lukashenko-about-belaruskali-uralkali-row-and-possible-reunion>>.

sian competition and cooperation. This is also true in that Belarus is a key outpost along the BRI land route.

However, its vital role in the initiative is dependent on the success of wider Eurasian integration. This includes expanded China–Russia cooperation in formal formats, such as the BRI-EAEU integration, as well as its more informal aspects, exemplified by the ‘potassium war’. The Belarusian leadership is actively striving to promote China as a new vector among its foreign policy options. However, unlike the balancing act with the EU, Belarus’ engagement with China is unlikely to run counter to Russian interests.