The Russian Far East's Endless Winter

by Felix K. Chang

Before the collapse of the Soviet Union, the Russian Far East was well respected, if not feared, by many observers as a significant actor in regional and potentially global affairs. From its shores, the Soviet military could project its forces deep into the Pacific Ocean and, by the 1980s, as far away as the Indian Ocean. All that changed, however, during the 1990s, when evidence poured forth to indicate that the region was suffering from a profound economic dislocation, an awkward political estrangement from the center, and a general military demobilization.\(^1\) Hopeful observers continue to believe that the region's abundant and varied natural resources might yet lift the Russian Far East into a more prosperous condition and Russia as a whole into a more powerful position in East Asia. But upon close examination, it can be argued that this future will arrive later rather than sooner, and require far more radical departures with the past than the region's inhabitants or Moscow's bureaucrats are currently willing to contemplate.

One expert has observed that while the power of nations is customarily measured in terms of population, natural resources, geography, political effectiveness, geostrategic position, economic and technical strength, and military might, Russian power on the Pacific has been "constrained by reliance on a single, increasingly ineffective instrument of statecraft—military might."\(^2\) Despite its many incarnations as diplomatic hub, economic window, hazardous waste site, natural resource reservoir, and political prison, the Russian Far East (hereafter RFE) has indeed been first and foremost a military bastion from czarist times through the Soviet period. To that end, the region's economy and society were largely built to support a military infrastructure stretching from its army and

---

\(^1\) For the purposes of this article, the area considered to be the Russian Far East will encompass not only the administrative district traditionally known as the Far East, but also those of Eastern Siberia and Western Siberia. The latter two districts are included because the circumstances of the Far East are so integrally linked to those of its immediate western neighbors.


Felix K. Chang is an associate scholar at the Foreign Policy Research Institute. He received an MBA from the Fuqua School of Business at Duke University.
navy bases in Khabarovsk and Vladivostok to its suppliers and paymasters in Moscow. To evaluate Russian power in East Asia, therefore, one must examine the region's economic and political mechanics as well as its military deployments.

**Economic Dependence and Deterioration**

Russians and their Cossack allies first ventured across the Ural Mountains in search of valuable furs and whatever bounty remained in the coffers of the Siberian khanates. But within a century the furs began to play out, while the hoped-for commerce with China never matched Russia's expectations. As a result, the RFE developed as a highly dependent colonial area. "Between 1892 and 1907, for example, the Amur-Ussuri lands cost the czarist government six times more in budgetary outlays than they returned in revenues. Although the Far East produced only one twenty-fifth of Russia's exports in 1910, it purchased one-seventh of its imports." Under Communist rule, credits and transfers to the region helped it to develop some of the most sophisticated industries in the former Soviet Union, particularly in defense and resource extraction, but other industries as fundamental as agriculture languished. The region's economy was closely tied to the rest of the former Soviet Union and shielded from the external world in order to maximize its utilization to Moscow's benefit and insulate the population from "subversive" foreign influences.

After the Cold War, however, the shrunken Russian Federation could no longer afford to lavish its far eastern provinces with credits and transfers, so that by 1992 the center's capital investments in the Far East fell to only 20 percent of the average amount during the 1980s. The region's industry suffered badly (see Table 1), and it was clear that the Far East's legacy of subservience to the center [could] not be so easily discarded. The region's overwhelmingly one-dimensional economy, a result of its limited role as a supplier of raw goods in the Soviet system, [proved] to be a major hindrance to development. Even more importantly, regional officials have been unable to wrest control of their resources from the center which still collects and distributes most of the profits from joint ventures. The center's tight grip over Far Eastern resources has frustrated regional officials and led to a series of counterproductive feuds over the distribution of profits.

The ambiguity surrounding the relative roles of the federal, regional, and local governments has kept foreign investors away, but even worse for

---


the RFE was the collapse of the Soviet system itself. With the dissolution of the Council of Mutual Economic Assistance, Russian industry lost at a single stroke its access to captive markets and suppliers while Moscow began a necessary, but difficult reform program to build a market economy quickly.

For all its worthy intentions, Russia's reform strategy was problematic. As government subsidies dried up, the nascent financial system could not raise enough investment to compensate. Privatized companies were often limited in their ability to adjust, compelled as they were to observe rules on the number of hours employees worked, value of transactions, and sometimes even what purchases and repairs to make. Such legacies of the past were particularly damaging in the RFE as it tried to shift from an economy that emphasized resource extraction and heavy industry to one focused on food and consumer products.

In October 1993, Russian workers were issued 144 million vouchers to invest in capital themselves. The scheme was "democratic in its original conception and conducive to the formation of a new industrial elite." Unfortunately, workers fearful of new management often used these vouchers to buy shares in their old companies and then voted to keep their old Soviet managers. Inexperienced or inept, many of these managers continued to order raw materials and equipment, even if no money was available to pay for them, and continued to produce products, regardless of market demand. Entrepreneurs that sought to improve profitability by streamlining operations ran afoul of plant managers and local governments opposing job cuts. Companies gradually ran out of money to pay each other, their workers, and their taxes.  

At all government levels, tax revenue was critical to underwrite reform and spur investment. Unfortunately, tax receipts continually fell short of estimates due to widespread tax evasion and, more recently, the falling prices for oil and

---

Table 1
Russian Far East Industrial Production
(percent change over previous year)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Amur Oblast</td>
<td>2.2</td>
<td>-6.4</td>
<td>-17.3</td>
<td>-7.4</td>
<td>-22.9</td>
<td>-18.0</td>
</tr>
<tr>
<td>Jewish Autonomous Area</td>
<td>4.4</td>
<td>-5.0</td>
<td>-25.4</td>
<td>-33.3</td>
<td>-29.0</td>
<td>-32.0</td>
</tr>
<tr>
<td>Kamchatka Oblast</td>
<td>2.4</td>
<td>-7.9</td>
<td>-26.9</td>
<td>-6.5</td>
<td>-30.8</td>
<td>9.0</td>
</tr>
<tr>
<td>Khabarovsk Krai</td>
<td>2.8</td>
<td>-1.2</td>
<td>-13.6</td>
<td>-18.2</td>
<td>-41.5</td>
<td>-23.0</td>
</tr>
<tr>
<td>Magadan Oblast</td>
<td>-0.2</td>
<td>-3.1</td>
<td>-8.1</td>
<td>-10.6</td>
<td>-11.6</td>
<td>-21.0</td>
</tr>
<tr>
<td>Primorsky Krai</td>
<td>2.8</td>
<td>-3.7</td>
<td>-6.9</td>
<td>-11.8</td>
<td>-29.3</td>
<td>-10.0</td>
</tr>
<tr>
<td>Republic of Sakha (Yakutia)</td>
<td>3.8</td>
<td>-2.4</td>
<td>-20.2</td>
<td>-3.9</td>
<td>0.4</td>
<td>2.0</td>
</tr>
<tr>
<td>Sakhalin Oblast</td>
<td>0.2</td>
<td>3.1</td>
<td>-21.8</td>
<td>-26.9</td>
<td>-10.0</td>
<td>9.0</td>
</tr>
</tbody>
</table>


---

natural gas. At first, Moscow believed that the way to increase revenue was to levy additional taxes. By 1996, there were some 200 taxes in Russia. Nevertheless, Russia's chief tax collector, Boris Fyodorov, cited in August 1998 that almost 5,000 companies owed nearly $50 billion in unpaid taxes and fines. To collect that money, the government brandished hundreds of thousands of police, whereupon many underpaid and unpaid policemen began holding back tax receipts for themselves. After all, tax collection is a dangerous profession. In 1996 alone, 26 tax collectors were killed, 74 wounded, 6 kidnapped, and 41 burned out of their homes. Attempts to extract even small sums of money from needy workers have produced big waves of discontent.7

The mountains of accumulating unpaid bills and federal government spending cuts contributed to a growing nationwide inter-enterprise debt crisis. Aggravating the situation, the Russian central bank tightened money supply to rein in the rampant inflation caused by reform's sudden release of price controls. Some areas of the RFE have abandoned money altogether in favor of promissory notes, known as vekseli, or simple barter. Some companies do up to 90 percent of their business through barter transactions, and even local governments have accepted vodka instead of cash taxes.8

In lieu of tax revenues, Russia heavily relied on short-term bond financing to fund many of its reforms and its conflict in Chechnya. By spring 1998, finding a way to pay the interest and principal on that debt was of immediate importance. The government desperately needed to sell new bonds to repay old ones, but few buyers were found willing to believe that Moscow could undertake needed reforms, revive the economy, collect taxes, and pay off the interest and principal on its existing debt, let alone new debt. With almost $24 billion of government securities falling due, fears swelled that Moscow would devalue the ruble or even default.9

During a May bond auction, Russian officials were forced to reduce their auction price from $2.1 billion to under $1.7 billion, a cut of almost 30

percent, in order to entice enough investors to buy the securities. Interest rates on them soared to 90 percent. Meanwhile, the Russian government tried to raise money by selling off some of its state-owned enterprises. But the level of investor confidence had fallen so low that when the government auctioned Rosneft, a major energy concern, for $2.1 billion, nobody bid. A second offer of $1.6 billion in July also failed. Similarly, an effort to sell a 5 percent share of Gazprom, the world's largest natural gas producer, was abandoned for lack of "reasonable" offers.10

