



RUSSIA AND THE ASIA-PACIFIC

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Russia's Progress in Southeast Asia: Modest but Steady

By Victor Sumsky and Evgeny Kanaev, Moscow

Abstract

In recent years, relations between Russia and the Association of Southeast Asian Nations (ASEAN) have seen positive trends, but no qualitative shift to a new level of cooperation. Nevertheless, Moscow's increasing economic and diplomatic reorientation towards Asia, coupled with a confluence between their priorities in regional politics and security, have the potential to make Russia–ASEAN cooperation more versatile and multidimensional.

An earlier article that appeared in the *Russian Analytical Digest* in April 2010¹ pointed to the fact that while relations between Russia and the Association of Southeast Asian Nations (ASEAN) were developing in a generally positive way, they lacked the kind of dynamism that was typical of ASEAN's interactions with some other dialogue partners, notably in the economic realm. In the four years since then, the relationship has continued to develop along more or less the same lines—in the sense that improvements are evident, but they remain rather modest. According to preliminary assessments, in 2013 Russia's total trade with ASEAN came close to \$20 billion. This is a record high, but is just one-fourth of ASEAN's trade with India and less than one-seventh of its trade with South Korea, not to speak of other, more economically powerful extra-regional partners. There has been more arms transfers from Russia to Southeast Asian nations, more cooperation in the energy sector, a certain amount of growth in investment flows in both directions, plans and agreements to implement multi-billion joint projects (such as a 2000MW nuclear power station in Ninh Thuan, Vietnam, and an almost 200km railroad in East Kalimantan, Indonesia). Yet, there is nothing that might testify to an overall qualitative shift in the Russia–ASEAN relationship. This is indirectly confirmed by the fact there has not yet been a follow up to the 2nd Russia–ASEAN Summit (Hanoi, 2010), even though ASEAN has now developed a habit of holding such top level meetings with its dialogue partners annually.

On the whole then, there is a feeling that Russia, while making step-by-step headway in Southeast Asia, is not fully meeting ASEAN's expectations about the relationship. If this is true, then why is it so? And, since officially Moscow continues to express its interest in stronger ties with ASEAN, is it realistic to expect serious change in the near future?

Impediments to Economic Cooperation

In fairness to Russia, whatever progress it is making in its economic relations with Southeast Asian countries is made against heavy odds. Unlike China or India, Russia has no diasporas in the region to rely on as agents to expand its trade relationship with Southeast Asian states. Unlike the United States, Japan or South Korea, it has no capacity to penetrate the regional markets by the means available to transnational corporations (with a few exceptions in the energy sector). Although Russia's economy has come a long way since the early post-Soviet years, it is not in a position to export huge amounts of competitive consumer goods (like China) or branded hi-tech products (like the US, Japan, South Korea or EU), and may not be in a position to do so soon enough. Since becoming a WTO member in 2012, Russia needs to continue to be quite circumspect in switching to free trade regimes with partners other than the members of its Customs Union: Belarus and Kazakhstan.

A major impediment to livelier direct trade is the poor state of Russia's infrastructure in its Far Eastern region, which is geographically closest to Southeast Asia. Ports and storage facilities on Russia's Pacific coast need to be sufficiently enlarged and modernized, just like systems for monitoring cargo transportation. Direct international air-flights linking Russian cities with Southeast Asian ones are still too few. Underdeveloped relations between the banking communities of Russia and ASEAN are another problem that has to be solved in order to boost trade and investment.

Although the internet provides new sources of data to businessmen on both sides, it is hardly sufficient to fill the information deficit in terms of knowledge about one another and overcome the misunderstandings that continue to prevent Russia and ASEAN from doing more business together. Although no longer strangers to Southeast Asia, Russian entrepreneurs are yet to accumulate the critical mass of field-experience that will make them feel reasonably comfortable and able to function easily in the region. As for their Southeast Asian counterparts, especially in the traditionally anti-communist ASEAN countries, they still need to move

1 Vyacheslav Amirov & Evgeny Kanaev, "Russia's Policy towards the Countries of South-East Asia and ASEAN: Positive Developments, But an Uncertain future?", *Russian Analytical Digest* 76 (2010) // <<http://www.css.ethz.ch/publications/pdfs/RAD-76.pdf>>

beyond the outdated Cold War stereotypes about Russia—a task that is not so simple at a time when the Western media is presenting Russia as a hopelessly criminalized and bureaucratized place.

