

Russia's Turn to Asia: China, Japan, and the APEC 2012 Legacy

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Abstract

Developing its Eastern territories and accelerating its integration into the Asia-Pacific region represent both one of the greatest challenges and opportunities for the current Russian administration. In the context of APEC 2012, this paper suggests that today the Russian Far East exists in a state of dual dependency—reliance on federal development programmes, at the same time as economic relations with surrounding states determine the regions development potential. It also examines the alternative development and strategic partnerships for Russia presented by Japan and China.

The ski slopes and palm trees of Sochi are perhaps not an obvious place to start a review of Russia's engagement with the Asia-Pacific. However, these Olympics represent the second in a series of three "mega-events" designed to demonstrate Russia's renewed status on the world stage. The first took place in September 2012 when Vladivostok was redeveloped in order to host the Asia-Pacific Economic Cooperation (APEC) leaders' summit, and the final instalment will come in 2018 when Russia hosts the football World Cup. Four years from now, there is also every likelihood that the successes of an impressive programme of infrastructural developments will be undermined by issues of corruption, inefficiency, and hyper-centralisation, which accompanied the construction of APEC 2012 and the Sochi Olympics.

Despite such problems, these mega-events have nevertheless demonstrated the leadership's continued enthusiasm and commitment towards state-led national development strategies, and have simultaneously offered intriguing glimpses into the successes and failures of Russian foreign policy. In order to interrogate the interrelationship between Russia's development goals and its economic and political turn to Asia, this paper will first assess the results of APEC 2012, and secondly examine Russia's current engagement with the two leading powers in the region—Japan and China.

Dual Dependency and the APEC 2012 Moment

From 1991 to 2012, the Russian Far East (RFE) lost about one fifth of its population as birth rates declined and residents abandoned the region and its faltering economy. During the preceding Soviet period the region had heavily relied on state-backed industries, many of which collapsed in the absence of state support. APEC 2012 was the centre-piece of a massive federal development programme to reverse these demographic and economic trends and around \$21 billion was spent on making Vladivostok capable of hosting the summit. Developing this distant region from Moscow was a key motivating factor behind Russia's APEC project, the

wider significance of which was again emphasised in Russian President Vladimir Putin's address to the Federal Assembly at the end of 2012, when he reaffirmed that developing "Siberia and the Far East—it is our enormous potential... This is an opportunity to take a rightful place in the Asia-Pacific region." A year later, he again asserted that developing this region is a "national priority for the entire 21st century."

Yet, for all APEC 2012's conspicuous achievements—a new airport and rail-link; new roads; a new university campus and conference centre (the site of the summit); three new bridges; as well as luxury hotels and an opera house (neither the hotels nor opera were finished in time)—the summit has also raised some critical questions about Russia's development strategy towards the regions. In a prelude to Sochi, a number of commentators noted how preparations for APEC 2012 almost entirely relied on vast state resources, which bound the region to the fickle budgetary conditions of the Russian state. Questions have arisen over to what extent the region will be burdened with the long-term upkeep of these projects? What is the sustainability and prospects for future funding of such costly programmes, in Vladivostok or elsewhere? Do these projects really benefit local residents? And, do they actually work to encourage corruption and dampen the competitiveness of Russian business, rather than enhancing the integration of Russia into the Asia-Pacific region?

However, perhaps the most notable outcome of the APEC moment is the heightened sense of the RFE existing in a situation of *dual dependency*. On the one hand, the region is dependent for its development on accelerating the processes of economic integration—trade and investment—between Eastern Russia and the dynamic economies of the Asia-Pacific. In the case of Primorskiï Region (of which Vladivostok is the regional capital), the main trading partners in 2013 were China (48%), South Korea (20%), and Japan (14%).¹ In Primorskiï, foreign