As a result, the central bank had to raid its reserves, while the Communist-dominated Duma, alarmed by social unrest and strikes throughout the country, resisted a further 40 billion ruble ($6.2 billion) spending cut needed to contain the federal government's budget. Fortunately for Moscow, the International Monetary Fund (IMF) came through with a $22.6 billion loan on July 14. Russian short-term interest rates immediately dropped from 150 percent to 50 percent. The bad news was that the IMF insisted that Russia balance its budget in two or three years, improve tax collections, and create a system for converting rubles into hard currency through an open foreign exchange market. The Duma refused these important reforms, and Russian companies that would be hurt by higher taxes balked as well. Gazprom, which produces 95 percent of Russia's natural gas and 25 percent of the world's natural gas, was among them. As a result, bond yields quickly retreated back above 150 percent on nine-month notes, and the government was forced to cancel another bond offering.11

When it became known that some of the largest Russian banks could not repay major loans, the financial markets sent nine-month bonds above 200 percent and stocks sharply lower. Such a pricey borrowing environment clearly stifled economic expansion. Meanwhile, banks even stopped lending to one another and refused to sell dollars for rubles. Finally, even some sidewalk currency exchanges stopped selling dollars, while efforts to keep some of the most illiquid banks afloat drained almost $9 billion from the central bank's coffers. Under increasing strain, Russian authorities finally allowed the ruble to devalue from 65 rubles to 95 rubles to the dollar on August 17, then to 12.82 rubles to the dollar on September 3, and even more thereafter. Although such


a devaluation can restore a country's finances, Moscow's circuitous handling of the process further undermined confidence in Russian securities. In any event, investors in Russian domestic debt saw little chance that they would recover much more than 10–30 percent of their initial investments by early October.12

Meanwhile, the crisis spilled beyond the realm of finance. Urged by Russian tycoons, Yeltsin sacked Prime Minister Sergei Kiriyenko and tried to replace him with Viktor Chernomyrdin, whom Yeltsin had derided and fired five months earlier. After two weeks of swirling debate and deal making, Chernomyrdin, a former head of Gazprom with strong links to the Russian oligarchy, was soundly rejected by the Duma. Realizing that he could not force the Duma's hand, Yeltsin nominated Yevgeny Primakov, a former foreign minister without any economic credentials. Satisfied and somewhat relieved, the Duma quickly approved Primakov. So uncertain was the situation that speculation about Yeltsin's own possible resignation initially abounded.13

Popular discontent spread, especially as food shortages began to appear. A poll by Russia's reliable Sociology and Parliamentarianism Institute revealed that 12 percent of Russians were ready to join a strike and 11 percent even said they supported an uprising against the government. While much of that sentiment was an immediate reaction to the devaluation and political turmoil, the poll indicated that there was considerable frustration, even among the traditionally stoic Russian people.14

Clearly, Moscow had little time to dwell on the travails of the distant RFE. Basic but hard-fought policies, including a tight money supply that had dramatically reduced inflation to manageable levels, were in jeopardy. Indeed, if the outlook for the national economy had become darker by late 1998, that of the RFE had become darker still.

**Foreign Trade and Investment**

Well situated near major international markets and well endowed with raw materials, the RFE appeared to be an ideal candidate to benefit from a post-Soviet liberalization of trade, and the Nakhodka Free Economic Zone and

---


Vladivostok Project were both launched in that spirit. But high prices for energy, transport, and labor rendered Siberian products uncompetitive, and it gradually became apparent that "the reorientation strategy of the regional economy to foreign markets [would] be possible only with real state support . . . in the form of the establishment of more flexible and liberal economic regimes in the Russian Far East in the fields of taxation, customs regulations, and economic legislation."

Other, more mundane, obstacles have proven equally troublesome. Since the RFE lacks a developed financial infrastructure, the availability of foreign exchange and international financial instruments such as letters of credit have been inadequate. Relatively efficient customs, certification, and licensing processes do not exist. The region's physical infrastructure is primitive, with vehicles, warehouses, and even roads in limited supply. Finally, the dearth of reliable information and statistics has made intelligent investment in the region extremely difficult. As a consequence, many Western merchants have simply chosen to remain offshore. Ironically, the RFE's largest commercial partner has now turned out to be its long-standing military adversary: China.

With its ties to European Russia weakened, the RFE needed China's food and consumer products more than at any time in the past half century. Chinese traders capitalized on that demand, and their names soon filled the register of foreign companies operating in the region (see Table 2). Although smaller in capitalization than many of their Western counterparts, Chinese joint ventures have been arguably more active, and overtook the Japanese as the RFE's leading economic partner in 1992. Provincial authorities set up "border economic cooperation zones" around Heihe, Suifenhe, and Hunchun, whose commerce (not least of which involved brisk vodka trade) captured nearly half of Khabarovsk Krai's foreign trade and surpassed official metropolitan trade between Beijing and Moscow. Indeed, "in a twist to history that would have brought a sardonic smile to the face of [imperial Russia's finance minister] Sergei Witte, Beijing made a bid to build a railroad across Russian territory to the port of Zarubino, restoring 'Manchuria's' access to the Sea of Japan."

By 1993, some two thousand merchants were crossing the borders each day and an estimated ten thousand Chinese workers were legally employed in the RFE, reviving the Russians' age-old fear that their very hold on the territory might soon be jeopardized. In point of fact, the RFE was much more conspicuously


Asian in the 1930s, with about 180,000 Koreans and 30,000 Chinese living and working there. Regarded as a threat by Stalin, most were expelled in 1937. 19

Until the 1980s, the RFE primarily relied on Russian and sometimes North Korean labor. But the region never had a permanent population. Many Russians who came to the region were lured there by lucrative work. When that work vanished after the Cold War, an exodus of skilled labor occurred and foreign workers were needed to fill the void. Near Khabarovsk, as many as 25,000 North Koreans worked in timber camps and churned out forest products at 25 percent lower cost than their Russian counterparts.

In the summer of 1992, China and Russia signed an agreement outlining the parameters for employing Chinese citizens on Russian soil. According to the Law of the Russian Federation on Employment, local authorities were granted authority to fix the number of foreign workers in their territories and to issue licenses to domestic enterprises to import foreign workers, at a cost of 30,000 rubles per worker. Despite their slightly higher wages, Russian employers prized Chinese laborers, because they were disciplined and did not strike. When Chinese “travel” companies were organized to funnel hopeful Chinese to Russia on tourist visas, many Chinese workers illegally crossed the border and stayed. Russian claims of crime and smuggling among the migrants were common. Soon, Siberian and Far Eastern authorities were estimating that a million Chinese had settled on the Russian side of the border, and while that number is certainly inflated, it reveals the depth of Russian anxiety over Chinese migration. 20

Authorities enacted new visa requirements in February 1994 to better regulate the flow of Chinese laborers. Project-based work was still essential, but regional officials discouraged Chinese settlement. Unfortunately for Russia, “many of these illegal Chinese were engaged in mutually profitable trade with

---


Russian citizens and enterprises. The result, in tandem with a slight reduction in access to illegal Chinese immigrants, was a dramatic reduction in bilateral trade, which plummeted to $5.1 billion in 1994 from about $6 billion the year before. Those trade levels fell "despite the influence of higher trade volume between enterprises located in interior regions and in state-to-state trade (such as arms sales)." Oddly, many Russians "do not seem disturbed by these trends, and would seem to prefer it if the many thousands of Chinese now living and working in the region would simply return home." Local media and politicians tacitly encourage these attitudes.21 However, the forceful tone taken by RFE authorities contrasted with the conciliatory one taken by Moscow toward China, highlighting "a growing gap between the positive perception of bilateral relations in Moscow and the increasingly negative view of the local Russian Far Eastern population, which could ultimately undermine the rapprochement."22 By the time Russia’s first deputy prime minister, Boris Nemtsov, inaugurated the Zabaykal’sk frontier post across from the Chinese town of Manzhouli in March 1998, China had become not only the RFE’s largest trading partner, but also its third largest investor. However, China’s trade has been dominated by consumer goods, disappointing Russian officials who would prefer to see foreign investment in natural resource extraction, processing industries, and basic infrastructure development.23

During the early 1990s, the Tumen River delta was often mentioned as a logical location for a free economic zone. Wedged near the intersection of the Chinese, Russian, and North Korean borders, the delta was to benefit from the confluence of mutual economic interests. By 1998, after $900 million had already been invested in the project, project leaders believed that another $2–3 billion would be needed to make the project work. Even worse, there were greater problems that extended beyond money. North Korea’s political isolation and economic instability were two. Pyongyang’s launch of a missile over northern Japan in late August did not help. Still another problem stemmed from the fact that Chinese exporters favored the North Korean ports of Rajin and Sonbong over the Russian ports of Pos’yet and Zarubino because of their mistrust of Russian officials. Meanwhile, Primorsky Krai’s foreign trade officials favored developing the free economic zone centered around Nakhodka and using Vostochny as its principal port. After all, Vostochny is the Far Eastern terminus of the Trans-Siberian Railroad and arguably the best managed port on the Russian Pacific. Nonetheless, the cargo traversing its docks fell from 225,000 tons per year in the late 1980s to about 60,000 tons in 1998.24