Any single factor from those mentioned above would be enough to make Russia–ASEAN interactions difficult. What then can be said of their cumulative effect? Remarkably, however, interactions continue to grow. Does this mean that there is potential for greater progress and a significant improvement in the relationship?

Reasons for Optimism

Expectations that the trend towards closer cooperation with ASEAN will continue are based on Russia's increasing diplomatic and economic reorientation towards East Asia as a whole. Russia's intent to become an integral part of this new center of global growth was evident—both in a symbolic and a purely practical sense—as the country prepared itself for the APEC Summit of 2012 in Vladivostok. This saw the development of a set of large-scale urban infrastructure projects in the city and its immediate vicinity, and the construction of the Eastern Siberia–Pacific Ocean oil pipelines (ESPO, its combined length approximating 5000 km) and the natural gas transmission system Sakhalin–Khabarovsk–Vladivostok (with the prospect of expanding it southwards, in the direction of ROK). These efforts left little doubt that Vladimir Putin, along with some of his closest allies in the Russian government and business community, are determined to bring about change in the Russian Far East and develop much more dynamic interactions with Asia.

Russia's choice to prioritize issues such as food security, reliable logistics and innovative growth during its APEC Chairmanship definitely struck a chord with many other APEC members, including those from ASEAN. The preparation and adoption, during 2012, of such documents as the *Kazan Declaration on APEC Food Security* or the *APEC List of Environmental Goods* demonstrated Russia's greater awareness of its Asian partners' developmental needs, as well as an ability to bring these partners together to reach a consensus on issues on which previously there was none. This is yet another sign that Russia's capacity to play a bigger role in the region is growing.

Before and after the APEC Summit, various groups of Russian non-governmental experts and academics expressed their opinions on the short and long-term challenges faced by the country in Asia. Such publicly circulated reports as those by the Valdai Discussion Club and the Russian International Affairs Council were focused on the urgent need to develop the Rus-

sian Far East and to strengthen connectivity with Russia's East Asian neighbors.²

While there is some truth to the claim that a significant part of the Russian ruling elite remains stubbornly Eurocentric, the President of Russia has clearly expressed a different vision of the country's future. Addressing the Federal Assembly in late 2013, President Putin described the megaproject to modernize Russian Siberian and Far Eastern territories through greater cooperation with the dynamic East Asian economies as a top national priority “for the whole of the 21st century.”

Even before this was said, the creation of the Ministry for the Development of the Russian Far East (in May 2012) expanded the institutional base for Russia's eastward reorientation. Under Aleksandr Galushka—a 38-year old entrepreneur and technocrat appointed in 2013 as the head of this body—the ministry has been developing a comprehensive set of measures to improve the business climate in the Asian part of Russia. The aim is to transform the region into an attractive destination for domestic and foreign investment and an area of advanced growth. Since the ministry's experts are in favor of diversifying Russia's economic links with East Asia, there is a good chance that new opportunities for Russia–ASEAN trade and investment cooperation may emerge in the process of this megaproject's implementation.

Meanwhile, there are signs that in ASEAN, a demand for what Russia can offer is increasing somewhat. Owing to environmental distress and the depletion of land and water resources, food security has come to the forefront of ASEAN's priorities. For ASEAN, the implementation of large-scale infrastructure, transportation and energy projects is a major objective, as outlined in the *Master Plan on ASEAN Connectivity*. Since Southeast Asia is

2 For details, see: Karaganov S., Barabanov O., Bordachev N., “Toward Great Ocean, or the New Globalization of Russia”, *Valdai Discussion Club Analytical Report* / Ed. by Karaganov S.—Moscow, July 2012. // <http://vid-1.rian.ru/ig/valdai/Toward_great_ocean_eng.pdf>; Karaganov S., Makarov I., Barabanov O., Bordachev T., Kanaev E., Larin V., Ryzhkov V., “Toward the Great Ocean-2, or Russia's Breakthrough to Asia”, *Valdai Discussion Club Report* / Ed. by Karaganov S.—Moscow, February 2014. // <http://vid-1.rian.ru/ig/valdai/Twd_Great_Ocean_2_Eng.pdf>; Sumsky V., Kanaev E., Koldunova E., *Russia's Interests in the Context of Asia-Pacific Region Security and Development* / Ed. by Ivanov I.—Moscow: Izdatelstvo Prospect, 2012. // <<http://russiancouncil.ru/common/upload/riacapren.pdf>>; Sumsky V.V., Kanaev E.A., Koldunova E.V., Zavadsky M.S., Zinov'yeva E.S., Iontsev V.A., Kireeva A.A., Likhachev V.L., Lukonin S.A., Menzhulin G.V., Novikov A.V., Prokhorova Yu.A., Sevast'yanov S.V., Stapan N.V., *Russia's Guiding Landmarks in the Asia-Pacific after the APEC Summit in Vladivostok* / Ed. by Ivanov I.S.—Moscow: Spetskniga, 2013. // <http://russiancouncil.ru/common/upload/AsiaPacific2_En.pdf>

