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The Political Economy of Pacific Russia

Regional Developments in East Asia

Edited by

Jing Huang and Alexander Korolev

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CHAPTER 1

Introduction: Re-embedding Pacific Russia in the Changing Regional Environment

Alexander Korolev and Jing Huang

Russia's comprehensive turn to Asia through the accelerated development of its Far East and Siberia, officially announced soon after Vladimir Putin returned to power in 2012,[1] is ongoing. This has attracted the attention of a number of scholars who have delved into its causes and consequences, and who have tried to assess its feasibility (Hill and Lo 2013; Karaganov and Makarov 2014; Keck 2014; Makarov et al. 2014; Rozman 2014; Huang and Korolev 2015; Korolev 2016). The protracted crisis in Russia's relations with the West in the wake of the Ukraine Crisis, on the one hand, and disillusionment about the West, particularly the EU development model, on the other, have given an additional powerful push and determination to Putin's "go east" strategy. Despite the lack of an absolute consensus about the preferred model of socio-economic development of Pacific Russia's territories and the ongoing debate over the

[1] The term "Pacific Russia" in this introduction denotes the territory of Russia's Far East and Siberia. The concept of "Pacific Russia" is further elaborated in Chap. 2. It represents a vast area of Russia's land and sea area related to Siberia and the Far Eastern Federal District.

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overall attractiveness of the comprehensive reorientation to Asia,[2] there is a growing recognition among intellectuals and policy-making elites in Russia that the country's integration into the Asia-Pacific economic system through developing its Far East and Siberia is essential for restructuring its economy and improving its geopolitical standing. In other words, Russia's integration into Asia-Pacific has become more a question of "how" rather than "if" or "why." It is more about how Russia will create and implement its development plans for Siberia and the Far East, and how these plans can be optimised with the overall reorientation to Asia so as to avoid the resource trap and to diversify its export markets, rather than about fundamentally questioning whether Russia should carry out such policies.

The vision that the development of the Far East and Siberia is essential for Russia's integration into Asia-Pacific can be traced back to the period of Mikhail Gorbachev. In 1988, Gorbachev argued that "the economic position of the USSR in the Asia-Pacific region is the subject of our major concerns, reflections, and concrete measures…. We would like to make the effective foreign economic links of the USSR's Far East serve the goals of social and industrial development of this Soviet region. It is not an ad hoc but a long-term task. It is not a tactical but a strategic goal."[3] In 1994, Boris Yeltsin stated that "the main goal of Russia's policies in Asia Pacific is to connect its Far East and Siberia with the international cooperation in the region."[4] In 1995, he also argued that "the weakness of Russia's positions in the East is in the underdeveloped economic links with the region. To overcome this situation we need a long-term comprehensive program of developing Russia's eastern territories and integrating them into Asia-Pacific regional economic system."[5]

But it is President Vladimir Putin who has developed this vision into a national strategy that is seen as necessary in order to reinvent Russia as a true global power in the twenty-first century. He wrote in 2007 that "Russia's embedment into the mechanisms of Asia-Pacific integration will naturally complement Russia's domestic plans of socio-economic development, first and foremost the projects of intensive development of Siberia and Far East" (Putin 2007). In 2010 President Dmitry Medvedev also emphasised that "…opportunities of developing relations in Asia Pacific must be utilised for the welfare of Russia's Far East."[6] Later on, Putin further envisioned, in 2012, that the development of Russia's Far East and Siberia would involve international cooperation, as he pointed out specifically that Russia needed to utilise "the potential of relations with China for the economic development of Far East and Siberia" (Putin 2012).

This was further reasserted in 2015, when Putin said, "and today we see the future of Russia's Far East as one of the country's key centers of socio-economic development, which must be effectively integrated in the developing Asia-Pacific region."[7]

Indeed, it is evident that policy makers in the former Soviet Union and later Russia have long been aware of and on multiple occasions have emphasised the potential of Russia's integration into Asia-Pacific, and the positive impact of such integration on the development of its Far East and Siberia. What has not been sufficiently elaborated, however, is the "how" question: what are the best, or the most feasible, routes by which Russia, and especially its eastern territories, including the Far East and Siberia, can become a part of the Asia-Pacific region's economic dynamism? The sobering reality that Russia is achieving rather modest progress in terms of expanding and diversifying its economic links with Asia reveals more formidable and complicated challenges in the development of Russia's Far East and Siberia.

The recent global, regional, and Russian domestic developments demonstrate that unlike previous attempts to prioritise Asia and speed up the economic development of the Far East and Siberia, the efforts undertaken during Putin's second and third terms have gone far beyond political rhetoric and have gained more substance. The new comprehensive state programmes, such as the new "Strategy of Socio-economic Development of Far East and Baikal Region Until 2025," which seek to resolve major problems of regional development, receive much larger and more regular state financial support than any of their predecessors.[8] At the end of 2015, the Russian government also adopted the Federal Law on Territories of Priority Socio-economic Development, which sets up a new tool of regional development—"territories of advanced development" (TAD) or "special economic zones" (SEZ), with considerable tax preferences and other favourable conditions for investments in export-oriented innovative spheres.[9] The first three TADs include a logistical hub in the suburb of the city of Vladivostok, an innovative industrial centre in Komsomolsk-on-Amur, and an innovation centre in the city of Khabarovsk. At the same time, new institutional frameworks were put in place: in May 2012, the Ministry for Development of the Russian Far East (*Minvostokrazvitiya*) and other related institutions, such as the Far East and Baikal Region Development Fund, were established, united by the common task of advancing the economic cooperation of Pacific Russia with its Asian neighbours.[10]

At first glance, and based on what has been done over the last few years to enhance the economic development of Pacific Russia and help its integration into Asia-Pacific, it would not be an exaggeration to say that Russia's Far East is truly a harbinger of Moscow's search for new models not only for social and economic development, but also for integration into the regional economy, as Asia Pacific has irrevocably become the centre of gravity of the global economy. Although the whole picture is yet to be seen, nowhere else in Russia one can observe the conditions that are now being created in the Far East: drastic tax cuts, streamlined bureaucratic procedures, and the specific institutions responsible for assisting foreign and domestic investors, supporting specific investment projects, providing infrastructural facilities, and searching for qualified human resources. It is in this particular region where the government is formally most responsive to the demands of the business community and where relatively liberal economic laws are implemented.

Yet, the comprehensive turn to Asia is not unfolding either at the speed or scale desired by either the government or the business community, and at the same time, the presumably straightforward link, which is often taken for granted, between Russia's turn to Asia and the development of its eastern territories barely exists owing to inconsistent and even conflicting interests, as well as the distance (in all senses) between Moscow and local authorities in Pacific Russia. Meanwhile, the holistic view that there is a strong economic complementarity between the "resource-rich Russia" and the "resource-thirsty Asia," which is why Russia's strategic turn to Asia will naturally generate a symbiotic and mutually beneficial geoeconomic bundle that will bring prosperity to Far East and Siberia, so far has hardly conformed to the reality.

As Russia's shifts towards Asia-Pacific moves from rhetoric to practical realisation, a range of new challenges and problems are emerging that require better understanding. The essential problem is that Russia's turn to Asia remains inconsistent in terms of both policy making and implementation, with little understanding that it requires genuine international and multinational cooperation in order to achieve a desirable and effective development of Siberia and the Far East, given the necessity for diversifying the sources of investments, labour, market, and technology in order to truly integrate Russia into the global economy. Owing to Pacific Russia's objective geopolitical and geoeconomic conditions, neither Moscow nor the local authorities has been successful in developing an effective model of comprehensive modernisation for this region. Being Russia's natural geopolitical

gate to East Asia, the Far East and Siberia are characterised by a relatively primitive economic and export structure, which makes the development of these territories extremely costly. To alleviate, if not remove, these hurdles, not only should there be innovative measures and realistic approaches, but also more attention should be paid to the context of the overall political–economic situation in the Asia-Pacific region and beyond. As demonstrated by plummeting oil prices, volatile commodity prices, issues related to the diversity of regional foreign policy stances, and the overall evolution of the modes of economic production and interaction in Asia, such context evolves rapidly and requires constant policy adjustments.

Concurrent with Russia's pivot to Asia, significant developments occurring on Russia's borders have been changing the patterns of regional international interactions. These include the reactivation of alternative shipping routes in the Arctic, China's launch of the new development initiative One Belt One Road (OBOR) along the traditional land and maritime silk road, and the establishment of the Eurasian Economic Union (EEU) in 2015, which attempts to develop closer connections in the post-Soviet space. These trends are redefining and creating new regional networks, such as the BRICS (Brazil, Russia, India, China, and South Africa) grouping, the Asian Infrastructure Investment Bank (AIIB), and the Shanghai Cooperation Organisation (SCO), and are adding a global dimension to the expected re-emergence of Pacific Russia as an integral part of the Asia-Pacific region. All these dynamic processes as well as their impact on the regional political economy require more comprehensive research efforts.

The evolving complexity of the regional political economy together with a more challenging global economic environment has posed higher demands on Russia. While Russia's integration into the Asia-Pacific region with the consequent development of its Far East and Siberia has become a widely recognised goal, what matters most is the clear understanding of what Russia can offer to the region, so that it can become an important and embedded regional player. In this context, the above-mentioned link between Russia's policies in Asia-Pacific and the development of its eastern territories cannot be oversimplified or taken as a given, especially when some Russian experts from the Far East argue that "Asian-Pacific countries' real interests in Pacific Russia are negligible" (Larin 2015). This sobering comment is particularly relevant now, when low oil and gas prices as well as sectorial sanctions against Russia have severely damaged the prospects of some energy projects in Pacific Russia and, thus, have undermined Russia's capacity to use its biggest competitive advantage in the region.[11]

Under these circumstances, what can Russia offer to its Asian partners? What are Russia's chances of being able to transition toward the Asia-Pacific region and benefit from its impressive economic growth? Will Russia be truly able to re-define itself as a Eurasian power? What roles will Siberia and Far East play in this new geopolitical and geoeconomic calculus, and what policies can be implemented to ensure the development of these regions? What does this mean for the political economy of Asia-Pacific? Now that Russia's reorientation to Asia is widely perceived as an economic necessity and when various measures of administrative and economic support are being implemented, answering these questions requires searching for concrete and realistic strategies that are compatible with regional economic needs. In other words, for the success of Russia's policies in Asia-Pacific, it is necessary to zoom in on regional developments and define the place and role of Russia in them. The broad vision of reorientation to Asia, regularly announced by many policy makers, needs to be matched by concrete projects that can make the turn feasible.

The present volume addresses these issues from a new and truly international perspective. As is reflected in the title, this book does not consider Pacific Russia as an isolated entity with its unique developmental needs but, instead, attempts to locate this Russian region within wider regional and global trends, so as to map out feasible ways in which it may be integrated into Asia-Pacific and to see how its geopolitical and geoeconomic endowments can help its socio-economic development. The focus, therefore, is not only on the substantial needs in order for Russia's Far East or Siberia to develop, but also, and even predominantly, on the necessity and feasibility of the involvement of the broader Asia-Pacific region and on how these eastern Russian territories can fit within this broader configuration. We believe that such an approach is useful because it helps to see not only what is *desirable* for policy makers in Moscow, but also what is *feasible* for Russia from the perspective of regional economic transformations. We further argue that to date insufficient attention on the actual "demand for Russia" in the region has resulted in systematic "underrealisations" or even failures of the previous "turns to the East."

This volume is an edited collection of chapters written by internationally recognised experts from Russia, China, South Korea, Japan, Norway, and Singapore, providing perspectives and in-depth analysis of possible avenues for international cooperation in the development of Pacific Russia, analysing political, economic, social, and geostrategic roadblocks,

and offering directions for further development. It is the continuation of the collaborative project between research institutions of six countries, including Japan, South Korea, China, Norway, Singapore, and Russia, that has taken place over several years. The goal of the project is to better understand, explore, and foster international cooperation in the development of Russia's Far East and Siberia, and by so doing, to redefine the role of "Pacific Russia" in the international political economy of Asia. While the first published volume—*International Cooperation in the Development of Russia's Far East and Siberia*—introduced Russia's new pivot to Asia as a geoeconomic and geostrategic shift, and explored different countries' perspectives on the development of the Far East and Siberia (Huang and Korolev 2015), the present volume goes into greater depth in terms of redefining Pacific Russia in the complex political–economic landscape of the Asia-Pacific region and highlighting the transnational dimension of Russia's ongoing pivot to Asia. It also goes into greater detail when exploring the factors and mechanisms of Pacific Russia's integration into Asia and provides an examination of international cooperation in the spheres of energy, infrastructure, finance, governance, sustainable development, and other key areas related to Russia's pivot. As such, the 11 chapters in this volume highlight the new approaches to Russia's integration into Asia-Pacific.

1 The New Approaches to Russia's Integration into Asia-Pacific

While each chapter focuses on different aspects of Pacific Russia's development, all of them emphasise "international cooperation." That is, they are not a mere account of problems in the development of Pacific Russia, but rather an exploration into the transnational dimension of this development. Chapters in Part 1 provide conceptual, historical, geopolitical, and economic accounts of Pacific Russia's position in the region. The goal is to re-locate Russia's eastern territories in the political economy of Asia. Chapters in Part 2 explore the main factors that foster or hinder cross-border international cooperation. This follows the logic of conceptualisation and elaboration: once the regional standing of Pacific Russia is redefined, the analysis goes into greater detail in order to examine the exact processes and mechanisms of its integration into Asia. The overarching message of all chapters is that progress is hardly possible without multilateral international cooperation. All chapters, explicitly or implicitly,

bring to light the new pathways for Russia's integration into Asia-Pacific and the development of its eastern territories. The review below synthesises the chapters and crystallises the important messages that cut across them, with the goal of better highlighting the policy-making relevance of the book.

1.1 Removing the "Peripheryness" of Pacific Russia

Chapters 2 and 3, and to a lesser extent the other chapters, are conceptual. They call for the reconceptualisation of "Pacific Russia" and a reconsideration of what the term can offer to Russia's integration into Asia-Pacific as well as for the regional political economy as it is more broadly defined. In other words, there is a call to pay more attention to how Pacific Russia can be better meshed not only into the process of Russia's own "pivot to Asia" but also into the global trends caused by the "rise of Asia." It is believed that for these reasons Russia's Far East and Siberia needs to be freed from the label of "periphery."

In Chap. 2, Victor Larin develops the concept of "Pacific Russia" which is, in contrast to the well-known "Far East," free from the pejorative connotation of "periphery," and explores the cross-border and interregional dimensions of the newly defined region's cooperation with Asia-Pacific countries, predominantly China, Japan, and South and North Korea. Larin defines cross-border cooperation as cooperation between adjacent areas that are across state borders, and interregional cooperation as communication and collaboration among areas across countries that are undertaken without the involvement of the federal authorities. Larin focuses on the institutional, economic, and humanitarian aspects of Pacific Russia's cross-border interregional relations and shows how Pacific Russia continues to emerge as an economic, social, and cultural space. However, Pacific Russia's rich experiences of developing cross-border interregional links and its contribution to the growing economic cooperation between Russia and Asia, according to the author, have been underutilised by Moscow. The multiple economic, politico-administrative, and humanitarian links as well as international consultative institutions that have developed at the regional level and served as the main driver of regional integration deserve more attention. Pacific Russia is the natural interface for interactions between Russia and Asia. It shapes Russia's overall image in Asia, and its network with Asian countries is much denser than that of any other Russia's region. As such, Pacific Russia is already built into the economic,

social, and cultural space closer aligned with the Asia-Pacific. This is a valuable asset for Russia's move into the region, which, unfortunately, is overlooked by the Russian central authorities, who fail to utilise it because of ideological and geopolitical convictions. Overcoming this inertia and recognising Pacific Russia's integration potential will open new avenues for Russia's reorientation to Asia.