Some RFE advocates have urged international companies to invest quickly, citing the region’s “cheap and highly educated workforce, inexpensive

---

land, and abundant natural resources." But when business people encounter difficulties, these advocates oftentimes fault the foreign investors for their unpreparedness. Evidently, finding the right partner to lead one through the Russian labyrinth of bureaucratic, capitalization, and legal problems is essential. What is more, the central government's hunger for revenues caused a proliferation of regulatory agencies. While many international companies are used to paying high taxes, most are uncomfortable with capricious taxes that change without notice. Scores of companies have found themselves in violation of vague regulations and compelled to pay enormous fines for violating regulations they never knew existed. Without some assurance of stability, responsible executives simply cannot invest their money in the RFE.26

As Kevin Block, general director of the Pacific Law Center in Vladivostok, summarized in 1995, "Russia doesn't have rule of law, but there are a multitude of laws and there are consequences for breaking them." And, of course, the federal or regional government "never [tells] you about a rule until it happens!" Administrative rules are often contradictory and changing, and enforcement arbitrary, inconsistent, and subject to influence. Block concluded that the main deterrents to investment have been "(1) absence of a banking system ('You can't expect businessmen to walk around with suitcases of money'); (2) lack of property rights; (3) lack of legal mechanisms for dispute resolution ('People are shot and people are blown up'); (4) crime and corruption."27

The experience of one telecommunications company was telling. The enterprise shouldered a tax burden of 62 percent of its gross profit, levied through eighteen different taxes. Despite hiring specialized accountants devoted to compliance, the company missed a payment and was promptly fined $1 million. Not surprisingly, foreign investment has been minimal. The Khabarovsk provincial government revealed that while "550 enterprises with foreign investment have set up in the krai since 1989," they totaled an investment of "just $177 million, including the local partners' shares." Such a paltry sum belied the provinces' incentive exempting these joint ventures from provincial profit taxes for two to three years.28

In an environment where legal recourse is restricted, trust between commercial partners is crucial. Unfortunately, American business executives often comment that Russians appear inherently suspicious of American intent.

That generates suspicions by the Americans, who feel that Russians only want their money and do not want to relinquish any control. Russians, on the other hand, "have had their trust broken so frequently in the past that they are wary of trusting anyone," explained a Russian CEO. "So they trust no one and blame everyone else for their problems." 29

Nevertheless, Japanese businessmen from Niigata did invest. Conveniently located on the northern Japanese coast, Niigata was designated as the base for engan boeki, or border trade, in 1963. That special designation allowed local merchants to bypass Soviet authorities in Moscow and deal directly with Siberian trading concerns. By the early 1990s, Niigata was among the few places from which one could directly travel from a developed country into the RFE by air, with three flights each week from Niigata to Khabarovsk and two to Vladivostok. Thus, it made some sense for Niigata entrepreneurs to develop an airport terminal at Vladivostok in anticipation of increased traffic. In 1995, construction began. But once the building's shell was completed, the Japanese investors were told that all their money had been spent. More money was needed, but the Japanese had no more. 30

A more successful Japanese venture dealt with used cars. In 1992, 9,400 cars were shipped and 4,000 in the first three months of 1993. Seamen often claimed used cars bought in Japan as "souvenirs" on their return home. Accommodating Russian customs officers permitted such "souvenirs" to pass duty-free. Similarly, Japanese customs declared the used cars as "personal export items" that did not require detailed export documentation. Thus, cars no longer suitable for Japan can be found cruising the roads of the RFE. 31

Among the biggest investors in Vladivostok have been South Koreans. Hyundai led the way by opening a $100 million hotel and business center. Other companies wanted to develop the port of Nakhodka and possibly a Sea of Japan free economic zone. Unfortunately, these grand designs ran aground when the Asian financial crisis hammered the South Korean economy in late 1997. 32

The financial crisis aside, Russian pride, occasionally laced with racism, cast a shadow over foreign investment, as when Russians raised "environmental issues" to camouflage their disdain for Japanese investors, Korean loggers, or Chinese and Vietnamese laborers. As one Russian official put it, "We would rather let the land go to waste than allow foreigners in." Politically and culturally, the economies of Northeast Asia have little in common with each other and foreign investment has remained insignificant, despite Moscow's hopes that it "would compensate for the decrease in national production and contribute to the modernization of production." 33

Oil and Natural Gas

Energy resources are now more important to the RFE than ever before. The decline in federal government subsidies has left the region heavily reliant on oil and natural gas to generate hard currency. According to the Energy Research Institute of the Russian Academy of Sciences, the full recoverable potential of the RFE’s oil resources is roughly half that of the United States, and its gas reserves exceed those of the United States and China combined. (See Table 3.)

However, finding investment capital has not been easy. During the Soviet period, oil and natural gas fields on the west Siberian plain consistently received priority. Perversely, therefore, the RFE in Soviet times actually imported up to 90 percent of its oil and coal from other parts of the country. (See Table 4.) With the collapse of communism the RFE has had the chance to develop and sell its energy to its Asian neighbors. Following Yeltsin’s April 1996 visit to China, a surge of research was commissioned to study the feasibility of building a pipeline to pump natural gas from Irkutsk to the Chinese coast, whence the gas could be shipped to other parts of China, as well as Japan and South Korea. In June 1997, Russia signed an agreement with China to investigate the feasibility of exporting up to 25.5 billion cubic meters (bcm) of natural gas annually. South Korea’s East Asia Gas Company and Russia’s Sidanco formed the joint venture Russia Petroleum to investigate other routes for Irkutsk gas, while Japan and Russia announced plans to examine the export of natural gas to Japan. Most studies envisioned production of 20–30 bcm each year and a project cost of $8–20 billion. To encourage such investment, Russian authorities held a conference with mainly Chinese, Japanese, and South Korean oil companies in late 1997. The most favored project was a 2,160-mile pipeline from the Kovyktinskoye natural gas fields 250 miles north of Irkutsk through Ulaanbaatar in Mongolia to Lianyungang in China’s Shandong Province. Other plans envisioned extending the pipeline underwater another 770 miles to Mokpo in South Korea and Kitakyushu in Japan. On November 10, 1997, Yeltsin and Chinese President Jiang Zemin signed a framework agreement to lay a natural gas pipeline from Irkutsk to the Shandong Peninsula with extensions going to South Korea and Japan.

A second area often mentioned for natural gas development has been Yakutsk. While 1,100 miles northeast of Irkutsk, Yakutsk’s fields are larger and better known. At least three potential pipeline routes have been mapped out, but all must surmount the forbidding Dzhugdzhur Mountain Range as well as the political risk of routing pipelines through North Korea. And given that a

---

### Table 3
Russian Far East Oil and Natural Gas Reserves, 1995

<table>
<thead>
<tr>
<th>Region</th>
<th>Oil (millions of metric tons)</th>
<th>Natural gas (trillions of cubic meters)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Discovered reserves</td>
<td>Undiscovered reserves</td>
</tr>
<tr>
<td>Amur Oblast</td>
<td>-</td>
<td>3</td>
</tr>
<tr>
<td>Irkutsk Oblast</td>
<td>262</td>
<td>1,721</td>
</tr>
<tr>
<td>Kamchatka Oblast</td>
<td>-</td>
<td>16</td>
</tr>
<tr>
<td>Khabarovsk.Krai</td>
<td>-</td>
<td>31</td>
</tr>
<tr>
<td>Krasnoyarsk Krai</td>
<td>502</td>
<td>6,352</td>
</tr>
<tr>
<td>Magadan Oblast</td>
<td>10</td>
<td>97</td>
</tr>
<tr>
<td>Primorsky Krai</td>
<td>-</td>
<td>1</td>
</tr>
<tr>
<td>Republic of Sakha</td>
<td>263</td>
<td>2,645</td>
</tr>
<tr>
<td>(Yakutia)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sakhalin Oblast</td>
<td>433</td>
<td>5,279</td>
</tr>
</tbody>
</table>

Notes:
1 Reserve numbers show reserves considered recoverable based on market prices from 1992 to 1995.
2 Reserves classified according to Russian standards A, B, C1, and C2.
3 Reserves classified according to Russian standards C3, D1, and D2.
4 Fields containing above 10 mt.
5 Fields containing below 10 mt.
6 Fields containing above 10 bcm.
7 Fields containing below 10 bcm.

pipeline to pump 20 bcm per year would cost at least $10 billion, interregional squabbles over the spoils are expected.36

Almost a century ago, exploration and development of Sakhalin Island's onshore oil began. But its long history of low-technology exploration has left some 40 percent of its reserves untapped. "Geological conditions are worsening and oil deposits are becoming smaller and smaller. Due to the economic crisis and critical capital equipment shortages, those oil wells in need of repair [have been] just allowed to stop production." Hence, post-Soviet hopes have focused on three offshore projects, Sakhalin 1, 2, and 3, each consisting of a number of separate exploration blocks. Sakhalin 1 had its genesis in 1965 as part of a pipeline plan to funnel natural gas to Japan. Development began in 1975, but gained greater visibility when Exxon acceded in 1993 and signed a production-sharing contract in 1995. Meanwhile, Sakhalin 2 arose from a partnership between a small independent U.S. oil company and the Soviet Ministry of Oil and Gas. By 1992, it had evolved to include Mitsui, Marathon, Mitsubishi, and Royal Dutch Shell. After Sakhalin 3's bidding round, Mobil and Texaco entered the offshore development area, though negotiations on production-sharing contracts have stalled since then.38

Getting any of these ambitious projects off the ground has been difficult, and the reasons lie in Russia's attitude toward foreign energy investment, its unstable economy, and the international energy market.