a seismic-prone region, responding to natural disasters and emergencies remains another serious problem. In terms of resources, technologies and experience Russia is quite capable of satisfying its ASEAN partners' needs in these regards.

A typical sign of the times is the intensification in people-to-people contacts. On the one hand, there are thousands of new students from Vietnam, Malaysia, Myanmar and other ASEAN countries attending universities in Russia. And not just in Moscow, but across the whole of the country. On the other hand, more and more Russian tourists are becoming addicted to South-east Asian sunshine and coastal resorts: last year, there were more than a million visitors from Russia to Thailand alone. In Phuket and Denpasar, Russian-speaking guides, advertisements, tourist brochures and other publications in Russian are no longer viewed as something extraordinary and exotic.

Thus, little by little, the Russia–ASEAN relationship is acquiring new depth, and becoming more versatile and multidimensional. However, the future of the relationship is dependent not just on the goodwill of Russian and ASEAN partners themselves, but on the wider strategic dynamics of the East Asian region to which they commonly belong.

Security and Geopolitics

In the realm of security and geopolitics, contemporary Russia–ASEAN relations are evolving according to the influence of three interdependent trends. First, East Asia is not just becoming the center of global economic growth, but is also becoming the center of many geopolitical contradictions and many unresolved problems between the global powers. Second, Russia, as one of these powers, is trying to raise its profile in the region. Third, ASEAN as an established and respected regional actor is seeking to find ways to increase its status through developing collective responses to global threats and challenges³. All three trends serve to reinforce mutual interests between Russia and ASEAN.

For both Russia and ASEAN, the key objective is to prevent the unfolding of strategic scenarios that could

undermine regional peace and, by implication, continued economic growth. Both Russia and ASEAN intend to achieve this through the creation of a regional security system with ASEAN at its center. Russia participates in all ASEAN-led multilateral dialogue platforms dealing with security issues: ASEAN Regional Forum (ARF), ASEAN Defense Ministers Meeting Plus Eight (ADMM+8) and the East Asia Summit (EAS). The latter is noted as being an especially important component of the emerging security architecture in East Asia by the latest Russian Foreign Policy Concept.⁴ In October 2013, the 8th EAS meeting endorsed a Russian initiative about establishing a framework of principles on strengthening security and developing cooperation in the Asia-Pacific Region. This represents another important step towards the consolidation of mutual understanding between Russia and ASEAN.

What is needed to add more substance to this synergy in diplomatic and security matters is a higher level of economic exchanges, especially as ASEAN has traditionally understood security in broad terms and has been ever mindful of its economic dimension. Recently, Russia and Vietnam started negotiations on the establishment of a Free Trade Area (FTA) (with Russia's partners in the Customs Union, Belarus and Kazakhstan, also involved in the process). If successful, this will pave the way to a Russia–ASEAN FTA. With this in place, nothing will formally prevent Russia from joining the latest ASEAN-led project—namely, *Regional Comprehensive Economic Partnership* (RCEP).

This project has been partly conceived to demonstrate that ASEAN is capable of engaging with global powers in productive cooperation. Consequently, the presence of Russia, as such a power, in RCEP will add value to both the project itself and the Russia–ASEAN partnership. To translate this into reality, what is required more than anything else is a sufficiently large increase in the volumes of trade and investments between Russia and ASEAN.

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3 *Bali Declaration on ASEAN Community in a Global Community of Nations. "Bali Concord III"*. // <http://www.preventionweb.net/files/23664_baliconcordiii28readyforsignature29.pdf>

4 *Concept of the Foreign Policy of the Russian Federation*. Approved by President of the Russian Federation V. Putin on 12 February 2013. // <http://www.mid.ru/brp_4.nsf/0/76389FEC168189ED44257B2E0039B16D>

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

By Paul Richardson, University of Manchester

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 inter-relationship 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?