1 <http://primorsky.ru/authorities/executive-agencies/departments/tourism/business/Итоги_ПК_ВЭД_-_9_мес_2013.pdf>

trade in the first nine months of 2013 increased by 34 per cent compared with the same period in 2012,² while across the entire Far Eastern region, trade increased by 10 percent in 2013 from the previous year (although results were uneven across this vast area).³ Official reports suggested that foreign investment in the Primorskii economy in 2013 also grew by more than four times from 2012, with Japan emerging as the main investor, at \$1.1 billion dollars; Germany at \$440 million; China at \$31 million; and the Republic of Korea at \$24 million.⁴

Yet, at the same time as the region is increasingly dependent on cross-border trade and foreign investment, it is also dependent on Moscow and a reliance on the largesse of its federal development programmes. In late 2013, it was announced that the Federal Programme for the Development of the Far East and Baikal region would be extended to 2018 and an additional 700 billion roubles were allocated to the region (about \$21 billion).⁵ With this comes an associated risk that a culture of reliance on the federal centre is becoming endemic to the region and, in the context of APEC 2012, one administrator of a local district summarised in an anonymous interview in December 2012 with the regional business newspaper, *Konkurent*, that: “To beg for money out of [the regional and federal] budgets has become easier and more profitable than to stimulate the growth of the economy on the ground.”⁶ Elsewhere, Sergei Karaganov, Honorary Chairman of the Presidium of the Council for Foreign and Defense Policy, , claimed that the recent ministerial programme for the development of the RFE had been “so unfeasible and detached from real market requirements that it evoked sadly touching memories of Soviet programs.”⁷

It is still too early to evaluate the long-term impact of APEC 2012, but initial indicators suggest that Vladivostok’s hosting of the summit has at least coincided with some increased trade and investment in Primorskii Region. At the same time, federal money continues to pour into the region, while issues of inefficiency associated with these top-down programmes and corruption at every level remain unresolved. The final audit of funds for APEC 2012, presented to the State Duma in January 2013, identified around 8.1 billion rubles (more than \$250 million USD) of “financial irregularities,” though the actual numbers will likely never be

known.⁸ The local independent media in Vladivostok revelled in highlighting cases of corruption and embezzlement, at the same time as asking whether this extravagant spending was actually being utilised in the best way for local residents, who were largely excluded from decision-making processes.

A Euro-Pacific Russia?

If the APEC 2012 summit had a mixed reception at the local level, then there were also challenges at the international level. The moment of Russia’s hosting of APEC was in many ways eclipsed by the United States’ simultaneous promotion of the Trans-Pacific Partnership trade agreement (TPP) as an alternative vehicle of regional economic integration. Shortly after APEC 2012, Canada, Mexico, and Japan started negotiations on TPP membership, while Taiwan and South Korea expressed interest in joining. United States’ President, Barack Obama, did not even attend the summit and this was not the last time the American leadership missed the chance to see a Putin mega-event, as Obama also stayed away from the opening ceremony at Sochi, along with many other European leaders.

In contrast, the Japanese and Chinese premiers were conspicuous by their presence in Sochi. Japanese Prime Minister Shinzo Abe’s visit even involved a photo-call with Putin’s pet dog (a gift of thanks from Japan after Russia’s assistance for the tsunami relief efforts in 2011). It was also announced that Putin would visit Japan this autumn and, after his meeting with Abe, Putin declared that with expanded bilateral ties: “We have seen a good environment created that could help resolve the most difficult problem in bilateral relations.” This announcement, and Putin’s planned visit, has helped fuel overly-optimistic speculation in sections of the Japanese media of a possible resolution of the territorial dispute over the Southern Kurils / Northern Territories.

Despite this renewed warmth in Russia–Japan relations, meetings with China’s President, Xi Jinping, fill the most space in Putin’s diary, with a total of five scheduled between the two leaders in 2014. Xi’s presence at the opening ceremony represented his first foreign trip of 2014, and his third to Russia since becoming President last March. After meeting with Xi, Putin announced that: “Our bilateral ties get better and better, although it might seem that everything is good to the point when there is little room left for improvement.” The hint that Russia–China relations may have reached a threshold comes after a long period in which Russia has privileged its relationship with China, which is today Russia’s largest trading partner (\$88.8 billion in 2013, ahead of sec-