Many Russian officials appear to believe that they should exercise inordinate influence over the terms of any agreement to develop energy resources. They discount the exploration and production risks that are associated with international oil and natural gas development, and demand terms that are intolerable even for international companies accustomed to paying high taxes, royalties, and concessions to state-owned oil companies. As one manager summed up, “They see it as 50-50: We put up the oil, you put up the money. Well, that’s not really 50-50. We’re taking all the risk.”

In December 1995 Yeltsin signed legislation that ended provisions favoring international oil companies. “The new law was an expression of resource nationalism in the country. Earlier drafts of the legislation exempted foreign investors from customs duties but this privilege was eliminated against the background of heavy tax burdens on domestic producers. The final legislation also eliminated protection against unilateral changes in response to the international market condition.” The new law also made contracts deemed strategically important subject to Duma approval, thus making foreign ventures vulnerable to the vagaries of Russian politics, not to mention Russian tax collectors, regulators, and courts, if any dispute should occur. Nonetheless, Alexander Natalenko, the deputy natural resource minister, reproached foreign oil companies for their insistence that all investments take the form of production-sharing contracts, which seek to fix profits, taxes, and responsibilities. But companies would happily accommodate the delays and difficulties such contracts entail if that could ensure that the terms would not be arbitrarily changed.

The aggressive financiers and industrialists that populate Russia’s current economy have not helped the situation. Their machinations have occasionally doomed good projects. For instance, Amoco won the right in 1993 to explore and develop the huge North Priobskoye field with an estimated 4.2 billion barrels of recoverable oil. Amoco was to pay a hefty signature bonus as well as billions of dollars in royalties, profit taxes, and pipeline tariffs throughout the project’s life. Financing and production costs were to be evenly split between Amoco and Yukos, a private Russian oil company, and the final cost, including operating expenses, was estimated at some $86 billion. Then an obstacle emerged. “Yukos was acquired by Menatep bank, which, like other powerful Russian financial institutions, [was] trying to build an empire. Snapping up newly privatized assets and speculating on government securities [took] money. And that . . . made Menatep reluctant to sink its capital into the development of the North Priobskoye oilfield.” When Menatep accordingly tried to get Amoco to absorb the entire investment cost, the project stumbled badly, and Amoco promptly “slashed its non-Russian staff in Moscow from twelve executives at the start of 1997 to seven.”

Possibly the greatest problem facing RFE oil and gas development in the late 1990s has been the price of energy. Oil has been too plentiful, and the Asian financial crisis has slowed the economies of many countries, reducing their demand for energy. Since oil companies plan their production schedules well in advance, oil has continued to flow on to the market even as Russia has actively sold its oil to raise hard currency. So market prices for oil drastically dropped from eighteen dollars a barrel in 1997 to eleven dollars a year later.

Accounting for over 40 percent of its export revenue in 1997, oil has been Russia's most important commodity. Hovering around ten-year lows, the price of oil has had a significant impact on the country's economy. Moscow admitted that the value of its oil exports in the first half of 1998 decreased about 46 percent from 1997. Nationally, the oil price drop was anticipated to lower Russia's gross domestic product growth from an expected 3.7 percent to between 1.2 and 2.5 percent, according to Chubais in March 1998, and even that is optimistic. A return to recession is more likely. The lower prices have made international oil companies less willing to explore for more oil, especially in areas where risks are high. For the RFE, whose energy infrastructure has become increasingly creaky without continued investment, that did not bode well.

Coal

Since the early 1990s, coal miners in the RFE have gained more attention by striking than by working, since they have played an important role in shaping national events, including power struggles at the center. In 1991 strikes by Siberian miners were instrumental in the Russian Congress's decision to grant emergency powers to Yeltsin and approve the June 1991 election of a Russian president. Vehement miners had also helped to persuade Soviet president Mikhail Gorbachev to reverse his 1990 "shift to the right," and "during the failed putsch of August 1991 . . . miners once again came to the aid of Yeltsin and the pro-democracy Russian leadership."43 While many of them have since changed their opinion of Yeltsin and his stewardship of Russia, the collective voice of miners from the RFE is as resolute as ever.

However, even the hardiest coal miner could not deflect the economic forces sweeping Russia. Economic reforms exacted an enormous toll on the country's inefficient industries, and even during the 1980s, Soviet planners reluctantly recognized that Russian coal production was simply not competitive


with European coal. By the late 1980s, only 15 percent of the RFE's subsidized coal mines were technologically comparable with their Western counterparts.

When Russia first welcomed foreign investment into once-restricted industries, some international companies believed that they could revive the country's flagging coal industry. After all, coal can be found in great abundance throughout the RFE and much of it is mined near large markets such as Khabarovskyk and Vladivostok. Some estimates peg the region's coal reserves at twice those of the entire United States. As a result, Japanese investors quickly signed an agreement to prospect for coal in Yakutia in the early 1990s. But these investment plans, battered by the prevailing conditions of the RFE, have amounted to little, and the region remains a net importer of coal from European Russia and Western Siberia. The nationwide inter-enterprise debt crisis, high tariffs on the Trans-Siberian Railroad, and a lack of manpower have all contributed to the failure of teetering mines. After an initial coal-restructuring loan from the World Bank, a second was needed only a few years later in 1997. The conditions on the two loans were clear. The money was to be used to close down unprofitable mines and reorganize those that remained.

Simultaneously, the living conditions of miners and their families rapidly deteriorated. Typically residing in single-industry towns, miners frequently had no paychecks, no electricity, and no food. In some areas, money became so scarce that it was abandoned as a medium of exchange. As the miners' early enthusiasm for market reforms faded, they became increasingly agitated at Moscow's apparent unresponsiveness to their plight. Even when money was available for distribution, there was rarely enough since miners' unions, regional governments, and corrupt officials siphoned off their shares before it reached the general population. As a result, miners went on strike to demand unpaid wages from the central government, even though Moscow had divested itself of most mining companies through privatization. Miners staged public demonstrations and, when that failed to produce the desired result, held extended hunger strikes—a humbling experience for miners who were once adorned with special privileges and lauded as the backbone of the Soviet Far East.44

Among the most recent strikes occurred in May 1998 with the miners claiming that the government owed them some 3.7 billion rubles ($569 million) in back pay. On the other hand, Moscow maintained that it had already distributed 1.6 billion rubles through May and dedicated a total of 5.7 billion rubles to the coal industry for the entire year, but reiterated that it would close scores of unproductive mines in the Kuznetsk and Vorkuta basins. This time, miners took additional measures to ensure Moscow's attention: they blocked railroad tracks. In the RFE, railroads are frequently the only means of transport across the expanses of barren terrain between cities. Movement of food and other supplies, not to mention national defense, is dependent upon rail lines. Thousands of unpaid civil servants, doctors, and teachers joined the miners

on the railroad tracks, especially in the Kuznetsk Basin and in the far north near the Arctic Circle.

Near Anzhero-Sudzhensk, a large rail junction just northwest of the Kuznetsk Basin, miners blocked up to fifty freight trains. A few days later, several hundred more miners occupied a railroad section in the Kemerovo coal region of Western Siberia, stopping thirty-two more trains in the first hour. To the east, miners in Buryatia blocked a line adjacent to the Trans-Siberian Railroad. Sympathetic miners as far away as the southern Rostov region struck and closed the North Caucasus Railroad.\textsuperscript{45}

Moscow grew so concerned about the impact of the rail paralysis on the Russian economy and on national defense that First Deputy Prime Minister Oleg Sysuyev was dispatched to meet with the striking miners. The deal that was eventually forged included "special anti-crisis measures," involving financial relief and employment help for displaced miners and helping them find new work. But the heart of the deal required the central government to immediately pay back most of the miners' unpaid wages by July 1 and to punish those who had embezzled or mismanaged wage and pension funds. When the strike ended, the Railroad Ministry reported that it had lost about 420 million rubles ($64.6 million). Even then, some miners remained unconvinced of the government's sincerity and remained on the tracks near Inta.\textsuperscript{46}

As the deal's final points were hammered out, Russia's potentially powerful Security Council sternly warned miners that they would face criminal charges if they continued to block rail lines. The threat was not to be taken lightly, since in times of national crisis the Security Council can wield extraordinary powers, and Yeltsin himself warned the miners that they would be held responsible for their actions.