By Vitaly Kozyrev, Massachusetts

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

the two former communist allies in 1994, to move beyond the sense of uncertainty, stagnation, and aloofness within their relationship. Some efforts to upgrade the relationship were made during the first Russia–Vietnam summit in August 1998 and later during Russian President Vladimir Putin’s first trip to Hanoi in March 2001, when the two parties signed a *Joint Statement for a Strategic Partnership*. This statement called for mutually advantageous cooperation in the face of “new international realities,” and has underpinned the steady, but gradual, evolution of their bilateral relationship in the first decade of the new century.

At the outset of this renewed strategic dialogue between Moscow and Hanoi, there appeared little prospect of a significant revival in Russo–Vietnamese cooperation. In September 2000, Moscow wrote off \$9.53 billion of the \$11.03 billion debt that Vietnam owes Russia, and granted an extension for the payment of the balance until 2016–2022. At the turn of the century, bilateral trade between Moscow and Hanoi reached the lowest level in officially recorded history (\$200 million), accounting for less than one percent of Russia’s foreign trade volume. In May 2002, Moscow terminated a Russo–Vietnamese agreement on a 25-year lease of the Cam Ranh naval base, withdrawing its personnel from Vietnamese territory. In 2005–2006, the future of the Russo–Vietnamese agreement concerning the oil and gas joint venture *Vietsovpetro* beyond its expiration in 2010 seemed to be uncertain, despite the assurances about continued cooperation in oil and gas exploitation voiced by Vietnamese President Nguyen Minh Triet and Vladimir Putin during his second visit to Vietnam in November 2006. Furthermore, around this time, Moscow’s ambitious broader plan to secure its “return” to East Asian politics through accession to the ASEAN-sponsored East Asian Summit was yet to yield any results, and instead seemed to serve as another indicator of Russia’s retreat from the region.

However, in the early years of Dmitry Medvedev’s presidency (2008–12), Russo–Vietnamese relations experienced a remarkable turnaround in fortunes. Hanoi supported Moscow’s bid for WTO membership, recognizing the “market character” of the Russian economy in 2007. The two parties reasserted their shared common viewpoints on many regional and international issues, and Hanoi played a notable role in supporting Russia’s growing presence in the major multilateral security and economic institutions of the region, including both long-established frameworks, such as the Asia-Pacific Economic Cooperation (APEC) and ASEAN Regional Forum (ARF), and newly established mechanisms, such as the Asia-Europe Meeting (ASEM) and the East Asia Summit (EAS), which Russia joined in 2010–11. In December 2009, during his visit to Moscow, the Viet-

namese Prime Minister, Nguyen Tan Dung concluded a US\$2 billion agreement for the purchase of six Russia-made diesel Kilo Class submarines and twelve SU-30MKK fighter jets. In 2010, Moscow and Hanoi agreed to extend their partnership in *Vietsovpetro* through 2030. The bilateral relationship was officially upgraded to the status of a comprehensive strategic partnership in 2012, with reasons cited for this being the high level of political confidence and trust between the two states, robust military cooperation, including Vietnam granting Russia permission to set-up a ship-maintenance base at the port of Cam Ranh Bay, wider cooperation on joint oil and gas exploration in Vietnam’s offshore waters, a growing trade relationship and an increase in mutual investment partnership, including in nuclear power and the joint production of sophisticated technologies, and the prospective accession of Vietnam to the Russia–Belarus–Kazakhstan Customs Union, soon to become the Eurasian Union. At the conclusion of his visit to Hanoi in November 2013, Vladimir Putin referred to Vietnam as “a key partner of Russia in the Asia-Pacific region.”

The Russian–Vietnamese Strategic Partnership: More Than Balancing China

Most observers tend to interpret the renaissance of a Moscow–Hanoi alliance as an attempt to contain a more assertive China. Some key western experts consider every detail of Russo–Vietnamese partnership as pointing to Russia’s new role in the complex security environment of East Asia. Others debate the strategic utility of the Russo–Vietnamese partnership for Washington and its regional allies, while calculating the risks of an accelerated arms race and denial-of-access strategies in the troubled waters of the South China Sea, with its heated territorial disputes. James Holmes of the U.S. Naval War College believes that the logic of access denial could work for Hanoi, but undermines wider stability in Southeast Asia. Stratfor analysts point to the role of a strengthened Vietnam as a balancer against Beijing’s growing influence to Russia’s south. Stephen Blank of the American Foreign Policy Council sees in the deepened Moscow–Hanoi relationships a sign of Moscow’s quiet, but open resistance to Chinese encroachments.