Chapter 3, by Nianshen Song, rediscovers Russia's Far East by placing it at the centre of historical dynamism of Northeast Asia. Song argues that Russia's "Far East" and the adjacent areas of other countries have been perceived as a peripheral region from various "centres." They have also been perceived with a contemporary sense of international boundaries. The very term "Far East" betrays a deep-seated euro-centrism. Song proposes to use trans-border lenses to locate Russia's Far East in the context of a region that also encompasses China, Eastern Mongolia, North Korea, and the Sea of Japan—the so-called "joint frontier." By exploring the historical dynamics of this frontier, Song does not view it as an isolated and divided space at the margins of all states but restores its historical agency in broader regional, geographic, geopolitical, and economic contexts. At the same time, having explored the socio-economic activity of various indigenous and immigrant groups, as well as state and non-state actors, the author shows that local initiatives and cross-border collaboration have always played a key role in the region's development. These dynamics stress the need to transcend the framework of nation-states and, instead, look at the five centuries-long history of collaboration at the sub-national level. Realising the historical realities of the "joint frontier" adds a new dimension to the current discussion about Pacific Russia's exploration, which focuses predominantly on contemporary policies and tends to overlook the regional trends that have existed for centuries.

1.2 "Demand and Supply Approach" to Russia's Integration into Asia-Pacific

Another aspect of relocating Pacific Russia in Asia is elaborated in Chap. 4 by Igor Makarov, who argues that for the development of Russia's Far East and Siberia and for the overall realisation of Russia's turn to the East to be deemed successful, extra attention should be paid to the match (or the lack thereof) between the economic demands of Asian countries bordering Russia and Russia's capacity and potential to meet those demands. The integration, in other words, should, and can only, be founded on mutual

interests. While Russia's view of the prospects for its eastern territories is important, Asia-Pacific countries' actual demands for Russia cannot be ignored if the goal is to find feasible pathways to increase Pacific Russia's role in the region. Makarov demonstrates that so far there has been a mismatch between what Asia needs and what Russia is willing to offer, which is the major cause for the existing problems with Russia's Asian policies. Russia's programmes of accelerated development for its eastern territories, for instance, seek to resolve the development roadblocks existing in Russia without sufficient consideration of the transformation of economic models in Asia-Pacific countries. Since the development of Russia's Far East and Siberia requires international cooperation, this neglect has had a considerable detrimental effect. Makarov's chapter argues that attention should be paid to the economic demands evolving in Russia's Asian neighbours. He identifies and exposes four ongoing shifts: in the type of economic growth, in the sectorial structure of the economy, in the geography of exports, and in the geography of economic growth. These shifts generate demand for resources, such as energy, land, and water, and for intensive consumer goods, as well as for infrastructure connecting the newly emerging areas of growth in Asia-Pacific with the territories where such goods are produced. To make progress, Russia needs to take these emerging demands into consideration and construct policies accordingly.

This "demand and supply approach" to regional cooperation, but with a narrower focus on the energy sector, is the main theme of Chap. 6 by Satoshi Sakai. The chapter spells out the problems of, at first sight commonsensical, patterns of complementarity in the energy sphere between Russia's Far East and East Asian countries. While it is true that abundant natural resources are the key competitive advantage of Russia's eastern territories, and that the country has started to increase its oil and gas exports as part of its plan to develop the Far East and Siberia, Sakai demonstrates that expanding the delivery of Russia's resources, such as oil, gas, rare earth metals, coal, and so on to the Asian markets requires large investments and significant infrastructure improvements. These problems are exacerbated by the fall in oil prices and Western sectorial sanctions against Russia that severely undermine the prospects of some energy projects in the eastern part of Russia. As a result, Russia's energy exports are not always as competitive against other supplies in Northeast Asia as they are believed to be. There are also political issues within East Asian states that may become a barrier for increasing the imports of Russia's energy resources. Examining the weaknesses in Russia's position as an energy exporter in East Asia

significantly bolsters our understanding of how Russia can use its natural resources and utilise necessary financial instruments for integrating it into the Asia-Pacific region.

1.3 Continental and Maritime Connectivity: Pacific Russia as a Part of New Eurasian Geopolitics

Another aspect that needs to be emphasised, and which is also related to the call to pay more attention to the broader regional needs mentioned above, is the infrastructural reconfiguration of Eurasia. New geopolitical projects, aimed at enhancing Eurasian cross-continental connectivity, have recently been announced by a number of Asian leaders, as well as Russia. Concurrent with Russia's pivot to Asia, significant developments have been occurring on Russia's borders, changing the patterns of international interactions. Among them is the reactivation of alternative shipping routes in the Arctic, the launching of China's OBOR and New Silk Road initiatives, and the establishment of the EEU in 2015, which seeks to integrate the post-Soviet space. At the same time, Russia's relation with South Korea, which is one of the largest markets for Russian hydrocarbons and is a leading trade partner for Russia's Far Eastern Federal District, also gained new momentum as Russia has come to occupy an important place in President Park Geun-Hye's flagship "Eurasian initiative," which seeks to increase connectivity across Eurasia with the goal of resolving South Korea's major geopolitical obstacle, an isolationist North Korea. These trends are redefining and creating new regional networks, such as the BRICS grouping, the AIIB, SCO, and reinforces the global dimension of Pacific Russia's re-emergence as an integral part of the Asia-Pacific region. All these dynamic processes as well as their impact on regional political economy prompt more comprehensive research efforts. Four chapters in this volume—Chaps. 5 and 7–9—provide differing perspectives that highlight Pacific Russia's positions and prospects within the evolving Eurasian geoeconomics and geopolitics.

Chapter 5, by Jae-Young Lee, demonstrates how the political and economic profiles of Eurasia have been consolidating on the international stage, which has increased the importance of the region. Lee argues that the South Korean government needs to enlarge the "room for growth" to the north from the Korean Peninsula. Therefore, in addition to trying to improve relations with North Korea, South Korea needs to strengthen its cooperation with Russia's Far East and Siberia, and also with Mongolia, Central Asia, and

the states on the Eurasian continent. This, according to Lee, can be achieved by pushing a two-track development strategy that emphasises the importance of both sea and land connectivity. In this context, South Korea has developed its "Eurasia Initiative," the goal of which is to reinforce economic ties with other Eurasian states under a new paradigm for international economic cooperation. Lee's chapter analyses this initiative, and further advances it by highlighting feasible strategies for South Korea's cooperation with Eurasian states. The main emphasis is on cooperation between South Korea and the Russian Far East and Siberia in line with the "Eurasia Initiative." Lee presents and analyses a comprehensive "map" of links between this project and other regional initiatives promoted by other countries, such as cooperation with the Russia-led EEU, the Northern Sea Route (NSR), and the creation of Zones of Advanced Socio-economic Development (ZASD).

Anastasia Likhacheva, in Chap. 7, explores how Russia's Far East and Siberia fit with the newly emerging infrastructure map of Eurasia. Likhacheva argues that since the global financial crisis of 2007–2009, many Asian countries, both developing and developed ones, started to launch various large-scale regional infrastructure projects. Thus, the Association of Southeast Asian Nations (ASEAN) actively tried to promote cooperation and increase connectivity both within the organisation and within broader agreements, such as the Regional Comprehensive Economic Partnership (RCEP); the South Korean President officially announced the Eurasia Initiative; India has started to promote the idea of a new north–south corridor—a cross-Eurasia trade route; China has placed its OBOR project at the centre of its foreign economic policy, cultural diplomacy, military strategy, and internal development; and Russia, at the same time, has attempted to modernise the NSR, renovate the Trans-Siberian railroad, and make these projects important objectives of national development. What is the place, if any, for Russia's Far East and Siberia in the amalgamation of these mega-plans? Likhacheva shows that while the Far East has a chance to be integrated in the new infrastructural network of Eurasia, Siberia, despite its enormous resources, technological, and human potential, remains mostly excluded from all major projects. Concurrently, Russia's existing plans for the modernisation of the Far East and Siberia's transportation system pay little attention to the major regional initiatives. This finding reveals a serious challenge for the Russian authorities, both federal and regional, and demonstrates that Siberian development policy needs to be reconsidered so that it can become part of the cross-border continental projects and not be limited by the development of the Trans-Siberian route.

Chapter 9, by Hee Seung Na, is related to both Chaps. 5 and 7 in that it also mentions the "Eurasia Initiative" and deals with infrastructure development, but distinguishes itself in that it has a concrete focus on the railway projects connecting Russia's Far East, Siberia, and the Korean Peninsula. Na explains that to strengthen economic and social connectivity between Northeast Asia and broader Eurasia, the South Korean and North Korean railways should be linked with the Eurasian railway system. Part of this mega-project is the construction of an integrated railroad infrastructure network in the Russian Far East and the Korean Peninsula. Na explores the progress and impediments facing the construction, and argues that its successful development will help realise South Korea's vision of Eurasia as "one continent" and "open territory." Na demonstrates that the intermodal logistics environment around Russia's Far East and the Korean Peninsula is changing rapidly and the potential for intermodal projects is growing. The modernisation of the Trans Korean Railway system and the Trans-Siberian Railroad is presented as one of the most important projects in this regard.

In Chap. 8, Marc Lanteigne calls readers' attention to the Northern Sea Route (NSR) and its impact on the development of Russia's Far East and Siberia in the context of China–Russia relations. Lanteigne demonstrates that since President Xi Jinping rose to power in China, Sino-Russian economic relations have greatly improved as the two countries have started to actively build bilateral trade links that are less dependent on the West. This trend accelerated in the wake of the Ukraine crisis and the deterioration of Russia–West relations. At the same time, Russian President Vladimir Putin started to strengthen his policy of reorientation towards Asia, while China has proposed the "Silk Road Economic Belt" in Eurasia and the twenty-first-century Maritime Silk Road in the Indian Ocean. All these projects may serve to further bring together Chinese and Russian economic and strategic interests. Yet, there is another potential trade corridor, namely the NSR in the Arctic, which will significantly factor into the deepening economic ties between Beijing and Moscow, especially as this maritime link between Asia and Europe comes into more common usage. Lanteigne argues that the re-emerging NSR should be studied as the "third road," which may link Chinese trade with Europe and further augment Sino-Russian economic relations in Siberia and the Far East.

1.4 Regional Development "Zoomed In": From Strategic Visions to Concrete Projects

A cursory glance at the policies for Russia's reorientation to Asia is enough to see that there has been no lack of strategic visions and grand plans, but picturing how Russia is going to become an important player in the regional economy and how its Far East and Siberia would benefit from this process is critical. The devil, however, is in the detail, and in the replacement of mega-plans with actual projects for economic cooperation. Now that there is a firm recognition of the fact that the Asia-Pacific region is becoming the main target of Russia's policies, the regional circumstances must be zoomed in on to bring the details into sharper focus. The strategic plans of development may look promising on paper, but the reality is that stakeholders (investors, businesses, and people) want to see tangible results before they support long-term big-picture thinking. Meticulous work on the ground with the purpose of achieving "small wins" is necessary for Russia's integration into the Asia-Pacific region.

Chapter 10, by Seck Tan and Anatolii Savchenko, delves into the local realities of the "Free Port of Vladivostok"—a port zone under a special custom and taxation system, and with specific regulations regarding investment, that was established in 2015 to accelerate Far East development. The two authors—an expert on Singapore and an expert on Russia's regional politics—explore how the success story of the Port of Singapore can be of use when considering the development of the Free Port of Vladivostok, and what lessons Vladivostok can learn from the city-state of Singapore. They show that despite all the differences, the strategy of turning Vladivostok into a prosperous free economic zone and efficient logistical hub faces a number of development challenges that are similar to those Singapore faced at its earlier stages of development. More specifically, Singapore's experience with its free economic zone, port management, policies of attracting talent, employment policies, and projects related to the development of medical tourism are all of relevance for Vladivostok. Moreover, Russian regional officials have displayed serious interest in learning from Singapore. Singapore's Changi Airport has already assisted with the modernisation of Vladivostok airport's international terminal, and Singapore–Vladivostok cooperation could spread to other areas, such as seaports. This chapter takes a close look at how the two experiences match and the lessons that can be learned.

In Chap. 11, Shengyu Yuan and Shaoxue Jia further zoom in and examine the political and legal environment of energy investment in Russia's Far East. Yuan and Jia argue that research to date on the issues facing energy investments in Russia has had a predominant focus on macro-level strategies, but has overlooked the exact policies and laws that actually regulate energy investments. The issue has been exacerbated by potential investors' lack of knowledge of Russian laws. Yuan and Jia's research reveals that despite all the improvements that have taken place, Russia's current legislation on energy cooperation in the Far East is still dominated by general rules and lacks detailed regulations and investment protection measures. The same applies to the recent energy agreements between China and Russia: while the agreements play a positive role in promoting energy cooperation between the two countries, they look more like guide posts or a set of principles than an operable roadmap detailing all aspects of such cooperation. Echoing Larin's argument (Chap. 2), Yuan and Jia believe that now that China and Russia agree on major issues of world politics and that the border disputes have become ancient history, it is necessary to descend from the federal level and pay more attention to the regional dimension of bilateral relations, especially when it comes to the issues confronting the development of Russia's Far East and Siberia. They further argue that the fact that local administrative agencies are rarely taken into consideration in international investment plans obstructs China–Russia cooperation considerably. Moreover, they call for the establishment of a consultative mechanism responsible for information exchanges regarding energy legislation.

The chapters included in this volume cover a range of content, and their assessments of future prospects of international cooperation in the development of Russia's Siberia and Far East vary widely. Taken together, however, they deliver clear messages and suggestions regarding how to proceed with Russia's reorientation to Asia and enhancement of regional economic integration. They also highlight new directions for future research. As the development of Russia's Far East and Siberia grows in priority and the issue of Russia's reorientation to Asia moves from "why" to "how," more policy-making creativity and attention to detail are necessary in order to generate qualitative change.