2 <http://primorsky.ru/authorities/executive-agencies/departments/tourism/business/Итоги_ПК_ВЭД_-9_мес_2013.pdf>

3 <<http://dvtu.customs.ru/index.php>>

4 <<http://primorsky.ru/news/main/60003/>>

5 <<http://www.dvnovosti.ru/khab/2013/12/19/prog/>>

6 <<http://www.konkurent.ru/print.php?id=3628>>

7 <<http://www.hse.ru/en/news/111199299.html>>

8 <<http://ria.ru/economy/20130121/919128276.html>>

ond placed Germany at \$74.9 billion).⁹ However, while most Russian experts and commentators recognise that “partner number one” for Russia in Asia is China, they also note that Russian exports to China are mainly raw materials (in particular: oil, gas, metals, timber, seafood, minerals, pulp, fertilisers), while Chinese exports to Russia are products with a higher added value, in particular machinery and equipment, clothing, and chemical products. Although fears of an influx of Chinese immigration to the Russian Far East have receded over recent years, there are nevertheless concerns amongst the expert community that, if current economic trends persist, Eastern Russia will turn into a resource appendage of China. Such fears were not allayed in 2013, when deals were signed that would make China the largest customer of Russian oil and gas.¹⁰

Perceptions of an overreliance on China; an unbalanced trade structure; as well as minimal Chinese investment in the RFE have contributed to calls for Russia to find an alternative path to an increased role in the Asia-Pacific. These have been articulated in terms of Russia as a “Euro-Pacific” power, or ideas such as “Project Siberia.” The latter, put forward by Karaganov, has argued for a new philosophy for the development of Eastern Russia, which rejects expensive mega-projects or high-tech manufacturing that cannot compete with neighbouring states. He instead emphasises promoting industries related to Siberia and the Russian Far East’s “competitive advantage,” i.e. water-intensive businesses such as agriculture, manufacture of paper and cardboard products, forest products, petro-chemistry, enriched ore production, as well as oil and gas. He argues that this new development philosophy “should combine Russian political sovereignty with foreign capital and technologies... not just from China, but also from the U.S., Japan, the EU states, South Korea and the ASEAN countries.”¹¹ Karaganov’s specific vision for developing the region, and the role of these partners in achieving this aim, is outlined in two Valdai Group reports, *Toward the Great Ocean I&II*, on which he was the Executive Editor.¹²

Elsewhere, Dmitri Trenin, Director of the Moscow Carnegie Centre, has declared Russia a “Euro-Pacific nation” by virtue of its geography and connectivity to the world’s major economic, political, military, and cultural powers.¹³ However, he also argues that in Asia,

Russia needs to rebalance away from China. For Trenin, Japan has assumed the role of a critical partner, capable of redefining Russia’s role in the region; able to consolidate and develop the vast territories of the RFE; and willing to facilitate Russia’s integration into the wider Asia-Pacific community. Again, rather than endless streams of Russian state funding and more centralized control, Trenin believes that Russia and Japan should move toward a relationship that ensures Japanese companies invest in Russia beyond natural resources. To achieve this strategic and economic partnership with Japan, he even advocates a graduated return of the disputed islands.¹⁴

Against the backdrop of these debates in the expert community, in April 2013, at the end of Abe’s official visit to Russia (the first by a Japanese premier since 2003), there also appeared a renewed flexibility in Putin’s approach when a joint statement declared that: “The leaders of both countries agreed that the situation where, 67 years after the conclusion of [World War II], we have still been unable to conclude a bilateral peace treaty, looks abnormal.” Yet, even without such a peace treaty, political and economic relations are today looking decidedly normalised. Following Abe’s visit, the first Russian–Japanese meetings in the “two-plus-two” format, involving both sides’ foreign and defence chiefs, took place in November 2013 in Tokyo, while economic relations are at a record level—trade reached \$33.3 billion in 2013.¹⁵

It seems that, not for the first time in Russia, there is at the highest level a serious intent towards developing a broad and deep partnership with Japan. However, in contrast to much of the 1990s and 2000s, there also appears a reciprocal interest towards building this relationship from the Japanese side. A post-tsunami energy crisis and challenges in the Japan–China relationship have seen the Abe government become more willing to respond enthusiastically to Russian overtures, with or without a peace treaty. For the moment, the issue determining the limits of Russian–Japanese relations appears not to be the territorial question or absence of a peace treaty, but rather whether the Russian state is capable of the necessary political and legislative reforms; progress on enforcing the rule of the law; restructuring of visa and tax regimes; anti-corruption measures; and the further infrastructure upgrades necessary to decrease the risks, and increase the attractiveness, of the RFE for Japanese development and investment outside of oil and gas.