Paradoxically, despite the striking similarity between current developments and those of the Soviet-era, the search for a conventional realist power-balance logic in Russia and Vietnam’s strategic behavior is misleading. On the surface, Vietnam’s unprecedented openness and cooperativeness toward Russia may be considered as part of Hanoi’s grand strategy of engagement with all potential challengers to China’s power in regional affairs, by means of great power balancing. Notably, Vietnam’s efforts to develop closer strategic partnerships with the U.S., Japan,

South Korea and Russia. Likewise, the approach of these major regional actors in developing closer ties with Hanoi may also be interpreted as driven by a hedging strategy against Chinese dominance and as an indicator of Vietnam's new role in the regional strategic equation. Furthermore, Vietnam also attracts the attention of these powers because it is a leading actor in ASEAN, which is indispensable for establishing productive relations with the growing Southeast Asian community.

But it would be an oversimplification to consider Hanoi's Russia policy simply as an attempt to "pull" Russia, along with the other great powers, into the region, in order to internationalize territorial and economic disputes and help manage conflicted relations among other regional players. It is also important to stress that an "engaged" Russia differs substantially from these other major actors developing strategic partnerships with Vietnam, in terms of its potential and functional role. The key difference is that, unlike the U.S. or Japan, Moscow remains very close to China politically, with the Russian–Chinese relationship recently further upgraded in terms of its strategic closeness. Factors such as the collision of interests between Russia and China in Eurasia, Beijing's economic expansion into the post-Soviet space and the perception of "China threat" in Russia do present obstacles on the path to a closer Beijing–Moscow alliance. And, thus, encourage the Kremlin to focus on modernizing the Russian economy and diversifying its foreign economic relations away from overdependence on China. Nevertheless, Beijing and Moscow have, over the course of their cooperation in recent years, reached a tacit agreement, which allows each some room to conduct coordinated activity within the other's zone of vital interests, as long as they show due respect to, and do not cross, one another's well-known red lines. Furthermore, Moscow has made it clear that it would by no means sacrifice its friendly partnership relations with China, in order to reap illusionary gains from the relative weakening of China's position *vis-à-vis* the U.S.

Vietnam as Part of Russia's Asia-Pacific Strategy

To restore its role in the Pacific, Moscow is adopting a policy of strategic diversity towards the region. Its proactive regional strategy includes numerous energy, transportation, trade and investment projects, which involve other major powers in the region. China is an important partner in this regard, but not the only one. This creates a 'puzzling paradox' (Steven Blank), whereby Russia proclaims to have a strong association to, and partnership with, Chinese interests, while at the same time arming China's potential adversaries in Asia and supporting them politically. The Kremlin's continues its positive

dialogue with India, advances a policy of engagement with the ASEAN economies, and fosters economic cooperation with South Korea and Japan. This diversified set of relationships suggests that Russia is willing to play the role of an independent force in the regional environment. In response to the complex and sensitive nature of the numerous contemporary maritime disputes in the region, Moscow's key objective is to follow a policy that keeps these tensions in their present, non-explosive state. Against the background of US–Chinese rivalry, Moscow positions itself as a third force, which refrains from taking sides and serves to weaken polarization between other powers in the region. In Asia, Moscow brings to the table valuable services as a mediator and facilitator in existing disputes and tensions, economic incentives, and a commonly shared idea of connectivity. With regard to promoting regional stability and conflict prevention, there are three areas in which Russia considers itself as a key positive player and able to contribute to: one, the formation of a new comprehensive security architecture, backed by strengthened existing regional institutions and practices; two, the maintenance of some sort of geopolitical balance between the claimants of reefs and islands in the South China Sea, and between the major powers involved in these disputes—China and the U.S.—by means of cooperating with all players in the sphere of hard security; and three, the development of an atmosphere of trust and cooperation in East Asia, underpinned by common interest in economic development, modernization and co-prosperity.