Notes

1. One of the first appearances of Putin's programmatic statements relating to Russia's reorientation to Asia and the development of its eastern territories is his article in the *Wall Street Journal*, published on the eve of the APEC Summit in Vladivostok on 9–10 September 2012. See Vladimir Putin: "An Asia-Pacific Growth Agenda," *Wall Street Journal*, 6 September 2012, http://online.wsj.com/articles/SB10000872396390443847404577629312716242648, accessed 6 April 2014.
2. On the one hand, President Putin and regional political elites are in strong support of Russia's turn to Asia. See, for instance, Presidential address to the Federal Assembly of 3 December 2015 (Послание Президента Федеральному Собранию. 03 декабря 2015 г.), http://kremlin.ru/events/president/news/50864#sel=102:1, 102:7, accessed 7 April 2016, in which the development of Russia's Far East and integration into Asia-Pacific is the core priority. On the other hand, however, there are those who consider Russia's reorientation to Asia as an undesirable deviation from a pro-European course of development and suggest reconsidering these policies or even abolishing the Ministry for Development of the Russian Far East. See Petr Netreba and Yana Milukova, "Putin will be advised to reduce the government staff" (Путину предложат сократить правительство), RBK (РБК), http://www.rbc.ru/economics/15/10/2015/561fdf359a794761d7a9ec5d, accessed 7 April 2016.
3. See: Mikhail Gorbachev's speech at the international symposium "The Asia-Pacific Region: Dialogue, Peace, Cooperation," in Vladivostok, read by Evgeni Primakov, State Archive of Primorsky Region, Fund P—68. Book 117, Folder 739, Page 252 (Речь М.С. Горбачёва на международной встрече во Владивостоке «Азиатско-Тихоокеанский регион: диалог, мир, сотрудничество зачитал Е.М. Примаков. ГАПК Ф. П—68. О. 117. Д.739. Л. 252).
4. See: Boris Yeltsin's 1994 Presidential address to the Federal Assembly of the Russian Federation "Strengthening the Russian Statehood," http://www.intelros.org/lib/elzin/1994/html, accessed 7 April 2016.
5. See: Boris Yeltsin's 1995 Presidential address to the Federal Assembly of the Russian Federation "Effectiveness of State Power in Russia," http://www.intelros.org/lib/elzin/1995/html, accessed 7 April 2016.
6. "Integration with the Asia-Pacific Countries is a Considerable Resource for the Russian Far East's Economic Growth," The President of Russia Internet Resource, http://kremlin.ru/events/president/news/8233, accessed 7 April 2016.
7. "The First Eastern Economic Forum," The President of Russia Internet Portal, http://kremlin.ru/events/president/news/50232, accessed 7 April 2016.
8. *Strategiya Social'no-Economicheskogo Razvitiya Dal'nego Vostoka i Baikal'skogo Regiona do 2050 goda* [The Strategy of Socio-economic Development of Far East and Baikal Region Until 2025] (The Russian Government, 2009), http://gov.garant.ru/SESSION/PILOT/main.htm, accessed 29 June 2015.

9. Full text in Russian. http://www.consultant.ru/document/cons_doc_LAW_172962/ and http://publication.pravo.gov.ru/Document/View/0001201412290024?index=0&rangeSize=1, accessed 17 August 2015.
10. *Ministerstvo Rossiyskoi Federacii po Razvitiyu Dal'nego Vostoka* [the Ministry for Development of the Russian Far East], available at: http://minvostokrazvitia.ru/, accessed 18 December 2014; *Fond Razvitiya Dal'nego Vostoka i Baikal'skogo Regiona* [Far East and Baikal Region Development Fund], http://fondvostok.ru/eng/, accessed 10 December 2014. Far East and Baikal Region Development Fund, with chartered capital of 15.5 billion rubles, is set up to accelerate the development of the Russian Far East. The Fund is a state development institution that warrants a flexible approach to projects' structuring and financing. It invests in venturing and infrastructure.
11. Relevant in this regard is a statement by German Gref, the head of Sberbank (Russia's largest state bank) and a former economic development minister under President Vladimir Putin, according to which Russia is a "downshifter"—a country that has lost global competition and is doomed to be subjugated economically and to lag behind its more advanced rivals. See: "'Downshifter' Russia Is Losing Global Competition, Warns State Bank Chief," *The Moscow Times*, 15 January 2016, http://www.themoscowtimes.com/arts_n_ideas/business/article/downshifter-russia-is-losing-global-competition-warns-state-bank-chief/555889.html, accessed 12 April 2016.

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PART I

Pacific Russia in the International Political Economy of Asia

CHAPTER 2

Pacific Russia in the New Regionalism of North Pacific: Cross-Border and Interregional Relations

Victor Larin

1 Introduction

Since the late 1980s, the territories of Pacific Russia, which for decades have been separated from the outside world by the Iron Curtain, have started to enter the turbulent processes of international exchanges with neighbouring countries and territories. These interactions not only successfully served social and economic requirements of these territories, but have also become one of the engines of regionalism in the North Pacific. As noted by Rozman (2000b: 178), Sino-Russian cross-border relations, for example, played "an essential role in determining the degree to which regionalism (involving also the Koreas, Mongolia, and Japan) will develop in Northeast Asia." However, despite these changes and the growing attention to evolving processes in the region, the understanding of the place and role of "Pacific Russia" in "region-building" in the North Pacific remains limited. This is particularly the case with Pacific Russia's cross-border and interregional relations

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(CBIRR), which play an important role in Russia's regional standing and in shaping the North Pacific as a whole, but the content of which has not been sufficiently explored.

Publications referring to Pacific Russia's relations with the outside world that have emerged over the last two decades tend either to consider such relations as a separate fragment of bilateral ties between Russia and the North Pacific countries (Garusova 2001; Larin 2008; Arai and Hasegawa 1999; Rozman 2000a; Iwashita 2005), focus especially on China (Alexandrova 2005; Larin 2005, 2014; Tarasov 2003; Zhang 2000), or view them as the source and means of Russia's Far Eastern Federal District economic development (Devaeva 2004; Huang and Korolev 2015; Thornton and Ziegler 2002; Akaha 1999). While these views are satisfactory, they miss the bigger regional pattern involving Pacific Russia that has been in formation over the last decade or so. Even though some authors tend to look at Pacific Russia through the prism of integration and regionalisation in East and Northeast Asia (NEA), they tend to focus on the economic sphere only without due attention to the politico-institutional and humanitarian aspects (Rozman 2008; Larin 2007; Meyer 1999; Akaha and Vassilieva 2014). Most recently, there are those who associate Moscow's "turn to the east" policy with its plans to develop Russia's Far Eastern regions (Blank 2009; Karaganov 2014; Makarov 2016; Korolev 2016). They, however, perceive those regions as a platform for Russia to realise some grandiose economic or geopolitical projects, without sufficiently assessing Pacific Russia's CBIRR and these projects' potential role as components and instruments of state policies. Nor is Pacific Russia's CBIRR among other North Pacific countries located or generalised as a separate phenomenon of international affairs, which makes it difficult to assess the evolving position of Pacific Russia in the region.

Similarly, as the proclaimed regionalism "from the top" in NEA did not happen, and spontaneously emerging "new regionalism" at a sub-national level ("from below") was neglected by capital bureaucracies in Beijing, Tokyo, Seoul, and Moscow,[1] the creators of national strategies failed to take into account "Pacific Russia" as an entity with its own interests, priorities, channels of influence, and politics. In general, they tended to focus on North Pacific countries' policies and interstate relations in Asia-Pacific or NEA while overlooking a substantial layer of economic, politico-administrative, and humanitarian contacts and exchanges happening at the *regional level*, where local officials and informal bodies, rather than central governments, work as the major drivers of these processes.

This chapter argues and demonstrates that the new reality of today's North Pacific requires greater attention to be placed on interregional ties and not only interstate ties. A closer look at Pacific Russia, as an actor, and its CBIRR with other regions and sub-regions of China, Japan, the USA, Korea, and other countries is needed. In other words, we need a new regional approach that would better reflect the regional politico-economic realities. Pacific Russia's CBIRR as a phenomenon in its own right requires greater recognition and understanding, especially in the context of the Kremlin's proclaimed "turn toward the East," which defines Russia's eastern territories as a bridge for Russia's integration into Asia-Pacific and their development as opening up "new economic opportunities and new horizons" as well as "additional instruments for an active foreign policy."[2] Such a strategy requires Russian authorities and experts to go beyond viewing Pacific Russia's CBIRR simply as a tool for developing Russia's "distant periphery" or a source of hard currency. Instead, it should be seen and approached as a potentially operative element of Moscow's Pacific grand strategy.

In this light, the analysis given here is twofold. It considers Pacific Russia's CBIRR as, first, a component and engine of regionalisation in the North Pacific, and second, as a prospective instrument of the Kremlin's Pacific policy in terms of future avenues for Russia's overall integration into Asia Pacific. More specifically, the author attempts to answer the following questions: What are the parameters of CBIRR? How deep is Pacific Russia's involvement in various arenas of CBIRR within the North Pacific, and what are their positions and influence there? What are the niches and roles of Pacific Russia's CBIRR in Russia's Pacific policy and bilateral relations with the North Pacific countries?

The chapter is structured as follows. Section 1 clarifies the geopolitical and operative terms used in the study, such as the North Pacific, Pacific Russia, and CIBRR. Section 2 draws on empirical data to explore the regional dynamics in the main areas ("spaces") of Pacific Russia's relations with its neighbours; these areas include the *institutional aspects* of bilateral and multilateral relations between sub-national governments in the region, *economic aspects*, including interregional trade and investment flows, and the *humanitarian aspect* of CBIRR. This section locates Pacific Russia within North Pacific regionalism. It is argued that developments in these aspects must be taken into consideration to make Russia's integration into Asia-Pacific feasible. Section 3 analyses the driving forces of the territories' CBIRR and the conditions for their further development.

Section 4 concludes the chapter. The overarching message of the chapter is that a better understanding of the evolving regional pattern is necessary for the success of Pacific Russia's development and Russia's overall integration into Asia-Pacific.

2 Terms and Concepts: North Pacific, Pacific Russia, CIBRR

Any geopolitical model is rather arbitrary and is designed to solve a particular exploratory task. As a geographic area the *North Pacific* is well known in some academic fields, including marine biology and archaeology, but is quite new in geopolitics, regional development, security studies, and policymaking. In this sense, the term emerged in 1990 when the Canadian Department of Foreign Affairs, Trade, and Development initiated a three-year project called North Pacific Cooperative Security Dialogue (Jones 2008: 14–16). In the same year, the North Pacific Forum was organised on Hokkaido Island in Japan. Additionally, some research centres have endeavoured to use the concept to justify the US presence in the geoeconomic space of NEA (Morrison and Noland 2015). The detailed argument for the North Pacific as a geopolitical and geoeconomic objective of Russia's "turn east" policy has been elaborated elsewhere (Larin 2015).

As a region, the North Pacific is formed by eight major and middle powers of the west and east coast along the Pacific Ocean's northern region: Canada, Democratic People's Republic of Korea (DPRK), Japan, the People's Republic of China (PRC), Republic of Korea, the Russian Federation, Republic of China (Taiwan), and the USA. By the beginning of the 21st century, these states became bounded by numerous economic, political, bureaucratic, and humanitarian threads. It is worth noting that many features of this region are similar to those of the NEA: the importance of regional security owing to a large degree of geopolitical uncertainty, the large economic weight of the region but, at the same time, unevenness in terms of the level of economic development across countries and territories of the region, ambiguity in economic and political leadership, political tensions, cultural diversity, and so on. The NEA, however, excludes the USA, which makes it incomplete, especially since the US government announced its "pivot to Asia," which prioritises Asia as the main target of the USA's grand strategy. Given the volume of USA–China trade, the depth of USA–Japan and USA–South Korea alliances, as well as the USA's relations with Taiwan, one cannot neglect the importance of the US factor in Russia's

attempts to reorient itself towards Asia, which makes the North Pacific a more appropriate analytical category for the study of Russia's Asian policies; especially because the North Pacific is a region in which Pacific Russia's CBIRR has been growing actively over the last two decades.

The term *Pacific Russia* was used for the first time at the beginning of the 1990s and for the last decade has gradually strengthened in the scientific and political lexicon.[3] Pacific Russia embraces the 12 territories east of Lake Baikal (nine territories of Far East Federal District (FEFD) and three of Siberian Federal District—Transbaikal territory, Irkutsk oblast, and Republic of Buryatia), which economically gravitate to the North Pacific. Pacific Russia stands out as an entity because of the economic and socio-political realities of the region. In 2014, trade with the abovementioned seven North Pacific countries accounted for about 80% of Pacific Russia's foreign economic exchange. For some territories (Jewish autonomous region, Sakhalin oblast, and Transbaikal territory) the figure exceeded 95%.[4] Moreover, as research and public surveys demonstrate, the majority of decision-makers and ordinary people in this region are pinning their hopes on cooperation with North Pacific countries. The evidence of such a "pro-Pacific mood" may be found in the strategies for social and economic development of these territories, which straightforwardly designate the North Pacific as an area of priority for economic interests.[5] Moreover, this can be seen from the results of public opinion polls, which indicate that for many in Pacific Russia, trips to North Pacific countries as well as economic activity related to the region have become an everyday routine (Larin and Larina 2016).

Cross-border cooperation is understood as collaboration between adjacent areas across borders, which is not heavily directed by the central governments of the respective countries and possesses the appropriate infrastructure for interactions, both administrative (e.g. agreements among the local public authorities—municipalities, districts, counties, regions—and special institutions composed by these authorities) and physical (border crossings, rail, auto, air, and water routes) infrastructure. Thus, the five Pacific Russia territories (Primorye, Khabarovsk, Transbaikalia territories, Jewish autonomous region, and Amur oblast) already have cross-border relations with China (Heilongjiang and Jilin provinces, and Inner Mongolia autonomous region), while as Sakhalin oblast has connection, across the straits, with Japan's Hokkaido prefecture and Chukotka autonomous region connection, across the Bering Strait, with the US state of Alaska. Primorye territory also supports cross-boundary connection with DPRK North Hamgyong province.

From the other side, China has four territories bordering Russia: three of them—Heilongjiang, Jilin, and Inner Mongolia—border Pacific Russia, and Xinjiang Uigur autonomous region has a short 54.6 km length and mountain border with the Republic of Altai. On the Japanese side, Hokkaido prefecture has a special interest in Sakhalin and Kuril Islands, while the prefectures of Japan's western coast focus more on cross-Japan maritime relations with China, South Korea, and Russia.

Interregional collaboration embraces communications between administrative units and areas of the North Pacific that may be and, in fact, is often carried out without involvement of the central authorities. In this case, geographical proximity also plays a role, but its influence is not decisive. As a fact, relations with Pacific Russian territories, and China's and South Korea's eastern provinces are important for the western prefectures of Japan, but China's Guangdong province located at a great distance from the Russian border is the second largest provincial partner, after Heilongjiang province, of the Russian Federation. Thus, the CBIRR framework provides the most complete picture of economic and social life in the region.