Meanwhile, local RFE politicians, concerned about their own popularity and survival, were quick to placate both sides. Kemerovo Oblast's governor, Aman Tuleyev, walked a fine line with his public statements. He loudly opposed the railroad blockades, which hurt other industries in his territory and held up 167 railcars containing hazardous materials. He cautioned that the situation was "so tense that no pleas to the striking miners from the local authorities help." But in a sop to the miners, Tuleyev firmly supported their demands for unpaid wages and went so far as to suggest that Moscow should at least double the promised 5.7 billion-ruble allocation for the year.\textsuperscript{47}


Nevertheless, many miners had still not been paid by the beginning of July. They contended that only a seventh of the promised 1.6 billion rubles ($246 million) had actually been disbursed, and went back on strike despite official threats. Trains bound for the west Siberian bottleneck of Anzhero-Sudzhensk were forced to make detours as wide as 625 miles. By July 5, eighteen trains were stranded on the Trans-Siberian Railroad. A day later, that number doubled. Concerned about their own enterprises and industries, local officials and trade union leaders from Tömisk, Barnaul, and Novosibirsk grew increasingly anxious to end a blockade that was costing businesses in those cities about 12 million rubles ($1.8 million) each day. So Moscow sent Sysuyev back to bargain with the miners. "Sysuyev told a meeting of mining union representatives and industry leaders that the government had cleared its debt to striking miners, transferring in the last two months 730 million rubles [$112.3 million] to the region for the mining industry." Sysuyev blamed regional leaders for the delays in payment, since funds issued by the federal government pass through regional authorities for general distribution.48

Buoyed by the success of the miners in the western portion of the RFE, miners in the eastern section struck in late July to protest their own unpaid wages. Nearly a month earlier, the governor of Primorsky Krai, Yevgeny Nazdratenko, had hoped to forestall any further unrest by rescinding a resolution passed by the Ministry of Fuel and Energy to shut down the unprofitable Nagornaya and Tsentralnyaya mines in the town of Partizansk. Unfortunately, miners from Partizansk, just a few miles north of the major ports of Nakhodka and Vostochny, did strike and blocked the tracks leading to these ports from the Trans-Siberian Railroad. Local residents joined them. Only after intense pressure from the Interior Department, Federal Security Service, and the chief prosecutor of Primorsky Krai were most miners persuaded to leave their pickets by August 4.49

Meanwhile, on Sakhalin Island, another group of miners struck on July 26. To emphasize their point, fifty miners used their cars to block rail access to a local power plant that supplies electricity to most of the island. Soon thereafter, 350 more miners joined them on the tracks. As a result, forty railcars


filled with 4,000 tons of “coal were stranded on the tracks leading to the plant.”
To continue operations, the power plant’s management struggled to stretch out
the four-day reserve of coal it had inside the plant. Needing some 2,000 tons
of coal daily to function normally, the Sakhalinenergo plant was forced to
reduce the amount of power it could produce. Thus, Sakhalin’s power shortage
soared to seventy-five megawatts, or a full third of the island’s summer needs.
As the blockade continued, electricity to all but the island's hospitals and
water-pumping stations was suspended.50

For a second time, Moscow threatened to remove the miners by force.
“There are laws and they will be applied,” proclaimed Kiriyenko, emphasizing
that the railroads were critical to the national economy. The timing of Kiriyenko’s
threat suggests that it was aimed at the striking miners on Sakhalin. But when
Sakhalin Oblast’s governor, Igor Farkhutdinov, sent seventy policemen to clear
the tracks, hundreds of local residents rallied to support the miners. Outnumbered,
the police were told to withdraw. Even after the miners relented on August 4,
the residents who had joined them remained on the tracks for another day.51

Of course, these have not been the only demonstrations by Russian
miners. Nor have these activities been limited to the RFE. Nor are the politically
minded miners liable to limit their demands to “Pay us our wages!” By the
summer of 1998 they were calling for Yeltsin’s resignation or impeachment due
to his inability to cope with the country’s economic problems. Goaded by
Russia’s Communist Party, they appealed to the Duma to begin the process.52

Electricity

As coal production intermittently ceased due to strikes and blockades,
Russian power companies struggled. The price of fuel for power plants has
gradually increased in many areas of the RFE due to the vagaries of the region’s
rail operations, but even higher prices did not ensure delivery. As a result of

Moscow ITAR-TASS; “Russia: Striking Coal Miners May Grind Sakhalin’s Economy to a Halt,” FBIS-SOV-98-209,
July 28, 1998, Moscow Interfax; “Russia: Sakhalin Coal Miners Block Power Plant Fuel Supply,” FBIS-SOV-98-208,

51 “Russia: Sakhalin Miners' Strike Committee Lift Picket Lines,” FBIS-SOV-98-220, Aug. 8, 1998, Moscow
ITAR-TASS; “Russia: Police Decide To Take Measures Against Sakhalin Miners,” FBIS-SOV-98-218, Aug. 6,
1998, Moscow Interfax; “Russia: Ministry Warms of Criminal Cases Against Sakhalin Strikers,” FBIS-SOV-98-217,
Times, Aug. 3, 1998; “Russian Premier vows to lift miners' railway blockade,” AFP, July 31, 1998; “Russian

miners take director hostage over pay claim,” AFP, July 30, 1998; “Russia: Mining Regions Demand Yeltsin
Urge Duma To Impeach Yeltsin,” FBIS-SOV-98-170, June 19, 1998, Moscow Interfax; “Duma Debate on Coal
the power industry's own unrestrained ordering, the amount of debt owed by some electric companies to coal enterprises rose dramatically during the early 1990s. Compounding the problem, federal and regional governments sharply slashed their funding for state-run agencies. Since these entities still represented a large segment of the RFE's economy, many agencies were simply unable to pay for the electricity they used. Chief among them is the Far Eastern Military District. Electric companies have thus been squeezed from both ends.

**Primorsky Krai.** The rapid privatization of the fuel and power industries in Primorsky Krai, together with the absence of market-based discipline, has led to some undesirable effects. Dalenergo, the regional electric monopoly, has plagued the region with periodic power outages since 1993. Even without the concurrent financial crisis, the mismanaged electric company “cannot collect its accounts, service its debts or pay for its fuel [and] lack of electricity alone has been enough to make ordinary life difficult in Vladivostok, and economic growth impossible.”

When the financial crisis deepened in the RFE during the autumn of 1997, workers in the power industry went unpaid. About 500 workers held a hunger strike at a power plant in Primorsky Krai to protest. After Dalenergo and the Primorskaya district power station failed to pay for their last shipments of coal, the Primorskugol coal company halted further coal deliveries on September 15. As a result, however, Dalenergo was forced to shut one of its two 200-megawatt power generators to conserve what coal remained in its winter reserve bunkers. The closure merely aggravated the conditions caused by another strike at a power station in Vladivostok, which shut down five of its eight boilers and took another seventy megawatts offline. “Only the Artyomovskaya heat and power station remained operating at full capacity but it cannot provide energy for the entire territory.” The power outages that already beleaguered Primorsky Krai grew longer, and left the half-million residents of Vladivostok without electricity or hot water for three days.

A major electricity transfer was needed to bring relief to Primorsky Krai. Power from Amur Oblast in the north had to be conducted through Khabarovsky and finally to Vladivostok. The controlling directorate of the Vostokenergo company increased its transfer of electricity from Amur's power grid to Primorsky to some 500 megawatts. To satisfy this new requirement, Amur's Zeyskaya hydroelectric power station increased its load considerably. All told, the quantity of electricity shunted to Primorsky amounted to nearly 20 percent of all the energy generated in Amur Oblast.