In the area of security cooperation, Moscow has consistently pursued a concept of 'collective leadership', which calls for a multilateral dialogue between the major regional powers and regional organizations, associations, and groupings. As part of its regional collective leadership initiative, Russia has—since September 2010—been formally cooperating with China, in advocating region-wide negotiations to further institutionalize multilateral security mechanisms in the Asia-Pacific, in order to develop an open, inclusive and transparent security architecture in the region, based upon universally agreed principles of international law. Beijing has been surprisingly humble, refraining from any public expression about this collective Chinese–Russian security proposal, and rather emphasizing its own regional leadership. Whereas, Moscow—at annual regional security conventions—has been welcomed by the middle powers in Southeast Asia, and by Vietnam, Indonesia, and Brunei in particular.

In response to the realization of both the importance of its own pacifying/balancing mission and the new role played by hard power projection in East Asia, the Kremlin has taken steps to restore its significant naval capacity in the region. The ambitious program to modernize

the Russian Pacific fleet by 2020 has become a major priority within the Russian leadership's efforts towards defense modernization, with one-fourth of the defense modernization budget (\$678 billion) assigned to building-up the Pacific navy. These plans relate to Moscow's intent to reconstruct its former naval base in Cam Ranh, in cooperation with Hanoi, as a prospective logistics base for Russian naval activities in the area, and as a hub for the Vietnamese submarine fleet. Hence, Vietnam is interested in giving Moscow a foothold for its potential naval presence in the South China Sea area, which will also serve as a bridge for Russia to the broader Asia Pacific community. Another justification for Moscow's hard security engagement in the South China Sea area is centered on Russia's prospective economic projects in the region, including oil and gas exploration, the refinery business, nuclear power generation, and the development of a comprehensive electric power grid across the ASEAN space.

Another missing piece of the puzzle is the fact that, all who count on the use of the "Vietnam card" against China ignore Beijing's own strategy of accommodating Vietnam. Beijing views Hanoi as an important strategic partner of China, and thus considers it important to prevent Vietnam, by all means possible, from being drawn into playing an anti-China game, either accidentally or by design. One may even recall some historical narratives about the joint Sino-Vietnamese struggle against imperialism. The political leaderships of the two nations have developed a framework for consultation and conflict settlement, which includes regular summits with the participation of both Chinese Premier Xi Jinping and his Vietnamese counterpart Li Keqiang. Despite some sharp collisions at sea (fishery bans, crew detention practices, and incidents with seismic exploration vessels) and "legal wars" between Beijing and Hanoi, the two leaderships have demonstrated constraint and common sense, complying with many existing practices of the specific East Asian conflict management context. Important manifestations of Beijing-Hanoi collaboration have been joint naval patrols in the South China

Sea and unprecedented growth in bilateral trade, with the aim of trade hitting a record \$100 billion by 2017. Beijing is also actively engaged in the China-ASEAN dialogue process, hoping to win understanding of China's position from ASEAN and reach an agreement on an updated version of the existing "Code of Conduct" framework in the South China Sea area.

So both Hanoi and Moscow have followed a pragmatic and even opportunistic policy of balancing, trying to prevent the potential preponderance of any superpower in the South China Sea security setting. Indeed, in light of the current Ukrainian conundrum, Moscow's Asia policy is becoming crucial for upholding Russia's great power status. Recent progress in Russo-Vietnamese military cooperation and growing arms supplies to Hanoi may increase Russia's stake in the East Asian balance of power configuration. But in the changing security environment of East Asia, Russia's deeper involvement in regional affairs as a close strategic partner of Vietnam may be regarded by China as a preferable option. This would enable Beijing to maintain its own dialogue with Hanoi in both bilateral and multilateral formats, to utilize its good relationship with Moscow to indirectly influence the pace and scope of Vietnam's naval modernization, and, most importantly, to prevent the formation of a potentially dangerous military and political alliance between Hanoi and Washington. While opposing any attempt to internationalize the South China Sea disputes, China in practice tacitly accepts the increasing involvement of external actors in these situations, including allowing Russia to strengthen its positions in Vietnam and even assist with the military modernization of the latter. This pragmatic course taken by Beijing, which is currently favorable for both Hanoi and Moscow, also provides China with some broader opportunities to settle conflict situations directly with the other regional claimants and, simultaneously, on the great power level, creating a positive and manageable external environment for further negotiations with ASEAN.

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ABOUT THE RUSSIAN ANALYTICAL DIGEST

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