Economic CBIRR are woven into interstate relations, and it is often difficult to separate one from the other. However, while it is the federal governments of each North Pacific state that define the contours and basic principles, and provide recommendations to the local governments on how to conduct CBIRR, these relations develop predominantly in line with the interests and policies of the local authorities, businessmen, and population. The reality of CBIRR in the North Pacific is being formed in accordance with regional patterns. Thus, economic, administrative, political, and cultural ties between the American and Canadian Pacific coast and China, Japan, and South Korea are more developed than those between the central and eastern states and provinces. The western prefectures of Japan are more engaged in cooperation with the Chinese, South Korean, and Russian territories along the coastal area of the Sea of Japan than are the country's eastern parts. Northern and northeastern provinces of China are primarily focused on interaction with the closest areas in Russia, South Korea, and Japan. At the same time, cross-border economic relations are especially important for the less-developed areas, and this holds true for the prefectures of Japan's west coast, China's north and northeast provinces (Heilongjiang, Jilin, and Inner Mongolia), Russia's Far Eastern Federal District, and other regions. A recent trend in the strategic planning of North Pacific states, especially with regard to the integration projects for the Eurasian continent, such as South Korean President Park

Geun-hye's Iron Silk Road and Chinese President Xi Jinping's "One Belt, One Road" initiative (OBOR), has stimulated local activities that interweave small projects into these large strategic initiatives.[6]

The analysis below demonstrates that in the last two decades, Pacific Russia's CBIRR has developed substantially. The ties are vast, diverse, and deep, and are woven into an intricate network of relationships at the sub-national level in the North Pacific. The territories and regions involved in CBIRR have gained rich experience of cooperation in various fields. At the same time, it is hard to assess the impact of Pacific Russia's CBIRR on Moscow's overall Pacific policy. In fact, these relations are primarily serving local interests, which occasionally do not correspond with the national ideas constructed in Moscow, which is at least 7,000 km from Pacific Russia. Some specific features of Pacific Russia's CBIRR, such as shuttle trade with China and the importation of used cars from Japan, for a certain time irritated the central government and became the object of undisguised pressure. Today, however, Moscow has started trying to incorporate CBIRR into interstate relations by creating new instruments for Pacific Russia's economic development, including territories of advanced development and the Vladivostok free port, and encouraging big businesses to "turn to the East." At the same time, however, the central government seems not to show much interest in learning from the past, and is reluctant to use the potential for cooperation that can be derived from fully utilising the experiences that have accumulated at sub-national level.

Cross-border and interregional ties in the North Pacific are still segmented and often isolated from each other and from interstate relations, which has long been the area's nature and weakness. As the analysis of regional interactions along institutional, economic, and humanitarian lines demonstrates, the new regionalism concept has a real chance of materialising. To this goal, Russia, the USA, and China will have to shift their interests to this region, paying more attention to the interregional and cross-boundary connections of their territories along the Pacific coast, as well as embedding them in their political, economic, and humanitarian relations.

3 Trends, Aspects, and Results of Interactions

The active growth of Pacific Russia's CBIRR goes back to the mid-20th century. The Russian–Chinese border trade agreement of May 1958 established a legal framework for economic relations between Heilongjiang province and the Soviet Far East, and may be considered a starting point

for Pacific Russia's current CBIRR. Since the beginning of the1960s, when direct relations between the territories of the Soviet Far East and Japan were established,[7] those territories started to occupy a special place in the USSR's economic relations with Japan. Tokyo was particularly interested in the expansion of coastal trade, which could contribute to developing the economy of its coastal regions (Jain 1981: 70). In the 1970s, Japan contributed a lot to the development of the USSR's eastern regions (Mathieson 1979); in the following decade the Far East became a very important region for Japan and its natural product needs.[8] On the other hand, after the 1970s Moscow did not once declare its desire to attract Japanese industries and finance to speed up economic development in Siberia and the Far East.[9]

The relationship between China's neighbouring territories and the Soviet Union had broken up in 1966 at the height of the Cultural Revolution and was only restored in May 1983 after the signing of the Soviet–Chinese agreement on the resumption of cross-border trade in April 1982, which boosted trade substantially by the end of the decade. The collapse of the Iron Curtain, dissolution of the Soviet Union, normalisation of USSR/Russia–South Korea relations, and the deep economic crisis in Russia in the 1990s created conditions for Pacific Russia's CBIRR rapid flowering. Since that time international trade has become an important part of the economic, social, and political fabric of the region. During the 1990s, the region's CBIRR saved the territories and population from economic and social collapse, brought into the NEA consumer markets, provided a dynamic of international exchange, and became an essential factor to maintain social stability and a potentially powerful force to support economic and cultural development of the region. Moreover, by the early 2000s, it was found that regional economic integration with the economies of the NEA was significantly higher than with the Russian economy (Minakir 2004: 316). This worried central government, and was arguably one of the factors that may have stimulated Russia's recent "turn to the East" policy.

To gain a more complete picture of Pacific Russia's relations with the outside world, we can distinguish three main spaces of CBIRR. First is institutional, arranged by and at the level of sub-national bureaucracies, and sometimes with the support of central governments; second is economic, driven by the interests of regional companies and businessmen, and usually supported by the local authorities; and third is humanitarian, which includes the different types of cross-border communications, starting with meetings of political entities and ending with personal trips to relatives and friends.

3.1 Institutional Aspect: Relations Between Sub-National Governments

At the bilateral level, the bureaucratic and administrative component of Pacific Russia's CBIRR appears rather developed. Two major forms of exchange can be discerned here. The first includes a number of special committees or sub-committees that form a part of the framework of Russia–North Pacific countries' bilateral agreements, in which representatives from Pacific Russia's regions are involved. *The Bering Straits Regional Commission*, which was established on 23 September 1989, is the oldest such agreement and was based on a treaty between the USA and Soviet Union. The commission had three representatives from Alaska and three of Chukotka. The other similar institutions are: the *Russian–Japanese Standing Joint Commission "Russia Far East–Hokkaido,"* established in 1990; the *Russian-Japanese Subcommittee on Region-to-Region Cooperation*, which was initiated in 1995;[10] the *Korea-Russia Far East Siberian Development Committee*, which was founded in 1992; the *Russian American Pacific Partnership* of 1994;[11] the *Subcommittee for Regional Cooperation of the Intergovernmental Commission for Trade-Economic and Scientific-Technical Cooperation between the Russian Federation and the DPRK*, established in 1996; and the *Russian-Chinese Coordination Council on Inter-Regional and Cross-Border Trade and Economic Cooperation*, which was initiated in 1998. The parties involved accumulated considerable experience within these structures through continued interaction. At a minimum, they periodically met, summarised results, and made decisions. However, it is difficult to identify the direct link among ideas and decisions that they generated, on the one hand, and the level and quality of cross-border and interregional economic and humanitarian relations, on the other.

A new form of Russia–China dialogue at sub-national level under the title "Forum of Governors of East Russia and North Eastern Provinces of China" was established in September 2015, at the Eastern Economic Forum in Vladivostok. Chinese Vice-Premier Wang Yang and Deputy Prime Minister of Russia and Presidential Envoy to the FEFD Yury Trutnev chaired the first meeting of this body.

The second new form is based on bilateral relationships between territories, which are regulated by official agreements. According to the Russian Ministry of Foreign Affairs, by the end of February 2014, the 12 regions of Pacific Russia had 28 acting treaties with foreign partners.[12] Some of

them had been signed decades ago but were still active, and the others were periodically reviewed and reapproved. The main purposes of these documents were to authorise the relationships and to create regulatory support and administrative platforms in various forms for interregional exchanges. There are also treaties that go beyond the usual framework and move to the level of intergovernmental treaties, such as the *Agreement on cooperation between the Government of Amur Region and the Ministry of Foreign Trade of the DPRK*.

The nature of regional authorities' international activities was largely determined by the character of Russia's economic and sometimes its political relations with foreign neighbours. In its relations with China, these circumstances predefined the way in which the authorities of the continental areas—the Amur region, Jewish autonomous region, and Trans-Baikal territory—have acted. Russo-Japanese territorial dispute directly influenced on Sakhalin policy towards Japan. This island possesses a special place in Russo-Japanese relations. From 1875 to 1945, the south part of Sakhalin was owned by Japan, while the South Kuril Islands are visible from Hokkaido, and until 1945 were Japanese territory and are claimed by Tokyo now, although administratively belonging to Sakhalin oblast. The island has close economic and humanitarian ties with Hokkaido prefecture, and is directly involved in the territorial dispute between Russia and Japan (Williams 2007). This remained a key stumbling block in the normalisation of Russo-Japanese relations, causing many problems in the fields of mutual security, fisheries, and ecology. These circumstances affect the level and character of business and cultural exchanges, and this was considered of prime importance to the neighbouring territories in both countries.

Some sub-national governments that have been most interested in maintaining CBIRR have established their missions in their neighbour's territories. For instance, Sakhalin territory has had a mission in Sapporo since 2006. Hokkaido prefecture, Wakkanai city (from Hokkaido), and the state of Alaska established missions in Yuzhno-Sakhalinsk (Sakhalin district), while the Japanese Tottory prefecture arranged a mission in Vladivostok,[13] and Hegang district in China's Heilongjiang province found it important to have its representatives in Birobidzhan, the centre of the Jewish autonomous region.

Sister-cities relations appear to be the most widespread form of relations between sub-national authorities in the North Pacific region.[14] Pacific Russia's territories are actively involved in this process. However, such ties are neither the focus of the Russian central government, nor do they attract

much attention from the Russian leaders of the sister-city movement based in Moscow. Data published by the Moscow headquarters on this relationship mention more than 150 Russian sister territories in China, Japan, South Korea, and the USA, but ignores many partnerships that the cities and territories of Pacific Russia have established.[15] A more accurate Chinese source indicates 32 agreements between 22 cities and territories in Pacific Russia and Chinese partners, primarily located in Heilongjiang, Jilin, and Inner Mongolia.[16]

The same number of cities and territories in Pacific Russia had Japanese counterparts, primarily along the coast of the Sea of Japan. The most active were the authorities of Sakhalin, which had 13 agreements with Japan, and Primorye, in which Vladivostok and Nakhodka have three partners each.[17] According to Sister Cities International, 17 cities and territories in Pacific Russia, seven of them in the Primorsky territory, have sister cities in South Korea. Pacific Russia cities have 11 sister-city partners in the USA.[18] Vladivostok, Khabarovsk, Ulan-Ude, and Amur oblast have sister-city relations with North Korean partners.[19]

In total, the data show that Russian territories east of the Baikal Lake have about 100 "sister partners" in the North Pacific region. Sister-city relations may justifiably be called ineffective and perhaps even window-dressing, as few sub-national authorities consider international affairs to be among their priorities. Nonetheless, these links provide administrative and sometimes financial support for cultural and young people exchanges, which often have no other source of funds. Moreover, some officials have used this channel to broaden their outlook and to maintain contacts between bureaucracies. In 2012, 25% of events arranged within the framework of Japan–Russia sister-city exchanges were purely bureaucratic, while 23% were set aside to deal with education and 17% with culture.[20]

At a multilateral level, the main form of sub-national government communication takes place through participation in various regional organisations. There are five international bodies that involve North Pacific sub-national governments and help regional authorities to promote their interests in the international arena. The *Association of North East Asia Regional Governments*,[21] which unites 73 sub-national organisations from six countries, has become the most attractive for the Russian regional elite. Sixteen Russia territories, including ten from Pacific Russia, are members of the association. The *Asian Pacific City Summit*, which unites 31 cities from 13 countries, and the *Tourism Promotion Organization for Asia Pacific Cities*, which unites 75 city governments and 37 industry members from

ten countries, are also important regional organisations, but are much less popular in Russia: only two Russian cities have been involved in their activities, Vladivostok joining both and Irkutsk joining the latter. Two other organisations—the *Northern Forum*,[22] and the *Conference of Mayors of Japan Sea Rim*, which was launched in 2005, have limited memberships and are not as well known. There are also some international organisations in the North Pacific that operate at intergovernmental level, study areas that are of vital interest to Pacific Russia, and actively involve its representatives in decision-making. The North Pacific Coast Guard Forum, established in 2000, and the North Pacific Fisheries Commission are the most important.

Currently available empirical data does not allow for an adequate assessment of how successful Russian authorities have been in promoting the interests of their territories through all these organisations. Even those events that took place in Russian territory, such as the Conference of Mayors of Japan Sea Rim in 2013 or the fourth Forum of the Tourism Promotion Organization for Asia Pacific Cities in 2010, both held in Vladivostok, do not provide enough information to form valid opinions.

Viewed from outside, it appears that relations with the territories of Pacific Russia are of particular importance to Seoul, in the context of reunification of the Korean peninsula, the Japanese prefecture of Hokkaido, and the Chinese Heilongjiang. Hokkaido is informally involved in the issues related to the Northern Territories, and therefore it is not surprising that the island has two representative offices and 18 twins (sister-cities and sister-territories) in Russia.[23] In October 2015, a six-storey building in Yizhno-Sakhalinsk called the Hokkaido Center was officially opened by the governors of Sakhalin and Hokkaido (Yas'ko 2015). Heilongjiang province performs intermediary functions in Russia–China relations, linking remote provinces of the two countries. Its cities and counties have one-sixth (19 out of 118) of PRC agreements with Russian cities and territories, of which 13 are with the cities and territories of Pacific Russia.[24]

All in all, the links between local elites in Pacific Russia and the provinces, prefectures, and cities of North Pacific countries are much denser than in the other areas of Russia. European and Siberian territories are, for instance, poorly represented in international organisations at sub-national level in the North Pacific. Pacific Russia dominates in Russia's sister-city relations with North Pacific countries. Pacific Russia's cities and territories account for more than 80% of Russia's agreements of this nature with Japanese cities, 65% with South Korea, and 28% with China.[25] Therefore, the network of administrative and semi-official ties can work as a useful resource to support Moscow's policies.

Moscow, however, has so far failed to fully utilise the potential of the existing institutional links. The reality is that the Russian government considers Pacific Russia's CBIRR as a local issue rather than a priority area for national policies. Russia's central government pays insufficient attention to the existing pool of administrative and political ties, which sub-national authorities of Pacific Russia have developed across the North Pacific. As a result, this asset is not fully used nationally and is not treated by the central authorities as a major contributing factor in Russia's move into the North Pacific. Moscow also underestimates the role that Pacific Russia plays in shaping Russia's image in North Pacific countries and in how their governments construct policies towards Russia. In fact, North Pacific countries' understanding of modern Russia is largely shaped through the realisation of their interests in Russia's eastern periphery. For many, Pacific Russia territories are a window through which to view and comprehend Russia.

3.2 Economic Aspect

In spite of substantial progress in Pacific Russia's CBIRR in the 1980s–1990s, the scale and volume of economic exchanges did not increase substantially within that period. The FEFD's foreign trade doubled between 1992 and 1997, going from US$2.7 billion to US$6.2 billion, and remained stagnant for the next six years, amounting to only US$6.1 billion in 2003 (Devaeva 2004). The roots of this were simple: Pacific Russia had a limited range of products to increase its exports, and the purchasing power of the local population was too low to increase imports. At the same time, "shuttle trade,"[26] and smuggling,[27] were widespread. From 2005, the situation began to change substantially owing to domestic and external factors, as well as the fact that a growing share of energy goods in Russia's Far East was being exported to Korea, Japan, and then to China.

Throughout this period, from the mid-1980s, the North Pacific region has been the focus of Pacific Russia's sub-national authorities and business communities. North Pacific countries were the main partners for almost each region of Pacific Russia, whereas the pairing of partnering territories to a great extent depended on the geographic proximities and structure of local economics.[28] In the first decade of the 2000s, the NEA triad—China, Japan, and South Korea—completely dominated Pacific Russia's foreign trade, accounting for 80% of it (Fig. 2.1).