---


However, just as Primorsky Krai's power predicament appeared to end, workers at the Zeya hydroelectric power station, one of the RFE's largest, went on strike for back pay. "The power station [had been] working at peak capacity, and the equipment, which [had] gone without [maintenance] for many years, [was] on the verge of being put out of commission." Unfortunately for Primorsky, this power station had been relied upon to compensate for much of the electricity deficit caused by the territory's own electric company strikes.56

After some strong cajoling, the Ministry of Fuel and Energy managed to return most electric companies to normal operations for the winter. For the first time in a long time, Dalenergo provided its customers with uninterrupted service throughout the winter months. However, a solution to the inter-enterprise debt crisis remained elusive. Attempts in Vladivostok to "increase the proportion of hard cash used to pay for energy, [switch] collection of funds from end-users to the regional energy joint-stock companies, [merge] a power station with its fuel supplier" and abolish concessions for individual customers had all met with varying degrees of failure.57

Since the underlying problem was never resolved, it resurfaced by the spring of 1998. As customers stopped paying electric companies, those companies in turn stopped paying for coal. And none of them could pay their employees. By May 1998, the average energy worker in Primorsky Krai was owed between five and seven months' wages. The Primorskaya power station called a strike on May 21, in spite of federal threats of prosecution, and miners from nearby Luchegorsk followed suit on June 2. In a desperate gambit to extract payment, some electric companies have resorted to punishing delinquent customers by choking off their electricity. By May, 445 debtors in Primorsky Krai defaulted on some 280 million rubles ($43.1 million) payable to the local electric company. As a result, the company has been turning off their power. Massive shortages recurred throughout Primorsky Krai. On July 3, Dalenergo cut off electricity to its debtors and plunged several cities in Primorsky into darkness to remind its customers of the need to pay their debts. Among the company's biggest deadbeats were the Russian Pacific Fleet, the Far Eastern Military District, the police department, the fire department, the courts, the tax authorities, and the chief prosecutor's office, who collectively owed about 1.1 billion rubles ($169 million). To make matters worse, workers at the Artyem heat and power plant, the Partizansk power plant, and one of Vladivostok's heat and power plants went on strike three days later.58

Authorities in Vladivostok declared a state of emergency. Electricity was allocated to sections of the city for less than three hours at a time. Public transportation virtually ceased as the city's fuel stocks were exhausted. However, the city could not replenish those stocks since its bank accounts were frozen. These afflictions had political overtones when overlaid on the struggles between the mayor of Vladivostok and the governor of Primorsky Krai. Vladivostok's mayor, Viktor Cherepkov, accused regional leaders of "arbitrary rule, corruption and lawlessness." Vladimir Rud, the vice governor and chief of the region's energy commission, was angry in turn because Cherepkov spent "huge amounts of money on building underground walkways without paying for energy consumption in the housing and municipal services sphere."\(^99\)

Still more ominous was the revelation that not even Russian military, naval, or border installations were immune. About 30–40 percent of Dalenergo's electricity goes to these customers. During the electricity problems in the autumn of 1997, Dalenergo said that it would disconnect some "vital military installations," which had been using electricity without payment, despite a presidential decree banning such measures against facilities responsible for national security. The Russian submarine fleet was especially affected, given the large amounts of energy required to recharge its boats' batteries.\(^60\)

Finally, the RFE's rueful electricity situation did nothing to encourage foreign trade or investment. The often-promoted Nakhodka Free Economic Zone is periodically deprived of electricity, leaving cranes swinging idle. Commerce at the port of Vanino was suspended in late July 1998 when miners blocked the local coal-driven power station's supply route. Almost simultaneously, Khabarovskenergo, the large Khabarovsk-based electric company, cut power to the port after its border station failed to make its payment. Inasmuch as its own workers were demanding six months of unpaid wages, Khabarovskenergo believed it had no alternative. Ten merchant ships were left at their berths because the station's communications and navigational equipment could not be used to guide them out of the harbor.\(^61\)

*Chita Oblast.* Nor has the electricity predicament been isolated to the eastern section of the RFE. The electric company Chitaenergo, providing nearly 50 percent of all the power consumed by the Chita region's 1.3 million inhabitants, has labored under many of the same problems as Dalenergo. Debtors owe the company and its subsidiaries almost 80 million rubles ($12.3 million), and workers from its main heat and power plant, unpaid for three months, struck in October 1997. When weather forecasts predicted extremely cold temperatures, Chita's governor decreed a state of emergency, and ordered Chitaenergo to restore service and pay its workers. Where the money to do all this would come from, of course, was unknown.\(^62\)

---


\(^{60}\) "Blackout in Russian Far East worsens," UPI, Sept. 9, 1997.


Following a strategy pursued by other RFE electric companies, Chitaenergo resorted to disconnecting some of its customers in an effort to force payment. Even military bases in the Transbaikal Military District, deep in arrears, had their electricity turned off each week in early 1998. A shutdown in February forced a border garrison to spend a "huge effort and great material expense" to restore normal operations. A week later, a helicopter regiment near Nerchinsk had its power cut during combat training maneuvers, possibly putting men and equipment in danger.

Alternative energy. As the need for electricity in many parts of the Russian Far East became dire, local authorities began to search for other means of power generation. Some found no alternatives. After running out of fuel on Kamchatka, residents were simply forced to wait until 26,400 tons of oil were delivered from customs storage to their regional power plants. Others were fortunate enough to strike deals with international companies to build efficient power plants. In what many consider to be a boon for local residents, Mitsui agreed in late March to participate in a $3 billion power plant project in the RFE. "The project involves five high-efficiency power generators with capacity ranging from 240,000 to 1.1 million kilowatts each, and the Japanese trading house [would] provide financing and the latest technology." In less fortunate areas, however, more creativity was required. Near the renowned Zvezda ship repair works in Bolshoi Kamen, local leaders laid plans in late 1997 to convert an inoperable nuclear-powered reconnaissance ship, the Ural, into a power plant to meet the needs of the 100,000 people living nearby.

Transportation

When Sergei Witte formulated his blueprint to connect European Russia to its outposts on the Pacific coast in the late 1800s, he had many objectives in mind. Among the most enduring of these were to gain access to abundant natural resources, develop a reliable conduit to East Asia, and improve Russia's ability to defend its far eastern territory. The Soviet Union amended that list during the Cold War as it sought to disperse its heavy industrial and military targets throughout the region. All the while, czarist and Communist transportation officials sought to minimize the investments that would have to be made.

The natural answer to Witte and his successors was the railroad. While Arctic coastal and riverine routes were available, both had to be severely curtailed

---

during the winter. Roads proved too costly to construct and maintain. As late as the 1980s, the RFE had the fewest roads per area in any part of the former Soviet Union, including the republics of Central Asia. The worst impediment to any infrastructure development is nature. The permafrost's annual cycle of thaw and freeze easily buckles roads, railroads, and runways alike. Heavy snowfall causes rivers to rise dramatically in the spring, wearing down bridges. A World Bank study estimated in 1991 "that because of these natural obstacles, as well as the region's relatively high labor costs and taxes, an average infrastructure project in Primorsky Krai costs about eight times more than in a comparable region in the Third World."

Undeterred, Witte pushed ahead with the Trans-Siberian Railroad and it was a monumental Russian achievement. Still relied upon as the key artery of the RFE, the railroad became something greater than simply a mode of movement; it shaped how the region was settled. During the Soviet period, the railroad facilitated the development of sizable, but widely spaced cities across the landscape.

The Russo-Japanese War of 1904–5 demonstrated the strategic importance of a complete and functional Trans-Siberian Railroad and its importance has only grown over the century since, despite its evident shortcomings. In order to satisfy the engineers' desire to build south of the permafrost belt, the railroad had to be constructed close to the Mongolian and Chinese borders. Considering the strategic importance of the line, a parallel line further to the north was obviously beneficial.

Two other reasons emerged to support a second line to the north. First, a second line would relieve some of the increasing capacity pressures on the Trans-Siberian Railroad. During the 1950s and 1960s, migration to the Soviet Far East was encouraged. As more people settled there, more food and supplies needed to be delivered to them. The cities where they worked often were heavily focused on a single industry. This caused severe problems when balancing trains and freight loads traversing a single railroad, because every city required vastly different raw materials for its particular industry. Secondly, another line would facilitate mineral and forest product development further to the north, since few all-weather roads were built in those areas.

That second line, which became known as the Baikal-Amur Mainline Railroad (BAM), linked Krasnoyarsk and Nikolaevsk. Imperial Russia's Railroad Ministry laid out the original blueprint for the project soon after the Trans-Siberian Railroad was completed. In the 1930s, Soviet planners dusted off the old plans, but construction did not begin until 1974. At the time, the BAM was designed

---

67 Peter Robison, "The Russian Far East," p. 34.
69 North, "Transport and Communications."
to relieve about 10–20 percent of the freight carried by the Trans-Siberian Railroad.  

Arguably as daring as the Trans-Siberian Railroad's engineers,  

the BAM builders had to cut through seven major mountain ranges, build nearly four thousand bridges and culverts (nearly a hundred and fifty of which were more than three hundred feet long), bore fifteen miles of tunnels, construct seventy million square feet of shops and housing, and move about a billion cubic feet of earth in a climate cold enough to shatter steel in winter and wet enough to rot everything in summer. Near Lake Baikal, the northern tip of which the BAM would skirt, repeated earthquakes had raised cliffs almost fifty feet high and opened cracks sixty feet wide. Just in the western half of the BAM route alone, these earthquakes triggered an average of 350 avalanches and landslides a year. East of the earthquake and avalanche zone, permafrost that reached as deep as a thousand feet created ground ice up to fifteen feet thick in winter; in summer, the frozen subsoil's inability to absorb thawing ice and snow created bogs that bred hordes of mosquitoes and gnats.

