

23.12.2013

## Russia's strategy to strengthen its position in Asia-Pacific Region

x

After the economic collapse that began in 2008 and soon engulfed the entire world, Russia has made significant adjustments to its foreign policy. As a result of the crisis, the U.S. and Europe suffered the biggest financial losses. The least losses have been experienced in China, Australia and a number of ASEAN countries (it is enough to recall the term "Chindonesia", trendy in 2009 for the economically unsinkable triangle - China, India and Indonesia).

Russia also managed to successfully cope with global shocks, but it had to face the need to revise its foreign policy, previously aimed at a partnership almost exclusively with the West. The new Eastern Direction for Russia has been designed and implemented at the highest level, and quite successfully, as recent years have shown.

Russia's move to the "East" was carried out in two directions: economic and strategic.

Primarily in the Asia-Pacific Region since 2010s, there was an increase in energy demand. Given that in the U.S. and Europe, consumption of raw materials fell, refocusing of export priorities of the RF towards Asia-Pacific countries has become a natural and logical step, necessary for the development of the Russian economy.

Russia also managed to strengthen its political influence in the Asia-Pacific Region due to the marked collapse of U.S. positions there. The culminating achievement of the Russian Foreign Ministry in this direction was the presidency of the Russian Federation at the APEC Summit, which was held in Vladivostok in 2012, and the announcement of clear economic policies at the next summit in 2013 on Bali in Indonesia.

### **Russia enters the "Pacific House"**

The first step of the Russian leadership to establish closer ties with the Asia-Pacific Region was cooperation at the regional level - namely, with the core regional organization - ASEAN. At first, East Asian countries were suspicious of the intentions of the Russian Federation in the Asia-Pacific Region. However, after 2009, it became clear that the traditional Pacific leader, the U.S. will need many years for economic recovery, while the financial, political and military power of China, by contrast, is rapidly amplifying (remember the conflict over the South China Sea became aggravated in 2013). Then a number of ASEAN countries started to show particular interest in Russia. Of course, they took advantage of the strategy "to attract the large to deter the large" considering that the presence in the region of a new "leader", Russia, will help to "pacify" the growing ambitions of China.

In this regard, the East Asia Summit (EAS, which includes 10 ASEAN countries and 6 dialogue partners) was going to bring Russia and the U.S. to cooperate in 2011 to work in the new ASEAN+8 format, but gradually the initiative faded in the light of economic instability in the world, and general cooling of Russian-American relations in particular. Moreover, if in the pre-crisis 2005, and post-crisis 2010 Russia-ASEAN Summits were carried out with the personal participation of the president of Russia, and extensively covered by media, by 2013, the meetings had been initiated already at the ministerial, business and cultural levels, and stopped receiving loud publicity in the media. Nevertheless, at the ministerial meeting of the Russia-ASEAN in 2013, confident words of Russian Foreign Minister Sergey Lavrov still sounded that the "potential for deepening the partnership is far from exhausted", and "today we are able to see what other options could be involved". The fact is that in recent years the rhetoric has been replaced with specific and targeted actions, which will be discussed below.

### **Russia's partnership with the EAS countries**

Already in 2010, amid the suffering of North America and Europe from the effects of the global crisis, Moscow had officially announced that the priority of Russia's foreign policy would be gaining access to the markets of the Asia-Pacific Region.

One of the most striking examples of partnership between Russia and a key member of EAS – China was the launch of trading in Yuan/Rouble on the MICEX in December 2010, in order to weaken the dependence of these currencies on the U.S. dollar. This event is significant for the fact that the MICEX became the first foreign platform where the Yuan is being traded. (By the way, for the sake of reducing the role of the dollar as an intermediary in international trade transactions, in 2013, China proposed the creation of a fund among the BRICS countries to obtain credit in their own currencies (or RMB) at a fixed rate, “bypassing” the IMF. Such a fund, initiated by China, has successfully operated in the Asia-Pacific Region during the Chiang Mai Initiative since 2005, reaching a volume of 240 billion dollars by 2012).

Russia and China were also able to agree on policies related to the acute regional problem in 2010 – North Korea.

The key to preserving long-term relations between the two countries was helped with the Russia-China Pipeline, launched in the autumn of the same year, the profits from which offset the decline in revenues from the sale of Russian gas to Europe.

By 2013, the annual volume of Chinese investments into the Russian economy amounted to 3.7 billion dollars, and in October 2013, Russia and China signed a package of documents that involved the infusion of Chinese investments into the Russian economy as a whole, and into the development of the poorest regions of Russia in particular. This historic event for the Russian economy has been characterized by Russian Prime Minister Dmitry Medvedev as a “special strategic partnership relationship”, backed by China’s promises to bring annual investments to \$12 billion by 2020.

Another pipeline – “Eastern Siberia - Pacific Ocean” (ESPO), launched in 2013, should turn the Russian Far East into the main oil supplier for Japan, China, the U.S., South Korea, the Philippines, Singapore and Taiwan.