In 2014, Pacific Russia's territories had economic exchange with 160 countries, and the aggregate amount of the region's foreign trade reached

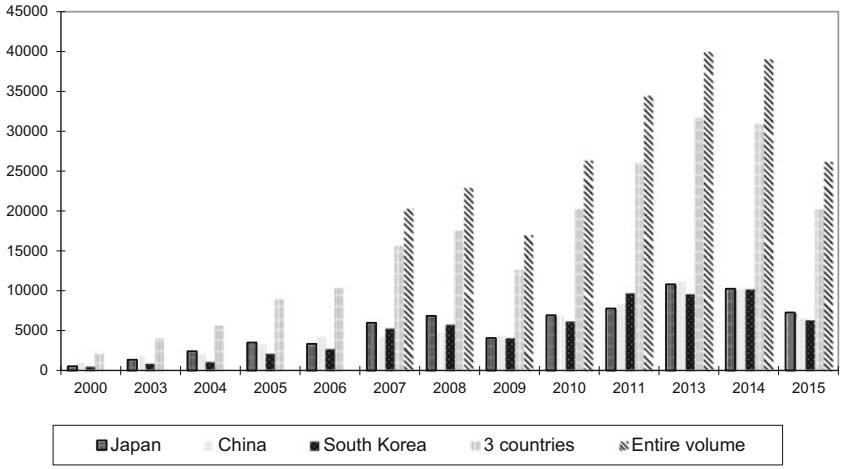

Fig. 2.1 Dynamics of FEFD foreign trade (million US dollars). *Source:* Created by the author based on data from Far Eastern Customs Directorate of Russia Federal Customs Service, http://dvtu.customs.ru

US$ 49.7 billion (6.3% of Russian Federation foreign trade). FEFD's total foreign trade amounted to US$39 billion, including US$ 28.5 billion in exports and US$10.5 billion in imports. In 2014, the "war of sanctions" between the West and Russia slightly affected Pacific Russia's economic relations with the outside world, and as a result, FEFD's foreign trade decreased by 2.6% relative to the previous year. In 2015, it was not the West's sanctions but the devaluation of the Russian ruble that seriously impacted Pacific Russia's CBIRR.[29]

Seven countries of the North Pacific—China, Japan, South Korea, DPRK, Taiwan, the USA, and Canada—accounted for about four-fifths of Pacific Russia's foreign trade (Fig. 2.2). China is the main exporter for all territories east of the Ural Mountains, and in 2014 45% of the imported goods in FEFD and 36% in Siberia federal district originated in China.

Economic relations with China are extremely important for Pacific Russia, especially for the territories that border China. Examples of the amount of foreign trade with China include 86.2% in 2014 and 92.8% in 2015 for Amur oblast; 90.6% in 2014 and 94.8% in 2015 for Transbaikal territory; 94.5% in 2014 and 98.2% in 2015 for the Jewish autonomous region; 50.6% in 2014 and 54% in 2015 for Primorye territory; 48.7% in

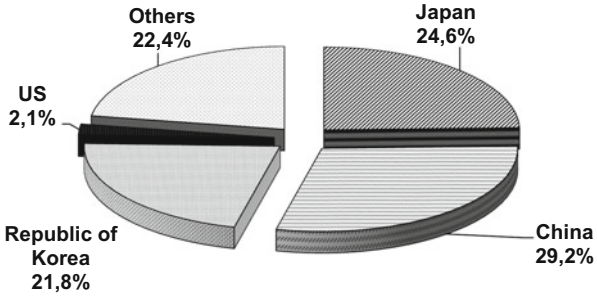

Fig. 2.2 Geographic structure of Pacific Russia foreign trade in 2014. *Source*: Created by the author based on Far Eastern Customs Directorate of Russia Federal Customs Service, http://dvtu.customs.ru

2014 and 32.6% in 2015 for Irkutsk oblast; and 41% in 2014 and 43% in 2015 for Khabarovsk territory. South Korea and Japan also account for a substantial share of Pacific Russia's exports, with 32% and 30% in 2014 and 29% and 32% in 2015, respectively.

The range of Pacific Russia's exports and imports is very narrow, with three products dominating each category. Fuel and energy products, fish and seafood, and wood pulp and paper products represent four-fifths of FEFD exports, with 66%, 8%, and 3% respectively in 2014. Three countries of NEA (China, Japan, and South Korea) consumed 98.6% of FEFD-exported fish and seafood, 96% of oil and mineral fuels, and 98% of wood; 85% of Irkutsk oblast's exports were fuel and energy products (30%), aluminium and associated articles (28.6%), wood and associated articles (26.7%), with 83% of the first, 72% of the second, and 36% of the third being supplied to China, Japan, and South Korea; while the USA bought 7% of Irkutsk aluminium. Machinery, equipment, and vehicles are the main import products for Siberia and the Far East, and in 2014 accounted for 52% or US$5.4 billion of FEFD imports. Food and agricultural raw materials made up the second largest imported goods category, and metal products were third according to their value, making up 10.6% or US$1.1 billion and 9.6% or US$1.0 billion, respectively.

In terms of foreign investments, Pacific Russia looks more attractive than other parts of Russia only for Japan and North Korea. The proximity of the Sakhalin oil and gas fields to the Japanese archipelago attracts Japanese investments. According to official Russian statistics, by the beginning of 2014,

Sakhalin oblast had attracted 86% of total Japanese capital accumulated in Russia, amounting to US$8.6 billion. North Korean investments in Russia are rather small, only amounting to US$78.5 million in 2014, and 38% or US$30 million of the investments are in the Far East.

Other North Pacific countries, even South Korea, which has deep political and economic interests in Primorye region, prefer to deal with the distant regions of Russia. Only 13.5% or US$352 million of South Korean capital and 7.4% of its direct investments in Russia are based in the FEFD. Chinese direct investments in the FEFD have been growing since 2009 going from US$ 90 million to US$247 million by 2013, and account for 15% of China's direct investments in Russia. Out of the US$32.1 billion of Chinese capital in Russia, only 0.6% or US$292 million was located in the Far East. The cumulative volume of US investments in the Russian FEFD has been steadily declining, and by 2013 it was only US$59 million.[30] Russian investments in the North Pacific region are scant. Even in Heilongjiang province, Russian investments make up less than 1% of the total accumulated foreign direct investments (FDI).

While significant growth in Pacific Russia's foreign economic relations have occurred over the last decade, this has not helped the region to play an important role in the North Pacific's economic space. This is not surprising, as Russia's share of intra-regional trade does not exceed 8.5%, while the share of Pacific Russia in this is less than 2%. At the same time, Pacific Russian territories substantially contribute to economic cooperation between Russia and North Pacific countries. In 2014, Pacific Russian territories provided more than 39% of Russia trade with South Korea and Japan, about 27% with DPRK, and 16% with China. Thanks to Sakhalin's oil and gas, Pacific Russia share in Russian export to South Korea and Japan was the same for both countries and reached 52.6% for each.[31] This is the very economic foundation for Russia's integration into Asia-Pacific, which must be more effectively advanced by Moscow. Pacific Russia plays less of a role in investment cooperation between Russia and North Pacific countries. Only Japan and North Korea look to the region as more attractive than the other parts of Russia.

From the perspective of sustainable development and energy security, Pacific Russia's energy resources are vitally important for NEA countries. In 2013, China received 9% of its oil and 3% of gas imports from Russia, Japan received 7% and 10%, respectively, and South Korea received 4% and 5%, respectively. South Korea obtained 10% and Japan 6% of their coal imports, and Japan imported 9% of its wood from Russia as well.[32]

For some North Pacific territories economic relations with Russia are of considerable significance, namely certain provinces of China and Japan's western prefectures. In 2014, Russia accounted for 60% of Heilongjiang province's foreign trade and 21% of Inner Mongolia's. In addition to trade, northeast provinces and Russia have a burgeoning tourism relationship. In 2013, tourists from Russia amounted to 67% of foreign tourists in Heilongjiang, 40% in Inner Mongolia, more than 30% in Jilin, and 6% in Liaoning. Manzhouli was the main gate to China for Russians from Siberia, and in 2013 earned 365 million Yuan from tourism.

Trade with Russia is important for Japan's western prefectures (Toyama, Ishikawa, and Fukui). In 2012–2013, Russia accounted for 21% of their foreign trade (30% of exports and 10% of imports). That was equal to the Chinese share in their foreign trade.[33] Relations with Russia have played a vital role in the coastal areas of Hokkaido, especially Wakkanai city, but Russia accounted for a small share of prefectural foreign trade, with about 3% of exports and 7.5% of imports.[34] Regional economic ties across the Pacific Ocean are insignificant for both the USA and Canada's western coasts and Russia's east coast. In 2013–2015, the US share in Russia's FEFD trade did not exceed 2.6%. Canada's share was even less—0.5%.[35]

3.3 Human Exchange

Human exchange includes various forms of cooperation between public and private organisations in the fields of education, science, medicine, culture, non-governmental organisations, and so on, as well as the personal activities of people who cross the border for different reasons, including leisure, learning, medication, shopping, and so on. The diversity of interregional communication is not only extensive but is largely out of the control of the state. It is difficult to analyse these trends because of a scarcity of data about these flows.

People-to-people exchange across the North Pacific has been growing for years. In 2013, the total number of people travelling within the circle of the eight North Pacific countries was roughly 44 million.[36] Russia's share of this total flow is dominated by the 2.19 million Russians who visited China, which represents roughly 5% of the total North Pacific flow of people. In 2013, 1.6 million people from the North Pacific region, including 1 million Chinese, came to Russia, amounting to 3.8% of the total number of travellers in the region.

Pacific Russia–Northeast China back and forth human flow was the most affluent. China's provincial statistics estimated that in 2012 about 2.6 million and in 2013 about 2.2 million visitors from Russia visited the four adjacent Chinese provinces;[37] this is more than the number of Russians that visited China, calculated by central statistics.[38] Discrepancy in central and local data sources highlights the dominance of residents of Russia's border areas in the mass of Russian tourists who visited China and vice versa. At least 80% of Russians who visited China over the last few years came from Pacific Russian territories.[39]

Summary data from Russian tourist companies for 2013 show that among Russian tourists they sent to China, Japan, and South Korea the shares of Pacific Russia citizens were, respectively, 85, 52, and 73%. Chinese tourists who visited the Pacific Russia region constituted 86% of the total number of tourists they catered for; for the Japanese this share was 45% and for Koreans 100%.

According to an opinion poll conducted in 2013 in the southern part of Pacific Russia, 45% of respondents had visited China at least once over the last ten years, 9% had been to Japan and South Korea, 5% to the USA, and 1% to the DPRK (Larin and Larina 2014: 18). Among a wide variety of experts, governmental, political, business, and academic leaders and elites involved in decision-making at the local level, who were questioned in the important cities of Pacific Russia (Vladivostok, Khabarovsk, Blagoveschensk, and Magadan), the figures were much higher. In the last ten years 75% of them had visited China, 36% South Korea, 29% Japan, 19% the USA, and 8% the DPRK (Larin and Larina 2016). Meanwhile, according to the Public Opinion Foundation poll in April 2014,[40] only 1% of Russian citizens visited China, and less than 1% the USA, while Japan, South Korea, and the DPRK were not mentioned at all.

Two important conclusions can be derived from this. First, as far as personal impressions work in order to form an image of a certain country and its people, Pacific Russia citizens have more opportunities to understand East Asian nations than Russians who live in the European part of the country, in the Urals, and Western Siberia. In other words, the mental potential of Pacific Russians to interact with the East Asian world is greater than that of Central Russia. Vice versa, the peoples of NEA to a large extent generate their understanding of Russia and the Russians through their interaction with the citizens of Pacific Russia and the visual images they have obtained there.

4 Pacific Russia's CBIRR: Driving Forces and Conditions for Development

Three forces that define Pacific Russia's CBIRR configuration and trends may be confidently classified: first, Russian government interests and policy in the Pacific; second, Pacific powers' interests and actions towards Pacific Russia; and third, local authorities, business, and populace requests and activities.

Moscow's interests and policies are declared in a number of political statements and decisions made by the political leadership, and these are confirmed by programme documents, bilateral agreements, and declarations signed with North Pacific countries. One of the first, and key, documents is the 7 May 2012 Presidential Decree "On measures to implement the foreign policy of Russian Federation." This decree provided the rationale for Russia's participation in regional integration by highlighting the urgent need to promote "accelerated socio-economic development of Eastern Siberia and the Far East."[41] The 2013 Concept of the Foreign Policy of the Russian Federation document more modestly points out the Kremlin's intention to use "the possibilities offered by the APR to implement programs meant to boost Siberian and Far Eastern economy."[42] Recently, as of 28 October 2015, Russia adopted the concept of the development of Russian Federation border areas, in which the Far East Federal District is dedicated, in particular, to the development of cross-border cooperation and includes both general theoretical positions and recommendations for the areas bordering Chinese territories.[43]

As these documents clearly demonstrate, Pacific Russia's CBIRR are not incorporated into the federal governments overall plans. Pacific Russian territories are considered as a part of an imaginary "cohesive economic and humanitarian space from the Atlantic to the Pacific" (Putin 2012), or as the transit zone for energy supply to the Pacific region and as a bridge from Europe to Asia. For the Russian government, CBIRR development is not a worthy goal to be addressed specifically. At best, it is considered to be a tool to achieve some geopolitical and strategic goals in the context of Russian Federation national interests. Therefore, placing responsibility on CBIRR on local authorities, Moscow, in order to keep control on the process and do not let the local beraeucracies to feel free and take their own course, has regularly generated a range of bureaucratic, legal, and economic obstacles to these relations.

However, CBIRR have recaptured space in Russia–North Pacific countries' bilateral agreements and declarations that form some of the foundation for their development. The Treaty on friendship and cooperation between the Russian Federation and PRC of 2001 (Treaty on Good Neighbourly Friendship and Cooperation 2001) included a number of important positions for cross-border relations.[44] Some issues of cross-border relations are mentioned in a number of Russia–China declarations and communiqués. For instance, the Joint Statement of 2013 prescribed "building … efforts to implement the Program of cooperation between the regions of the Far East and Eastern Siberia, Russia and Northeast China."[45] The legal arrangements for cross-border cooperation appear in the form of dozens of interstate agreements that Russia has concluded with neighbouring countries to regulate differing spheres of cross-border and regional cooperation, such as border regimes, environmental protection, and fishing.

For the last decade, every NEA government has declared to a differing extent their interest in Pacific Russia. This interest has been manifested in domestic documents, special proposals, political declarations, and top official visits to the region. Out of the NEA states, China and South Korea have shown the greatest interest, while the Chinese Heilongjiang, Jilin and Inner Mongolian authorities are extremely active in promoting CBIRR with their Russian neighbours. In August 2007, Beijing advanced the special plan for Northeast China's accelerated economic development, which envisaged the prompt establishment of areas of cross-border economic exchange; active cooperation with Russia in energy, raw materials exploration, and science and technology; construction of roads, ports, and checkpoints; and trade and economic cooperation with Russia.[46] In 2007, the Japanese government suggested the Initiative for the Strengthening of Japan–Russia cooperation in the Far East Russia and Eastern Siberia.[47] Also in 2007, South Korean Minister of Foreign Affairs and Trade Song Min-soon said: "ROK will be the best partner for developing the Far East Siberia for Russia, and the two nations' cooperation in this project holds a bright future."[48] Six years later, during a Russia–South Korea summit in November 2013, President Park Geun-hye initiated discussion about South Korea's participation in the Russia Far East and Siberia development.[49]

However, Pacific Russia's neighbours' interests and promises are mostly aspirational. Pacific Russia does not seem to them the promised land, or a paradise for investment and industrial cooperation. It is not a threat that seriously bothers them. Keeping in mind its natural treasures and huge territory, for today it is more a reserve for the future than something to work with actively.