The project was also financially challenging. In order to entice enough people to endure the harsh living and working conditions of the RFE, Moscow had to offer railway workers two and a half times their normal wage. By the early 1980s, work on the BAM had slowed, and Soviet leaders rushed army engineers into the field to finish it. However, the BAM did not become truly operational until 1992 when the North Muya tunnel east of Lake Baikal was finally opened. Unfortunately, hasty construction in a region of extreme environmental conditions led to problems. After only a few seasons of permafrost thaw and freeze, several sections of the BAM have had to be reconstructed. Once expected to carry as much as 35 million tons of freight per year, the BAM carried only 1 million tons in 1990. Further, due to construction delays, what mining had existed near the BAM's route moved northward by the time the railroad was completed. As worldwide demand for the RFE's raw materials softened in the late 1980s, some observers even suggested that the $18 billion railroad may have been unnecessary.

Other problems ensued when Gorbachev raised rail tariffs throughout the RFE, causing traffic and revenues to plunge. Railroads became increasingly unprofitable and sometimes failed to pay their debts and workers. Tariffs were eventually lowered in the summer of 1998, but shippers were soured by the wave of strikes and blockades, and supplemental fees for cargo protection, as workers found that blocking the rails was the only way to obtain back wages.

In hopes of maintaining efficiency in the face of such travails, railroads in the RFE began using longer trains and hauling heavier loads. But that strategy caused new problems. Heavier trains increased the failure rate of expensive

---

73 "Sorry for this delay of 100 years," *Economist*, June 27, 1998.
wheel bearings and damaged sections of rail not designed to bear such loads at high speeds. That forced many trains to slow down. Secondly, the longer trains needed longer passing loops and sidings, but without enough money for routine maintenance, railroad officials were unlikely to fund any new structures.  

Nevertheless, Russian dreams of building a "landbridge" across Eurasia to compete effectively with seaborne shipment between Europe and Asia still survive. Some argued that a container could be shipped via rail from the RFE to Western Europe in under twenty-eight days compared to thirty to thirty-nine days by sea. But by 1998, only 100,000 containers of the 3 million transported annually between Europe and Asia were moving by rail. Meanwhile, others have even dared to envision connecting the BAM across the Bering Sea to a Canadian line that ends at Fort Nelson in British Columbia.  

In practice, delivering a shipment to the RFE takes knowledge, patience, creativity, and sometimes an armed guard. The U.S. consulate in Vladivostok recommends that shippers not even consider sending cargo from the typical entry points of Moscow and St. Petersburg to the region. Rather, ocean transport is by far the more reliable means of shipping goods to the Far East.  

Maritime transportation in the RFE involves not only oceanic, but riverine shipping. Unfortunately for international commerce, most of the RFE's rivers flow north into the Arctic Ocean rather than east into the Pacific. Furthermore, river traffic is frequently problematic due to the shallow depth of the water, rocky river bottoms, winter ice, spring floods, and summer droughts. Squandered Soviet investments did not help. Instead, they sometimes created bottlenecks with little storage space for inbound cargoes and not enough vessels for outbound ones. Among the truly useful rivers, the Amur is navigable from Chita to the Pacific coast, though the bulk of the traffic moves from Blagoveshchensk to Nikolayevsk.  

Therefore, most Russian leaders pinned their hopes on improving foreign trade through the RFE's Pacific ports. To some observers, legendary Vladivostok represents the best prospect for export-led commerce based on oil, mining, and forestry products. However, cynics contend that the city's development would depend too heavily on bribing the right people. Moreover, regional power outages have often left ships in Vladivostok stranded at anchor.  

---

Shipping to the Russian Far East takes knowledge, patience, creativity, and sometimes an armed guard.

---

74 North, "Transport and Communications."
In any case, Nakhodka and Vostochny had already eclipsed Vladivostok, at least in terms of commercial traffic. Vostochny had 48.3 percent, Nakhodka 29.6 percent, Vladivostok 12.7 percent, and Vanino 9.4 percent of oceanic cargo passing through RFE ports in 1990. However, low productivity plagued operations. Industry observers rated Vostochny’s productivity as half that of Oakland and only a third that of Los Angeles. On the bright side, Vostochny showed what some operational efficiency, worker training, and modest capital investment could do. A joint venture between the Port of Vostochny, the American shipping company Sealand, and an Australian concern turned a defunct port into a functioning one, despite equipment failures, small container yards, poor shore communications, and shortages of “water, electric power, and [legal remedies].” But high tariffs, strikes, and blockades as well as the general Asian economic slowdown made the venture untenable. The port’s container traffic declined from 120,000 containers in 1993 to 30,000 in 1995.

Aside from functioning ports, the other necessary element for oceanic commerce is merchant ships. The region’s aptly named Far Eastern Shipping Company, privatized in 1994, has labored under the weight of social obligations inherited from the Soviet period, despite paring its workforce from 60,000 to 17,000. The company maintains several kindergartens, hospitals, and housing complexes while paying a tax rate of over 40 percent. Under such burdens, it was no surprise that the company had scant money left over to maintain its fleet of 169 cargo ships and nine icebreakers, half of which were over twenty years old. To raise money to fund two new ships, the company’s directors unilaterally issued more stock without consulting their stockholders, effectively diluting their holdings by half.

As one Western shipping manager lamented, “Moving freight through customs at any one of the thousands of key transit points—seaports, riverports, airports, highways—meant endless headaches brought on by interminable delays, extortionists, petty thieves, and small-minded bureaucrats.”

Food, Poverty, Waste

Unlike Western Siberia, the RFE never enjoyed the kind of investment necessary to make the region self-sustaining. From the beginning, the resources developed there by the czar’s voevodas were principally intended to service the rest of their empire. The Soviets likewise failed to develop food resources and concentrated on heavy industry instead. By the time the Soviet Union collapsed, the subsidies, incentives, and discounts doled out to the region had

82 Michael Fabey, “Shipping to Northern Asia.”

104 | Orbis
all but vanished, and the heavy industries pampered by the communists had lost their relevance.

Agriculture. Since the first pioneers settled Yakutsk, Russians have scoured Siberia for a reliable source of sustenance, and indeed, the Russian descent on the Amur Basin in 1643 was triggered in part by reports of “corn and grain [growing] in fertile valleys.” The Chinese resisted, but finally, in the 1850s, Russia managed to extend its dominion over the lower Amur and expanded agriculture to the areas adjacent to the Mongolian and Chinese borders.83

In the twentieth century, Soviet collectivization of agriculture resulted in typical inefficiencies, but the end of communism revived the hope that the RFE might become self-sufficient. Instead, when a collective disbanded, its shares were evenly distributed among all of its workers, and what emerged from the process was a system of private collectives in which land ownership, profits, and losses were still shared equally, giving no one in particular an incentive to excel in farming. To make matters worse, youth from the villages used their new freedom to leave the distant Far East, leading to a shortage of labor. By the late 1990s, RFE agriculture was in evident distress.84

An added pressure is the fact that the region’s crops must be harvested promptly, because the growing season is so short that even carefully tended crops can rot in the field. Bringing crops to mills and shipping them to markets requires a relatively efficient transportation network. Unfortunately, as we know, road and rail transport in the RFE has become so miserable that recently, tracked personnel carriers have been drafted into the harvest. Delivering supplies to farming towns can be equally difficult. After a recent flood, Russian workers in one private collective lived without clean water for two months.

Russian economic reform has yet to clarify or codify property rights. As a result, small ventures cannot use their land as collateral for loans—a particularly difficult circumstance for entrepreneurial farmers. Without money, they cannot afford seed or equipment. And so the RFE, “with its short growing season and inefficient collectivized agriculture,” continues to “import virtually all of its fruits and half of its meat and dairy products. Because of this dependence on imports, a basic food basket of 19 items sells here for 63 percent above the national average, according to a recent survey by the newspaper Izvestia. But to please farmers in western Russia, Yeltsin’s government raised tariffs on imported food by about one third [in 1995].”85

Commercial fishing. Fishing has been one of the few industries in the Russian Far East that has performed reasonably well, despite a lack of ship maintenance and underpaid or unpaid crews. Many fishermen, of course, achieve that remarkable feat by exporting at least twice as much fish as they ever admit to federal tax authorities. Twenty-five percent of the world’s fish is harvested in Russia and 70 percent of that comes from Pacific waters. The fishing industry

---

is particularly important in Kamchatka Oblast, where it employs over half of all workers. But in recent years, the cost of transporting catches to population centers in western Russia has become prohibitive.86

What is more, Russian fishermen have to contend with foreign fishing trawlers that illegally sally into Russian territorial waters and scoop up huge catches of fish, substantially lowering stocks in the Sea of Okhotsk. These poachers hail from all around the world, including Bulgaria, China, Japan, North Korea, South Korea, Panama, Poland, and Taiwan, and have taken advantage of the reduced Russian naval presence in the northwestern Pacific. On the Kamchatka Peninsula, Russian resources dedicated to protecting its regional waters from poachers comprise only five patrol boats, four of which did not arrive until November 1993. In any case, lack of clear government guidelines to ensure compliance with fishing agreements has allowed this industry to pass out of Moscow’s control.87