9 <http://www.customs.ru/index2.php?option=com_content&view=article&id=18871&Itemid=1976>

10 <<http://www.newsru.com/finance/23oct2013/rosgazkitay.html>>

11 <<http://eng.globalaffairs.ru/pubcol/Russias-Asian-Strategy-15254>>

12 The latest report was published in February 2014: <<http://karaganov.ru/en/news/327>>

13 <<http://carnegie.ru/eurasiaoutlook/?fa=53293>>

14 <<http://carnegieendowment.org/2012/12/11/russia-s-pacific-future-solving-south-kuril-islands-dispute/esoi>>

15 <http://www.customs.ru/index2.php?option=com_content&view=article&id=18871&Itemid=1976>

Conclusion

This short overview of the results of APEC 2012 and Russia's relationship with the two Asian economic giants—Japan and China—has hinted at wider questions over what exactly is Russia's relationship with this dynamic region based on: regional integration, state-led development, geopolitical influence, or energy security? Which states does Russia prioritise in the region, and what will be the implications of privileging one over the other? And through which institutions should Russia primarily engage with the region—the Shanghai Cooperation Organisation, ASEAN, APEC, TPP, the East-Asia Summit? These questions have not always been convincingly answered by the Putin administration, and they in turn raise awkward questions over the lack of a coherent strategy and even confusion over which institutions and states Russia should orientate towards. This confusion is also being compounded by the uncertain implications of the Russian leadership's current commitment to a parallel, but very different kind of integration project in the form of the Eurasian Union.

APEC 2012 was an impressive declaration that Russia was ready to seriously engage with the Asia-Pacific

region. Yet the summit simultaneously exposed the dilemmas in Russia's Asia-Pacific strategy. Preoccupied by a domestic imperative for developing the Russian Far East, the leadership was caught flat-footed by the sudden prominence of TPP and perhaps the APEC ship has sailed just as Russian political elites had decisively endorsed the format. Russia has struggled to successfully assert itself at the heart of the various political and economic forums in the Asia-Pacific and these challenges are complicated by a number of voices amongst the political and academic elite, who advocate correcting Russia's reliance on a friendly, but increasingly powerful China. If one of the successes of Russian diplomacy has been developing the Sino–Russian relationship to its current level, then maintaining this relationship while developing a new kind of partnership with Japan, as well as other states in the region, will provide a new kind of challenge. The Kremlin's strategy towards the Asia-Pacific—like its development plans for Siberia and the RFE—has become as much dependent on decisions made in Beijing and Tokyo as in Moscow. This makes Russia's increasing engagement with this dynamic, but fractious region both intriguing and inevitable.

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ANALYSIS

Russia–Vietnam Strategic Partnership: The Return of the Brotherhood in Arms?

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Abstract

The recent breakthrough in Russian–Vietnamese relations has been possible due to the new strategic postures of Moscow and Hanoi in a changing regional security environment. Despite the apparent anti-Chinese appeal of this renewed Russo–Vietnamese partnership with a strong military component, Beijing has benefited from Russia's increasing presence in East Asia. This is because a greater role for Moscow provides China with broader opportunities to both reduce US influence and create a more positive and manageable negotiating environment in the region.

The year 2014 marks the 20th anniversary of the *Treaty on Principles of Friendly Relations between the Socialist Republic of Vietnam and the Russian Federation*, which

set the goal of 'reconfiguring' the two nations' bilateral relations in the post-Soviet era. However, it took more than a decade, following the restoration of ties between