As has been stated above, local political, business, and academic elites and the populace have a stable and conscious desire to build and develop various forms of relations with neighbouring countries and territories. These sentiments are evidenced by opinion polls, through the strategies of territorial development, and in daily practice. According to a public opinion poll of 2013, 68% of respondents mentioned China as the most favourable territory for their region to deal with, while 52% preferred Japan, and 47% looked towards South Korea.[50] European Russia looked important for 44% of respondents, and only 6% looked towards Western Europe (Larin and Larina 2014: 12–13). In a 2015 poll, the expert community preferred China, with 86%, South Korea, with 41%, and Japan, with 34%. European Russia looks attractive for only 23%, and 4% looked to Western Europe (Larin and Larina 2016).

However, neither quality and effectiveness of CBIRR nor the aspirations of Pacific Russia citizens are included in a set of parameters by which Moscow evaluates Pacific Russian territory governors and their actions. In the 1990s, when Pacific Russian territories were forced to survive on their own, the governors had to utilise CBIRR, and some of them did it very effectively (Larin 2005: 137–149). In Russia power is vertical, and the regional leaders are strictly ordered to follow the line of Ministry of Foreign Affairs; they primarily consider CBIRR as risky with ambiguous dividends (especially from an administrative and political point of view). So, forced to take into account the needs of the local population and businesses, and to respond to them, local authorities still do not consider the development of cross-border ties as their priority.

The existing infrastructure to support and develop Pacific Russia CBIRR includes transportation, communications, border regimes, diplomatic entities, foreign communities, and more, and it needs special analysis and detailed study. As the analysis has highlighted:

- In Russia, Pacific Russia, with the exception of Moscow, has the most developed network of Asia-Pacific countries' diplomatic agencies, administrative, economic, and cultural missions, which are primarily concentrated in Vladivostok.[51]
- Some bilateral arrangements that Russia already has with North Pacific countries, such as the visa-free regimes with South Korea and Hong Kong, visa-free group tourism with China, and simplified academic exchanges with China and Japan, as well as special regimes for some bordering territories, which includes the visa-free exchange

between Alaska and Chukotka citizens, between Hokkaido and the three South Kuril islands, to a large degree favour Pacific Russia's CBIRR development.
- Regular air and sea transport connections between Pacific Russian territories and some North Pacific countries exist, although they primarily link the southeast part of the region, Vladivostok and Khabarovsk, with China, the Korean peninsula, and Japan. Cross-Amur river traffic, railway, and bus services are the main ways to connect the territories along the Russia–China border.

This infrastructure provides a favourable environment to support Russia's "turn to the east" policy, though it would be an exaggeration to say this network is used effectively for national and regional interests.

Conclusion

Pacific Russia's CBIRR as a whole is a much more developed and diversified phenomenon than is usually seen, though each territory has its own priorities and specific flavour. Thanks to these relations, Pacific Russia has already been built into the economic, social, and cultural space of the North Pacific, and demonstrates potential, not only in economic and administrative fields, but also in the cultural space to be used for Russia's move into the Pacific and, vice versa, for North Pacific countries' tighter cooperation with Russia.

CBIRR are of vital importance for the socio-economic well-being of almost all areas of Pacific Russia; they carry a rich historical and ideological legacy in Russia's relations with China, Japan, and the Koreas, and are seriously taken into account in the development projects of some of these countries' provinces and prefectures. The success of Russia's drift to Asia-Pacific to a large extent depends on Moscow's political will and skills to aggregate local needs, enthusiasm, and best practices of CBIRR with Russia's national interests and state monopolies' business plans, in order to bolster its ability to catch "the wind from the Pacific" in its sails. For today these three powers work more often in opposite directions.

The odds do not look very promising. Geopolitical and ideological determinants that dominate global and regional politics impede the utilisation of Pacific Russia potential. Regionalisation from below looks to a greater extent up and coming for Pacific Russia and for the North Pacific, instead of regionalism from the top down. Russia's "eastern turn" is compelled and essential, fixed politically, and hindered in its performance. However, the stakes are too high to stop half-way.

Notes

1. According to Williams, "sub-national" stands for all levels of governments below the nation-state, including prefectures, towns, cities, and villages, and "local governments" stands for public authorities at the municipal level (Williams 2007: 178). This study uses the terms in a similar way.
2. See: "Presidential Address to the Federal Assembly," President of Russia Web Portal, 12 December 2013, http://eng.kremlin.ru/transcripts/6402 (accessed 3 May 2016).
3. For discussion about the content of Pacific Russia see: "Pacific Russia—What is it? [*Тихоокеанская Россия—что это такое?*]" *At the Map of Pacific: Analytical Bulletin* [*У карты Тихого океана*: *информационно-аналитический бюллетень*], 2012, No. 29 (227), full text available at: http://ihaefe.org/files/pacific-ocean-map/29.pdf (accessed 4 May 2016).
4. Unless otherwise specified, all data on foreign trade, investment, and tourism for Russia's regions come from: Far Eastern Customs Directorate of Russia Federal Customs Service (*Дальневосточное территориальное управление Федеральной таможенной службы*), http://dvtu.customs.ru, Siberian Customs Directorate of Russia Federal Customs Service (*Федеральная таможенная служба*, *Сибирское территориальное управление*), http://stu.customs.ru/, and Russian Federation Federal State Statistics Service, Unified interdepartmental information and statistical system (*Федеральная служба государственной статистики*, *Единая межведомственная информационно-статистическая система*), http://www.fedstat.ru/indicator/data.do. These databases are updated regularly and allow us to see the commodity breakdown of Pacific Russia's foreign trade with its neighbours. Data on foreign trade, foreign investments, and tourism for Chinese regions, such as Heilongjiang, Liaoning, Jilin, and Inner Mongolia provinces, come from regional statistical yearbooks, such as *Heilongjiang Statistical Yearbook* (黑龙江统计年鉴), Harbin: 中国统计出版社 (China Statistics Press); *Liaoning Statistical Yearbook* (辽宁统计年鉴), Beijing: 中国统计出版社 (China Statistics Press); *Jilin Statistical Yearbook* (吉林统计年鉴), Beijing, 中国统计出版社 (China Statistics Press), *Inner Mongolia Statistical Yearbook* (2015) (内蒙古统计年鉴), Beijing: 中国统计出版社 (China Statistics Press). Using these sources, the author has created his own database. Numbers mentioned in the text that are not attributed to other sources are derived from these databases.
5. See, for instance, such documents as: The Concept of Irkutsk Region Socio-Economic Development for The Period up to 2020 (*Концепция социально-экономического развития Иркутской области на период до*

2020 *года*), http://irkobl.ru/economy/strategy (accessed 15 October 2015); The Program of Socio-Economic Development of the Republic of Buryatia in the period up to 2020 (*Программа социально-экономического развития Республики Бурятия на период до* 2020 *года*) http://www.economy.burnet.ru/makroprognozirovanie/documents_sip.php (accessed 15 January 2015); Primorsky Territory Development Program Until 2017 (*Программа развития Приморского края до* 2017 *г.*) http://primorsky.ru/authorities/executive-agencies/departments/economics/program-of-socio-economic-development-of-the-primorsky-territory-for-5-years-2013-2017.php (accessed 3 May 2016); The Strategy for Khabarovsk Territory Development Until 2025 (*Стратегия развития Хабаровского края до* 2025 *г.*), http://gov.khabkrai.ru/invest2.nsf/pages/ru/postan_13012009.htm (accessed 15 May 2016).

6. In response to the Korean initiative, 20 Chinese local governments formulated plans to participate in the strategy in close cooperation with South Korean local counterparts [Kim T., 2015]. At the same time, the authorities of China's northeastern territories (primarily Heilongjiang, Jilin and Inner Mongolia) undertook ideological campaign to extend the "Silk road economic belt" eastwards to Russian ports on the Pacific shore and to create the meridional "economic corridor China—Mongolia—Russia." In April 2015, Heilongjiang government has promulgated a plan "to accelerate the construction of land and sea Silk Road economic belt in Heilongjiang." See: *Actively react to new normalcy, accelerate the realization declared program to "construct land and sea Silk Road economic belt in Heilongjiang"* (积极应对新常态,加快建设"龙江陆海丝绸之路经济带"宣讲提纲), Government of Heilongjiang, 2015, http://www.hljjs.gov.cn/a/jingshenwenming/jianshedongtai/2015/0727/43373.html (accessed 5 March 2016).
7. In June 1961, the Russia city of Nakhodka and the Japanese city of Maizuru signed a Treaty of Friendship and Cooperation. In 1965, Khabarovsk and Niigata established sister cities relations; then Khabarovsk territory and Niigata prefecture signed an agreement on cooperation.
8. In the 1980s, the Soviet Far East provided over half of the USSR's total export to Japan, including almost 80% of timber, 70% of coal, and 100% of fish and oil products exported to Japan. Moreover, if one looks at the goods which are not identified by place of mining or manufacture (precious metals and stones, and rare metals), one will see that at least 80% of Soviet exports to Japan comprised Soviet`s Far Eastern resources (Ivanov 1989: 17).
9. As the USSR Minister for Foreign Trade Nikolai Patolichev wrote in 1975, "Japanese participation in exploring the rich natural resources of Siberia and the Far East will greatly speed up the development of productive forces

in these areas. On the other hand, they will ensure stable and long-term suppliers of important raw materials and energy resources to Japan which so necessary for the Japanese economy" (Mathieson 1979: 15–16).

10. Until 2007, it was an integral part of Japan–Russia Intergovernmental Committee on Trade and Economic Issues under the name Sub-committee on economic relations with Far East Russia.
11. The Russian American Pacific Partnership (RAPP)—formerly the US West Coast–Russian Far East Ad-Hoc Working Group—was established in 1994 to encourage commercial cooperation between the US West Coast and the Russian Far East. RAPP's Secretariats operate from the Foundation for Russian American Economic Cooperation (FRAEC) in Seattle, Washington, and the Interregional Association for Economic Development of the Far East and Trans-Baikal Regions of Khabarovsk, Russia. The 19th Annual Meeting of RAPP took place on 9–10 September 2014 in San Diego, California (http://www.usrussia.org/10001.html (accessed 2 March 2015).
12. Russian Ministry of Foreign Affairs, http://www.mid.ru/bdomp/ns-dipecon.nsf/ (accessed 22 March 2015). A little less than 50% of these agreements (13) were signed with PRC authorities (seven of them—with Heilongjiang province, which was the most active one on the Chinese side), four—with Mongolian, two—with Japanese, and one—with South Korea's.
13. Altogether, the Japanese sub-national governments settled 21 missions in Europe, including three in the Russian Federation. All three are situated on the Pacific coast. For more details see: *An outlook of [Japanese] municipalities missions abroad (Europe) for the end of September, 2014* (自治体の海外拠点一覧【地域別(欧州)】 平成26年9月末時点), Retrieved 17 March 2015 from http://www.clair.or.jp/docs/tiikibetu2.pdf (accessed 15 May 2016).
14. China has more than 700 sister city agreements with counterparts in Japan, South Korea, DPRK, Canada, and USA; Japan has about 1020 agreements in China, the Republic of Korea (RK), Canada, and the USA; and the USA has 700 cooperation ties in China, Japan, and RK.
15. For more details, see: Russia Sister-Cities (Города-побратимы России), http://goroda-pobratimy.ru/index/spisok_porodnennykh_gorodov_3/0-13 (accessed 3 May 2016).
16. For more information, see: China International Friendship City Association (中国国际友好城市联合会), 2016, http://www.cifca.org.cn/Web/index.aspx (accessed 10 May 2016).
17. Japan Council of Local Authorities for International Relations (自治体国際化協会), 2016, http://www.clair.or.jp/ (10 May 2016).

18. *Sister Cities International 2015 Membership Directory* (2015), Washington, DC: Sister Cities International.
19. Embassy of Russia to the DPRK, http://www.rusembdprk.ru/en/russia-and-dprk/regional-cooperation (accessed 17 March 2016).
20. The overview of municipalities' activities in the field of sister city relations in 2012 fiscal year (平成24年度姉妹(友好)提携自治体の活動概況について(結果概要), http://www.clair.or.jp/j/exchange/docs/simai-gaiyo_2012.pdf (accessed 3 May 2016).
21. The Association of North East Asia Regional Governments was established in 1996 in Gyeongju (South Korea) by the representatives of 29 local administrations of South Korea, Japan, China, and Russia. Later North Korea and Mongolia joined the Association.
22. The organisation was arranged in 1991, and, at that time had eleven representatives from eight northern countries. Republic of Sakha (Yakutia) is one of the most active members of the Forum now.
23. For more information, see: *Regional handbook* (2014) (地域ハンドブック). Tokyo, p. 154.
24. However, one should not overestimate this resource. The share of Russian partners is less than 3% of all twin cities in Japan, 5% in China, and 14% in South Korea. The USA, in turn, has 220 sister relationships with communities in the People's Republic of China, 414 with Japan, and 67 with South Korea. See: "Asia Matters for America" by the East-West Center, http://www.asiamattersforamerica.org/china/data/sistercities (accessed 15 Marcy 2015).
25. For more information, see the above-mentioned Sister City International, China International Friendship City Association, and Japan Council of Local Authorities for International Relations.
26. According to Chinese sources, in 1998 the volume of Heilongjiang Province's so-called "people's trade" (shuttle trade) with Russia amounted to US$ 502.6 million while official export to Russia was US$ 864 million. See: *Heilongjiang Statistical Yearbook* (1999) (黑龙江统计年鉴), Harbin: 中国统计出版社 (China Statistics Press), pp. 296, 341, 344.
27. Fish and seafood were smuggled to Japan, the USA, and later to South Korea while wood and scrap metal were smuggled to China by the echelons. Not by chance, Rozman called "the criminal nature of cross-border ties" in 1990s "a cancer threatening the very health of Russo-Japanese relations" (Rozman 2000a: 211).
28. For Russian continental territories bordering China, Heilongjiang province and Inner Mongolia were naturally the main and sometimes the only available option. The coastal areas were freer to choose, but they also preferred to interact with well-known neighbours who were ready for dialogue.