Endeavoring to clarify matters, First Deputy Prime Minister Boris Nemtsov signed a pact with the Japanese foreign minister in February 1998 that formally permitted Japanese trawlers to fish within a twelve nautical mile zone around the disputed Kuril Islands. In the past, Japanese fishermen have come under fire from Russian patrol boats or been forcibly detained. During a major campaign to crack down on foreign poaching in August 1994, seventy-seven Japanese were captured. (Coincidentally, two days after the pact was signed, Japan granted Russia $1.5 billion to build housing for the resettlement of Russian military personnel.)88 Some Russian fishermen, however, charge that the treaty was a sellout by Moscow, since in the virtual absence of supervision, foreigners could exceed their quotas by five or six times even as Russian fishermen are restrained by domestic quotas and hamstrung by the termination of state subsidies. On May 26, however, Russian authorities chose to act when a Chinese trawler was caught illegally fishing in the Bering Sea off the Kamchatka Peninsula. First spotted by a U.S. reconnaissance aircraft and shadowed by a U.S. Coast Guard cutter, the Chinese vessel tried to escape. But a Russian patrol boat intercepted it and, after warning shots elicited no response, fired directly into the ship. Two Chinese fishermen, including the captain, were killed and three others wounded. In late July, Russian authorities prepared to sell the ship to cover the damages the Chinese may have caused.89


106 | Orbis
Russian fishermen see their future prospects as bleak. Gennadi Devyatkin, head of the local administration in central Kamchatka, bemoaned that those in the territory are "forgotten by the federal government. Forgotten except when they want our fish. We are a colony and Moscow can only take from us. At least in the old days they would give us back enough to survive. Not anymore though."90

Poverty and unrest. Even before the first crippling miner strikes and blockades, workers throughout the RFE were agitating for unpaid wages. In Petropavlovsk-Kamchatskiy, 2,000 people marched in front of the regional administration's offices in April 1998. At Khabarovsk, industrial picketers demonstrated in front of government buildings. Air traffic controllers in Yakutsk struck after not being paid in four months. In May, thousands of teachers struck to protest unpaid wages and working conditions from Chita to Kamchatka, and joined some 200 scientists from research and technical institutes in Primorsky Krai to block rail traffic in Vladivostok. A month later, more than 15,000 public workers blocked main roads and railway lines in Vladivostok. The demonstrators, many of whom were once employed by the city's defense industry, demanded unpaid wages and Yeltsin's resignation. By August, the city's ambulance workers threatened to strike as well. Union leader Nicolai Kostiyukov asserted that the government owed civil servants in Vladivostok 1.5 billion rubles ($230 million) in back pay. Combined with miners' strikes in May and June, the city of Vladivostok was brought to a virtual standstill.91

It is hard to imagine the people of a recent global power reduced to searching for their next meals. But inasmuch as 50 percent of the RFE's food and consumer goods must be imported via an unreliable and expensive distribution network, and wages often go unpaid, daily life in the RFE has become, at best, a struggle. "Coddled under the Soviets, the Far East received salary bonuses, special supplies, and an inordinate amount of military bases and defense industries.... With more mineral resources than Australia, residents of the Far East expected in 1991, after the fall of Communism, that foreign investment would pour in from Japan and South Korea." But that investment never materialized, as the federal government cut orders to the region's defense industries. Those housing and social subsidies that remained were often dis-

---

tributed inefficiently, with better-off households receiving more subsidy than those with lower incomes.\textsuperscript{92}

Hence, the level of poverty in the Primorsky region is almost twice Russia's average, and in 1993 five percent subsisted at a level less than one-third that of the official poverty line. Conditions have since deteriorated further, so much so that local authorities decided to lower the poverty line. When nonpayment of state salaries stretched into 1996, the portion of Primorsky Krai's 2.3 million people who earned less than the official poverty level climbed from 36 percent in January to 46 percent by June. Ration cards have been needed. Some companies that failed to pay their workers opened bars where workers could buy vodka on credit against their unpaid wages. Unsurprisingly, the incidence of accidents on the job has increased.\textsuperscript{93}

In Chita Oblast, where pensions have not been paid for three months, 75 percent of the population lives below the official poverty line. With over 56 percent of the local industrial enterprises deep in debt, unemployment has soared. Enterprises that once seemed to be able to survive even the most difficult circumstances have failed. Gold mines and forestry companies have shut down because of high rail tariffs. Local residents simply refer to their condition as "the economy without money."\textsuperscript{94}

Unless conditions improve, there may not be many people left in some areas of the RFE. Settlements turned into ghost towns as 167,000 people fled the Magadan Oblast in 1992 alone. On the Kamchatka Peninsula, 1,600 of Milkovo's total population of 20,000 migrated out of the community in 1994. Milkovo, "which used to construct two new apartment blocks per year, has built only one half-finished shell since 1991. It receives electricity for only seven hours of each day." At the southern end of the peninsula, "thousands of residents in Petropavlovsk-Kamchatskiy had no heat for nearly three weeks [during the winter of 1994], despite temperatures that plunged well below freezing." Fuel shortages have rippled across the region, periodically forcing industry and commerce to come to a halt.\textsuperscript{95}

Meanwhile, the Russian mafia has penetrated the Russian Far East and in some areas operates with greater effectiveness than the local government. More often, crime and corruption have become synonymous with democratic


\textsuperscript{94} "Famine Said To Have Started In Chita, Pskov Oblasts," FBIS-SOV-96-201, Oct. 15, 1996, Moscow Moskovskiy Komsomolets.

Russian Far East

and free-market reforms. Nationalist and authoritarian remedies to chaos and crime are ascendant. Prosecution of Chinese has been particularly vigorous.96

Wasted resources. A region in such dire economic straits might be expected to husband its resources. However, that has not been the case for the RFE, which lacks the resources or the patience to be efficient. As a result, much of the region's abundant natural resources are wasted.

Fully 91 percent of Russia's fluor spar, 49 percent of its lead, 95 percent of its tin, 37 percent of its tungsten, and 14 percent of its zinc originate in the Far East. In addition, 20–25 percent of the world's diamonds are mined there. In 1992 alone, the region's rivers and rocks yielded 146,000 kilograms of gold. Despite the large quantity of minerals mined, only about half of what could be extracted is actually removed due to inefficient mining practices. Regrettfully, abnormally high losses occur during transportation, storage, and processing. Excessive mining has led to premature exhaustion of many reserves. Considerable amounts of valuable raw materials are left as tailings at mining sites.97

Forestry has declined markedly, and production of timber, paper, and cellulose fell by 64 percent between 1990 and 1996 due to the lack of investment and excessive harvesting. Much of the most valuable wood was cut and a huge percentage of that was wasted. While 73 percent of Primorsky Krai is forested, the mixed coniferous forests were decimated by clear-cutting, which, combined with permafrost, can turn verdant forests into permanent swamps. What is more, some 50–70 percent of the logs cut down are wasted during processing and shipping, a percentage several times above world standards. Forest fire prevention has ceased. In May 1998, fires tore through an area near Khabarovsk, destroying up to 62,000 acres of vegetation. Another 543,000 acres were ablaze by August. In Khabarovsk Krai alone, 494,000 acres of forest burned to cinders. To combat the flames across some 124,000 acres, financially strapped authorities could only put 1,000 firefighters, ten helicopters, and two planes into the field. And if that were not enough, the same floodwaters that coursed through eastern China in the summer of 1998 washed over the RFE, inundating seventy towns and destroying sixty bridges.98

Conclusion

The state of the RFE's economy has not benefited Russian power in Asia. It has provided the country with no levers to support its military estab-


lishment or forge new economic ties to neighboring countries. If anything, the region continues to be dependent on the center, which is embroiled in its own travails. Foreign trade and investment remain problematic, since “many Far Easterners consider any projects that export Russian resources an unpatriotic selling of Russia’s patrimony. In a region whose only economic asset is its resources, that is not an especially useful outlook.” Meanwhile, its traditional industries have failed. One 1996 study, estimating competitiveness at world prices, found that four of the region’s industries—food processing, forest products, light industry, and chemicals—actually had a negative added value. As one observer commented, “the small shops and sidewalk hawkers that populate the cities may not be a great new way of life, but a demeaning way to survive.”

Among the highest hurdles to development in the RFE has been the continuing political dispute between the region and the center. At the heart of that dispute is tax collection. “Although Far Eastern trade autonomy has grown rapidly, the region [has] not received a corresponding level of independence in managing its own resources. Most hard-currency profits are still collected by the center, which must evaluate and approve all large investments in the region. . . . Political power in the region depends to a large extent on cultivating influential patrons in the central bureaucracy, since the center still controls the Far East’s resources, its most important, and lucrative, economic asset.”

For the moment, however, regional leaders have shelved their arguments over resources in favor of immediate financial succor. Indeed, “In Amur Oblast, Khabarovsk Krai, and Primorskii Krai, regional governors have appealed to Moscow not for help in expanding trade, but for increased domestic subsidies. This behavior, consistent with conservative trends in Russian politics more generally, suggests a return to a belief that the answers to current problems lie in a return to past policies.” While regional leaders are probably unconvinced that these past policies can truly solve their problems, they are mainly concerned, at the time of this writing, with finding shelter from an economic winter without end. If asked to choose, residents of the Russian Far East would probably shun further bold economic reform in favor of a period of peaceful quiescence.