With another important player of the EAS – South Korea, Russia developed a smooth relationship, not clouded by Moscow’s adoption of a position on the issue of North Korea, which did not correspond to the expectations of Seoul. Since South Korea relies on partnership with the U.S. in terms of security, and with Japan in terms of high-tech exports, to Russia it gave the traditional role of the “great raw power”. In this vein, Moscow and Seoul in November 2010, signed an agreement to supply liquefied natural gas to South Korea in the amount of 1.5 million tons per year for 20 years under the Sakhalin-2 Project. Supplier is the Russian company Sakhalin Energy, which created a promising motto: “To be the leading source of energy for the Asia-Pacific Region”. Moreover, in 2012, South Korea became one of the investors in the facilities that were built in Vladivostok for the APEC summit.

Special relations are supported between Russia and Australia. Australia is another reliable partner of the U.S. in regional security, but the country is very interested in preserving economic and trade relations with China. Simultaneously Australia seeks to inhibit the growth of influence of China and the United States in the Asia-Pacific Region. Moreover, if in 2005, Canberra was categorically against inviting Russia to the EAS, considering it an “extra” player in the region, in 2010, it gladly supported the accession of our country to the organization, hoping that the presence of a third giant, Russia, will keep back the pressure of the two competing “hegemonies”.

The Australian position on the invitation of Russia to the “Pacific House” was supported in Tokyo, despite the unresolved dispute between Russia and Japan over the Kuril Islands. Nevertheless, since 2011, Japan is buying Sakhalin liquefied natural gas, and this, to a much greater extent than South Korea. Moreover, the Japanese companies Mitsui and Mitsubishi own 22.5% of the shares of Sakhalin Energy – the operating company of the Sakhalin-2 Project.

However, in building relationships with the EAS, Russia focuses not only on players who can buy Russian raw materials, but also on partnerships with such strategically appropriate, according to the Foreign Ministry, states as New Zealand, Vietnam and India, which, unlike other AES participants, historically have not so warm relations with the U.S. However, almost the only area in which Moscow sees prospects of mutual cooperation with these countries, is their involvement in the EurAsEC Customs Union. The only thing to do is to decide on what will be the basis of barter, and provide transportation between the Russian Federation, New Zealand, Vietnam and India, which, in fact, would be, perhaps, the most complex task of the next decade

### **Far East Prospects**

In October 2013 at the APEC summit on Bali (which, incidentally, was repeatedly ignored by U.S. President Barack Obama), Moscow clearly indicated plans to attract investments from its strategic East Asian partners into the development of nearest to them Russian region – the Far East.

The main difficulty in the implementation of these plans may be the fact that the Far East causes strong concerns in eastern investors, owing to its economic underdevelopment and the “wild” business practices. There is another issue to be addressed at the highest level, which Dr. of Political Science S. Pestsov described as follows: “One of the most important conditions for the successful implementation of the strategy of penetration and consolidation of Russia in the APR is to provide more space and opportunities for the Siberian and Far Eastern regions (of Russia) for their inclusion into the regional integration processes, cross-border partnership projects and cooperation. Until then, while increasing regional autonomy is perceived solely as a threat to the unity of the country, any real regional integration will be out of the question.”

These words were finally heard: in October 2013, during a meeting with the participants of the World Economic Forum in Moscow, Russian Deputy Prime Minister Igor Shuvalov said that “it is time to transfer additional powers to the regions from the federal government,” i.e., give the regions opportunities to raise additional funds from various domestic and foreign investors. Real actions followed his words: tax incentives for new investment projects in the Far East will take effect as of January 1, 2014. Moreover, President Vladimir Putin proposed to extend tax breaks to the entire Eastern Siberia in 2015.

### **Who will be the key partner of Russia in the APR?**

Despite the attempts of Russia to introduce the Russian rouble as more than a reliable means of payment (it is even planned to place the symbol of the rouble on Russian keyboards in 2014), in the coming years, the core of Russia’s cooperation with Asia-Pacific countries may become the Chinese capital, backed by foreign exchange reserves of China, which from 2004 to 2012 increased by 721% and reached 3.3 trillion dollars (which is enough to buy two times the gold reserves of all central banks in the world).

China is building a balanced and cautious policy in relations with its immediate neighbours - ASEAN countries and their dialogue partners in the EAS, smoothly “subjugating” their economies, gradually displacing the U.S. dollar with the Yuan in trading operations. The Russian Federation naturally fits into these plans, since it considers China its strategic partner, ready, in turn, to invest into the development of Russian regions a great deal of money and buy Russian raw materials in large volumes.

In general, in recent years, the dynamics of Russia’s relations not only with China, but also with the rest of the EAS has increased markedly, and perhaps the next decade will be a landmark in the history of Russian foreign policy, aimed at strengthening the position of Russia in the Asia-Pacific Region.

***Sofiya Pale, PhD in History, Research Fellow of the Centre of Southeast Asia, Australia and Oceania of RAS Oriental Studies, exclusively for the New Eastern Outlook online magazine***