29. FEFD trade with China and South Korea, which have not joined the sanction, was the most affected (dropped by 36.4 and 37.6%, respectively), while its commerce with Japan decreased 29.3% and with the USA only11.5%.
30. From 2007 to 2014, the volume of cumulative US investments in the FEFD decreased threefold, from $175 million to $59 million, while cumulative direct investments declined from $135 million to $48 million.
31. Calculated based on Russia's customs statistics, www.customs.ru; www.dvtu.customs.ru; http://stu.customs.ru/ (accessed 19 March 2015).
32. See: *Japan Statistical Yearbook* (2015), Tokyo: Japan Statistical Association, pp. 352, 470–471; *International Trade Yearbook* (2013), Seoul: Korea International Trade Association, pp. 290–308.
33. Northwest Pacific Region Economic Center (環日本海貿易交流センター), http://www.near21.jp/ (accessed 15 May 2016).
34. See: Hokkaido Trade Survey (2014) (北海道貿易概況), Hakodate Customs (函館税関), http://www.customs.go.jp/hakodate/12toukei/02hokkaido/index.htm, (accessed 3 May 2016).
35. Chukotka autonomous district was the only one with significant trade with the USA: 23.1% of its trade and 22% of import in 2013, and 15.8% of trade and 32% of import in 2014 was with the US. Magadan region was the second: 17% and 28% in 2013, and 3.9% and 13.6% in 2014, respectively.
36. This number includes14.2 million PRC citizens, 11 million Japanese, 8.5 million South Korean, 4.3 million Americans, 2.8 million Russians, 1.6 million Chinese from Taiwan, 1.1 million Canadians, 250,000 North Koreans and excludes 45 million Americans and Canadians who are accustomed to visit each other regularly.
37. In 2013, Heilongjiang province accepted 937,000 Russians, Inner Mongolia—639,000, Liaoning province—323,000, and Jilin province—300,000. In 2012 the number was, correspondingly, 1.5 million, 556,000, 277,000, and 320,000.
38. One-day tourism, when the tourists do not spend a night in a hotel and are not included in official tourist statistics, is especially typical for cross-Amur River exchange between Blagoveshchensk and Heihe.
39. According to Chinese National Tourism Administration, among 2.19 million Russian citizens who visited China in 2013, 527,000 arrived by air, 62,000 "by rail," 1.1 million "by motor," 340,000 "by sea," and 149,000 "on foot." The last three groups amounting to 1.6 million (73% of the total number) are unambiguously the citizens of Pacific Russia, while a certain number of Pacific Russia citizens took flights from Vladivostok and Khabarovsk to Beijing, Hong Kong, and Harbin and train from Zabaikalsk to Manzhouli and from Grodekovo to Suifenhe also. See: China National

Tourism Administration (中华人民共和国国家旅游局), http://www.cnta.gov.cn/ (accessed 15 March 2015).

40. The survey covered 1500 respondents in 100 urban and rural settlements of Russia's 43 regions. For more details, see http://fom.ru/Obraz-zhizni/11470# (accessed 14 May 2015).
41. Executive order on measures to implement foreign policy (2012), http://eng.kremlin.ru/news/3764 (accessed 4 May 2014).
42. Concept of the Foreign Policy of the Russian Federation (2013), full English text available at http://www.mid.ru/bdomp/brp_4.nsf/e78a48070f128a7b43256999005bcbb3/76389fec168189ed44257b2e0039b16d!OpenDocument (accessed 20 May 2016).
43. See: The Concept of Development of Border Territories of Russia's Far Eastern Federal Districts http://government.ru/media/files/FuIGBPKawTbXiRmufyHpAxtGzUgc0Kpm.pdf (accessed 30 March 2016).
44. Treaty on Good Neighbourly Friendship and Cooperation between the Russian Federation and the People's Republic of China (Договор о добрососедстве, дружбе и сотрудничестве между Российской Федерацией и Китайской Народной Республикой) http://archive.mid.ru/bdomp/spd_md.nsf/0/252BB887D3BFD65A43257F9C0028E0F3 (accessed 3 May 2016).
45. Joint Statement of the Russian Federation and the People's Republic of China on Mutually Beneficial Cooperation and Deepening the Comprehensive Strategic Cooperative Partnership, 2013, http://news.kremlin.ru/ref_notes/1423 (accessed 3 May 2016).
46. Northeast China Revitalization Plan 2007 (东北地区振兴规划2007), from http://www.gov.cn/gzdt/2007-08/20/content_721632.htm (accessed 3 May 2016).
47. Ministry of Foreign Affairs of Japan, http://www.mofa.go.jp/region/europe/russia/initiative0706.html (accessed 5 May 2016).
48. Initiative for the Strengthening Japan-Russia cooperation in the Far East Russia and Eastern Siberia, 2007, http://www.mofa.go.jp/region/europe/russia/initiative0706.html (accessed 3 May 2016).
49. The President Holds Summit with Russian President Vladimir Putin, 2013, http://english1.president.go.kr/activity/briefing.php?srh%5Bpage%5D=2&srh%5Bview_mode%5D=detail&srh%5Bseq%5D=2601&srh%5Bdetail_no%5D=94 (accessed 3 May 2016).
50. The respondents could choose no more than three countries and regions.
51. Vladivostok has Consulate Generals of Japan, USA, RK, DPRK, India, and Vietnam and Honorable Consuls of Australia, Canada, Philippine, Indonesia, South Africa, etc. Japan has Consulates General in Khabarovsk, Yuzhno-Sakhalinsk, and Irkutsk; China—in Khabarovsk with its branch in Vladivostok.

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CHAPTER 3

Centralising the 'Far East': Historical Dynamic of Northeast Eurasia

Nianshen Song

Since 2000, Russia has increasingly turned its gaze eastward and started to pay more attention to the economic potential of Siberia and the Far East. From 2014, international tensions in the wake of the Ukraine crisis have further reinforced Russia's "pivot to Asia," a policy that emphasises economic cooperation between its Far East and the East Asian countries (Kuchins 2013; Korolev 2016). This move has brought world attention to the northeastern part of the Eurasian continent, a long overlooked region that is a substantial and conceptual "frontier" for both Russia and Asia.[1] In past decades, similar calls for regional economic codevelopment were made by different nations in the region. The result, unfortunately, was less than satisfactory.

This chapter proposes that instead of focusing on the Russian Far East only, we should locate it in the context of a trans-border region encompassing the Russian Far East, northeast China, eastern Mongolia,

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northern Korea, and the Sea of Japan. This region is referred to as the "joint frontier," in that it is regarded as an outer and peripheral space in political, economic, and social terms by all surrounding nation-states. To understand the profound historical dynamic of this frontier, we should view it not as an isolated and divided space at the margins of all states but restore its historical agency in a broader geographic, geopolitical, and economic context. We also need to view the socio-economic transformation of the area as a process encompassing at least 500 years, if not more, with various indigenous and immigrant groups, state and non-state actors alike, playing crucial roles in local development and interchanges. In so doing, I conclude that local initiatives and cross-border collaboration have always been key factors that have driven the region's socio-economic transformation. By examining the tremendous frontier building projects in the twentieth century, I also argue that the greatest achievement out of these modern projects was not the development of the economy alone, but the overall development of a local socio-ecological system. Realising the historical dynamic of this region adds a new angle to the current discussion on Pacific Russia's exploration, which, understandably, focuses predominantly on contemporary policies. History, of course, cannot be translated directly to policy suggestions, but it may provide useful lessons and implications for today's discussion and policies.

1 The Boundaries and the Nation-Centred Narratives

The geographic area I am focusing on encompasses the Russian Far East (including Sakhalin Island), northeast China, eastern Mongolia, northern Korea, and the Japanese island of Hokkaidō. There is no common name to refer to this vast borderland in the northeastern part of the Eurasian continent. The modern phrase "Far East" was popularly used before the 1960s, typically referring to Eastern Asia (including northeast Asia and sometimes southeast Asia). Today, "Far East" as a fixed geopolitical term is arguably only officially used in Russia (*Dal'niy Vostok*), referring to the eastern territory comprising the Far Eastern Federal District. Since Russia is not normally considered an Asian nation, few scholars discuss the Russian Far East within the framework of Asia (and vice versa).[2] By the same token, none of the indigenous terms used in Asian countries capture this vast land stretching from the Tumen River region to the Chukchi Peninsula.

Scholars refer to the Russian Far East as a "frozen frontier" (Woods 2011) or "the last frontier" (Davis 2003). The extremely harsh climate and mountainous topography, with its diverse ecological systems, make it one of the few areas in the Eurasian continent that has not been fully developed by modern states. The Russian Far East is of course not an isolated space, as its ecology and geography were shared with the larger geoecological realm surrounding it. The southern part of this area (including the greater Amur River region,[3] and the Sea of Japan) deserves special attention, as it has long been a centre of human activity, a place where multiple state influences intersect. Indigenous inhabitants long shared a similar nomadic or semi-nomadic lifestyle of hunting, fishing, and gathering. It was not until the nineteenth century that these modes of production gradually diversified with timbering, mining, agriculture, and eventually industry brought by immigrant settlers. Local histories, though not always in written form, largely concentrate on this relatively warmer part of the frontier. Likewise, in examining today's Russian Far East, leaving aside other parts of the region, it is clear that the local population is concentrated in its southern area. A significantly greater portion of economy in this federal district (90% of agricultural production, heavy industry, consumer goods production, and food processing) is in the five bordering administrative units of Amur Oblast, Jewish Autonomous Oblast, Khabarovsk Krai, Primorsky Krai, and Sakhalin Oblast. Vladivostok and Khabarovsk, the two largest cities in the Russian Far East (their populations far outnumbering that of the third largest city, Komsomolsk-on-Amur),[4] are both border cities and transportation hubs. Their strategic importance comes precisely from their location as gateways connecting the Russian Far East to the surrounding areas.

This puzzle—there is no common name to identify this vast and geographically conjoined realm—is related to another problem: the obstinate habit of understanding all space from the perspective of the modern state. Researchers tend to look at this peripheral region from various "centres" and with a contemporary sense of international boundaries. The very term "Far East" betrays a deep-seated Eurocentrism. In Anglophone scholarship, "northeast Eurasia" is not an independent category of Asian studies but only partly overlaps with "inner Asian frontiers," which includes not only (greater) Manchuria but also (greater) Mongolia, Chinese Turkistan (Xinjiang), and Tibet.[5] Until recently, written histories in Russia, China, Korea, and Japan all described indigenous peoples (most of them nomadic tribes) as "barbarian."[6]

Moreover, the surrounding states recognised only their parts of the region, hence dividing this ecological and historical unit into several separate sub-regions: the Russian Far East and Siberia, China's northeastern three provinces and eastern Inner Mongolia, northeast Korea, eastern Mongolia, and northern Japan. Such a view ignores, even denies, the historical interactions among local peoples. It also turns a blind eye to the *longue durée* development of this land by inhabitants of multiple cultures for thousands of years before the coming of modern imperial and nation-states. It is perhaps not far-fetched to draw an analogy between this region and what scholars of Southeast Asia, notably James Scott, call "Zomia," the highland region stretching from the Indochinese Peninsula and southwest China to northern India: both are divided by modern international borders and are home to diverse indigenous peoples that all neighbouring states regard as "marginal" (Scott 2009).

Any historical narrative about this joint frontier, then, can hardly be immune to a unilateral state-centred perspective. The most typical example is the history of Russia's eastward expansion into Siberia from the late sixteenth century, which usually starts like this: spurred by the thought of the profitable fur trade, the powerful Stroganov merchant family, with the support of Tsar Ivan the Terrible (r. 1533–1584), recruited a group of Cossack mercenaries led by Yermak Timofeyevich (?–1584) to conquer Siberia in the name of the tsar. With their more advanced weaponry, Yermak and his army of 840 Cossack soldiers invaded and overthrew the Kuchum Khan of Sibir in 1582 (Khodarkovsky 2006). From this point, Moscow vigorously expanded its military power east to the Ural Mountains, establishing numerous fortresses to solidify the new Russian colonies in this *terra incognita*. In 1647 the Russians built Okhotsk, their first fortress on the Pacific coast and what was to become the most strategic Russian base in the Far East until the Amur Acquisition in 1860. It is not surprising that Russia's eastward march is frequently seen as parallel to the Anglo-American westward conquest at the other end of the Pacific in the nineteenth century.[7] Historian Alan Wood reminds us how speedy Russia's expansion was: "If one accepts the date of Yermak's original foray as 1582, then Russia's early pioneers had traversed the entire continent from the Urals to the Pacific in the space of only 65 years" (Woods 2011: 31).

The story of the Russian expedition, important as it is, has nevertheless been presented as a one-sided colonial narrative, just like its American counterpart of Manifest Destiny. While highlighting the continuity of Russian empire/nation-building, it ignores the internal momentum of regional development

over a much more protracted historical period. It compresses history to a brief moment—a mere 65 years—relegating the *longue durée* to the status of prologue to the consolidation of the Russian state. Another problem of the Russia-centred narrative is that it isolates the eastward movement from its global context. Such a movement is depicted as an "occasional" event that mainly took place thanks to the initiative of certain "national heroes" (as Yermak is portrayed in modern Russian historiography). The impulse of capital accumulation and the desire to join a global competition for commercial interest are largely separated from the story of frontier exploitation. The frontier remains marginal in the dominant account of globalisation.

The Russian version of frontier historiography is hardly unique. Similar narratives can be found in almost all countries in the trans-boundary region. Japanese historians, for example, have seen the colonisation of Hokkaidō and Karafuto (Sakhalin Island) in the Meiji period as a significant step towards a modern Japanese nation (Manson 2012). China, too, weaves this remote frontier into its nationalist historical memory. Modern historiography either emphasises the Han or non-Han rule over the Inner and Outer Manchurian region from the Han (206 BC–AD 220) to Qing (1644–1912) dynasties or stresses defence and territorial loss in the face of Russian and Japanese intrusions (Jin 1943; Xue and Li 1991). Since the early twentieth century, Korean nationalist historiography has called for more attention to the continental elements of the peninsular nation. The nostalgia for the ancient kingdoms of Koguryŏ (37 BC– AD 668) and Parhae (698–926) (Gaogouli and Bohai in Chinese), whose territory expanded from the Liaodong Peninsula to Primorsky, has a salient position in historical textbooks and museum exhibitions in contemporary North and South Korea (Schmid 1997, 2000).

In all this rhetoric of the past, indigenous peoples are voiceless; history is fragmented, the space segregated. The overall development of the Northeast Eurasian continent, instead of being examined as a continuous process and an organic part of world history, is broken into pieces each of which is subsumed as a peripheral part of the Russian, Chinese, Mongolian, Japanese, and Korean Histories (with a capital H—history as a linear narrative of a nation). These parallel linear Histories, of course, hardly coincide, overlapping only in the case of confrontations (territorial, political, ethnic, economic, and military) among imperial or nation-states. This region was the battlefield of the Qing–Russian border wars (1652–1689), the Sino-Japanese War (1894–1895), the Russo-Japanese War (1904–1905), the Siberian Intervention (1918–1922), the Soviet–Japanese border conflicts (1932–1945), and the People's Republic

of China (PRC)–Soviet border war (1969), to name a few. It is no surprise then that being a gateway or "meeting ground" (Stephan 1994: 2) of different cultures and civilisations, the place is rather portrayed as the "cradle of conflict" (Lattimore 1967).

This unilateral state-oriented, conflict-centred, geocompetitive narrative aggravates the distrust among the regional countries, to say the least, and hinders their economic and political cooperation. Mutual distrust generated by controversial historical recognition is also a major barrier to regional integration in East Asia. Moreover, recognition of this kind misinterprets the fundamental dynamic of this region's historical evolution. In all surrounding countries, policymakers seem to neglect that the Northeast Eurasian region, as a political–economic and ecological whole, is itself a historical agency with its own developmental pattern. This political–economic and ecological unit deserves to be reviewed as a centre, rather than periphery, of human society. Starting from this point, we may have a better understanding of its historical legacies, current problems, and future potentials. Rethinking the past makes the future more illuminating.

2 An Alternative Narrative: Northeast Eurasia as the Centre

Recent developments in historiography, especially the application of world system theory and increasing attention to marginal communities, provide opportunities to rethink the history of this joint frontier.[8] By examining indigenous dynamics of regional development, I place the transformation of Northeast Eurasia in a regional and global, as opposed to national, context. This is not to deny that competitive nation-building over the last two centuries has been a decisive stimulus for borderland transitions. To the contrary, a frontier-centric view aims at re-examining the interaction between hinterland and frontier. It urges us to recognise the historical significance of the nation-state-building processes in all surrounding countries and gives us a new angle from which to consider the ongoing development of the region and its potential.

2.1 From the Ancient Period to the Mongol Empire

Northeast Eurasia was the home of various ancient Altaic- or Turkish-speaking peoples. Many of them, such as the Sushen, Huimo, Donghu, Xianbei, Wuhuan, Fuyu, Woju, Mohe, Koguryŏ (Chinese: Gaogouli),

Shiwei, Khitan, and Jurchen, gradually merged into (or amalgamated with) other groups and became indistinguishable from them. Many others, such as the Yakut, Nanai (Chinese: Hezhe), Oroqen (Chinese: Erlunchun), Daur, Koryaks, Evenks (Chinese: Erwenke), Chukchi, Nivkh, and Ainu, are officially recognised minorities and indigenous peoples in today's Russia, China, and Japan. It should be emphasised that the boundaries of these groups were far from rigid, and there was a large degree of overlap or acculturation both among those groups and with the surrounding communities such as the Han Chinese, Manchu, Russian, Mongol, Korean, and Japanese. A distinguishing feature of the indigenous groups is that most of them engaged in hunting, fishing, and gathering as their primary form of livelihood. Agriculture was also developed in the southern parts of the border region, especially in Manchuria and the northern Korean Peninsula. Archaeological evidence shows the socio-political organisations of the indigenous people varied: some formed states or quasi-states, while others did not. Before the Mongol Empire (1206–1368) conquered substantial parts of the Eurasian continent and for the first time put a major part of Northeast Eurasia under a single administration (the Liaoyang Xingsheng), several indigenous kingdoms had ruled various parts of this frontier. Among them were Koguryŏ, Parhae, the Khitan Liao (915–1125), and the Jurchen Jin (1115–1234).

The early history of Northeast Eurasia was recorded mainly in Chinese official histories. These works portrayed a geopolitical map highlighting the military tension between the Middle Kingdom and the nomad Xiongnu Khanate (fourth century BC—AD 48) in today's northern China, Mongolia, and Central Asia. To the east, various tribal polities in the greater Amur River region (Wuhuan, Xianbei, etc.) were viewed as either potential allies or enemies in the China–Xiongnu confrontation. John Stephan argues that in this early stage China had the most visible cultural commanderies in 109 BC to rule today's southern northeast China and the northern Korean Peninsula (Stephan 1994). By the West Jin Dynasty (216–366), however, with the rise of Koguryŏ, all four commanderies had dissolved (AD 313). The Tang Dynasty (618–907), along with Silla of Korea, overthrew Koguryŏ in 668. The Tang not only re-established Chinese control over the Yalu and Tumen River region but also set up outposts and established the "tributary" relationship with native chiefs in the middle and lower Amur River regions.

Although the centralising governments viewed it as a marginal place, the diverse inhabitants of the greater Amur River region played a critical

role in bringing East Asian societies together. Through war, trade, migration, and governmental communication, the region not only linked societies in China, Korea, and Japan but also connected East Asia to a larger world. Take the example of local religions: in all early indigenous regimes, from Koguryŏ to the Mongol Yuan, the belief system was a mixture of Buddhism and native Shamanism (occasionally combined with Daoism), which confirmed the region's geocultural importance as a meeting ground of South Asia, Central Asia, and East Asia. It was also a hub on the trans-Eurasian trade route (aka the Silk Road): those travelling from Europe to Korea and Japan simply couldn't bypass this region.

The regimes that arose in pre-modern Northeast Eurasia have distinct socio-political features (e.g. nomadic or semi-nomadic lifestyle and shamanism) that differentiated them to varying degrees from the Chinese, Korean, and Japanese states that existed in the same period. Today, however, their histories have been subsumed into the larger Chinese, Korean, Mongolian, and Japanese national Histories, provoking fierce debates as to which modern nation-state can lay claim to a particular indigenous regime. One of the most visible conflicts in the last two decades was the Chinese–Korean dispute over Koguryŏ/Gaogouli (Ahn 2016). Each side refused to view the ancient kingdom as an independent regional polity that adopted (and rejected) influences from both the Middle Kingdom and the southern part of the Korean Peninsula. Although the PRC and the Republic of Korea (ROK) maintained a glowing bilateral trade record, the antagonism ignited by anachronistic historical narratives certainly hindered their political trust and cooperation.

2.2 The Age of Discovery, the Competition Between Empires

The fifteenth to seventeenth centuries were a turning point in world history. Scholars refer to the expansion of power in Western Europe as the Age of Discovery, highlighting the maritime exploration of the trade route that eventually incorporated most human societies into a capitalist world system. The main players were Spain, Portugal, the Netherlands, Britain, and France. But let us not forget two important elements that were deeply embedded in the European motive to "discover" the world. The first was the desire to find a route to trade directly with the East, including India, China, and Southeast Asia. This was at least partially inspired by Marco Polo's travels to the Mongol Yuan (1271–1368), a trans-continental power that arose from the northeast Eurasian steppe. The other was the persistent

need to acquire various kinds of fur (known as "soft gold" at the time) thanks to global cooling in the sixteenth and seventeenth centuries (Brook 2008). It was these two elements that absorbed Northeast Eurasia into an increasingly globalised trade network in which the Amur region would play an important role. Contrary to earlier assumptions, China was not an outsider in this transformative era. Recent scholarship demonstrates that Ming China's voyage to the Indian Ocean from 1405 to 1433, led by the Muslim eunuch and mariner Zheng He, shared many similarities with European maritime expansion (Wade 2005; Sen 2006).

Another Chinese expedition around the same period that is less well known than Zheng He's voyage is the expedition to the Amur River region led by Yishiha (Isiqa), again an eunuch official. In 1409 Emperor Yongle (r. 1402–1424) set up the Nurgan Regional Military Commission (*Nu'ergan dusi*) in today's Tyr, Russia, to incorporate local tribes in the Amur and Sungari River regions to his frontier administration. From 1411 to 1432, as an imperial envoy, Yishiha led the Ming fleet to inspect the Nurgan region (including Sakhalin Island) on ten occasions.[9] Like Zheng He's voyage, Yishiha's overland expeditions combined political, military, and commercial interests. Ming China's strategic goal was to secure local Jurchen support for its military campaign against the post-Yuan Mongols and to establish tributary relationships with native chiefs. Ming rule of this vast area followed the Tang practice of "nominal governorship" (*jimi*), in which native leaders received official titles and were entrusted to govern local affairs in exchange for political submission and preservation of order. Historical records show that Yishiha, who spent nine years altogether in Nurgan, made close contacts not only with the Jurchens but also the Nivkh, Ainu, and other indigenous tribes.[10] Yishiha's expedition significantly increased social, political, and commercial exchanges between Beijing and Nurgan. Although the Nurgan commission was abolished in 1434, the more than 200 guards and garrisons and dozens of outposts supervised by Nurgan largely remained until the Jianzhou Jurchen unified the region in the early seventeenth century and renamed the Jurchen people "Manchu" (Li 1986: 17–19).

The Ming northeast expedition needs to be understood within global, regional, and local frameworks. First, the expedition was part of the imperial enterprise of extending China's political influence, as was Zheng He's voyage to the Indian Ocean. It incorporated Northeast Eurasia into what was to become a much more connected world. Commodity exchanges, in the form of tributary mission or border market, strengthened Manchuria's

socio-economic ties with China, Korea, and Siberia. Horses produced in Manchuria, furs in Siberia, and foodstuff and iron implements in Central Plains and Korea were among the most desirable commodities. Various Jurchen chiefs competed with each other for the limited patents to trade with the Ming. The monopoly of the Ming trade also contributed to Nurhaci's unification of the Jurchen tribes in the late sixteenth and early seventeenth centuries (Li 2002: 9–72). Second, the expedition occurred around the time when Chosŏn Korea (1392–1897) expanded its territory to the Tumen River and Muromachi Japan (1336–1573) to southern Hokkaidō. All three East Asian powers were marching north to solidify their control on the ethnic frontiers, in the wake of the collapse of the Mongol Empire. Third, the establishment of Nurgan was initially proposed by native Jurchen tribes and was supervised by Yishiha, an ethnic Jurchen himself (Tsai 1996: 129–130). These facts suggest that local initiative could be equally critical, if not more important, in building up the relationships between the capital and the frontiers. The creation of the Northeast Eurasian gateway was never a one-sided project imposed by the imperial state.

The seventeenth century was a period of global imperial competition. It witnessed not only the rise of maritime powers such as the Netherlands and Britain but also the rise of two continental powers in Eurasia: the Manchu Qing in the east and Russian Tsardom in the west (Perdue 2005). Russia was lured eastward to Siberia and the Far East, as mentioned above, by the huge profits in the fur trade. Historians suggest that before the fiscal reform of Peter the Great (r. 1696–1725), profits from the fur trade accounted for approximately 10% of the state revenue (Woods 2011). The same quest for fur drove the Dutch, the British, and the French to explore and conquer North America. The two new sources for fur, Siberia and North America, spurred the contests for markets and trade routes. But fur was not itself the end goal. European explorers expected the capital generated by the fur trade to fund a bigger enterprise: the trade route to China. According to Timothy Brook, "The dream of getting to China is the imaginative thread that runs through the history of early-modern Europe's struggle to escape from its isolation and enter the wider world" (Brook 2008: 43–46). From this perspective, Russia's eastward push, perhaps the only expedition to kill two birds with one stone, was an inseparable part of early globalisation.

In the late seventeenth century, however, Russia's exploration in the Far East was checked by the Qing in the Amur River basin. For Qing

China, the northeast frontier had unique political, social, ritual, religious, and economic meaning since it was regarded as the birthplace of the ruling ethnic group, the Manchus. During its rise, the Qing successfully incorporated or conquered various Mongol tribes, and established its control over the inner Asian steppe. Qing policy towards the Amur River region was different from Russian policy towards the same region. During most of the Qing period, the forest zone of Jilin and Heilongjiang, segregated from the agricultural zone of Liaodong and the nomadic zone of Mongolia, was designated as "royal reserves" for the Manchus. Access to this part of the empire was limited. As a result, in the seventeenth and eighteenth century when Russia gradually extended its reach to the far north, even Alaska, the Qing preserved Northeast Eurasia from exploitation (and continued to do so until the late nineteenth century).

The military clash between the two great powers eventually led to the Qing–Russian agreement to demarcate their border. The 1689 Treaty of Nerchinsk officially established the boundaries and regulated the bilateral trade relationship (Perdue 2010). The treaty, mediated by Jesuit and Mongol interpreters, was among the earliest of several similar diplomatic protocols between countries of the Eurasian continent. In other words, the imperial competition over this frontier gave birth to one of the first international treaties over national territory in the modern world (Wang 2004: 690). As a result, Russia was kept out of the Amur River basin until 1860. In 1727, Russia and Qing China signed the *Treaty of Kyakhta*, which established official border trade between the two empires. The treaty made Kyakhta one of the most famous Sino-European commercial ports (along with Canton) and helped to create a thriving cross-continental trade route through the Mongolian steppe.

The Russian expedition in the Far East in the late seventeenth century also led to the first Russo-Japanese encounter. For generations, many Japanese ships foundered on the shores of the Kamchatka Peninsula. In 1697, a sailor from a Japanese shipwreck, Dembei, encountered a Russian explorer, Vladimir Atlassov, in Kamchatka. Dembei was later escorted to St Petersburg and became the first Japanese-language teacher in Russia. From that moment onwards, many Russian merchants and envoys presented themselves in the Ezo region as well as the Japanese interior. They became one of the rare sources, aside from the Dutch, to provide Japan information about early modern Europe before the coming of the "Black Ships" in the mid-nineteenth century (Keene 1969: 31–58).

By addressing the pre-modern history of the region, what is clear is that the Northeast Eurasia region (Russian Far East included) has always been a crucial part of global and regional economy, as well as world geopolitics. This place was not, as perhaps many people would imagine, a wild land waited to be discovered and absorbed by a "civilised" world. On the contrary, it was a major source of the modern world that we know. This historical contribution was not made by one state or a single nation, but by multiple groups of people, natives and non-natives alike, who encountered each other in this region.

2.3 Modern Stage: The Continuation of Frontier Transformation

The nineteenth and twentieth centuries are notable for the global spread of capitalism, nationalism, and industrialism. Imperial, colonial, and national powers struggled against each other as they vied for territory, people, markets, and natural resources. The impact in Northeast Eurasia, as in other parts of the world, was unprecedented. The Northeast Eurasian frontier was profoundly transformed by the coming of so-called "modernity."[11]

There is no need to elaborate on the competition among Russia (and later the Soviet Union), Japan, China, Korea, and the United States to control the region in the last two centuries. But it is critical to understand how certain significant transitions in this multilateral borderland were partly the result of this competition.

First, an enormous change occurred in local demography. Russia's territorial acquisition, especially outer Manchuria in 1860 and Sakhalin in 1875, stimulated great immigration waves from all directions. To strengthen their control on Manchuria, the Qing gradually opened what were once forbidden lands and encouraged Han Chinese to settle the region. It also allowed Koreans to claim the wild land north of the Tumen and Yalu Rivers. By 1942, northeast China was home to more than 46 million Chinese, 1.6 million Koreans, and nearly 1.15 million Japanese (Yamanaka 2005: 184).Responding to the Russian threat, Meiji Japan also move aggressively to colonise Hokkaidō and the Kuril Islands. By 1945, more than 3.5 million Japanese and non-Japanese migrated to Hokkaidō, making it the most populous prefecture in Japan at the time.[12] Between 1860 and 1940, the Russian Far East not only accommodated millions of immigrants from Ukraine, Siberia, and central Russia but also 170,000 Koreans, who were forcibly resettled in Central Asia in the 1930s (Pohl 1999: 9). The immigrants far outnumbered the indigenous peoples, who

were ethnic minorities in their homeland after the flow of migrants that took place from the late nineteenth century.

Second, the socio-ecological situation was fundamentally transformed. With the arrival of agricultural settlers and the large-scale development of infrastructure (roads, railways, ports, and cities), what had been a forest frontier simultaneously experienced agricultural and industrial development. Manchuria and Hokkaidō became important food bases for China and Japan. The fishing industry in Primorsky and Hokkaidō played a critical role in Russia and Japan. Mining and timber industries had long been economic pillars of the region. Heavy industries in northeast China in the twentieth century were among the most advanced in East Asia. The result was the modern transformation of local ecology, society, and ways of life.

Third, such a transformation continued throughout most of the twentieth century, albeit it took place amidst fierce rivalry among the powers. Take the example of the building of Northeast China (Manchuria). The industrialisation of northeast China can be traced to late Qing New Policy reforms and their extension under the Beiyang warlords in the 1910s and 1920s. The Japanese turned Manchukuo into an industrial base of the colonial empire in the years 1932–1945 (Young 1998; Matsusaka 2001). With significant input from the Soviets, northeast China became a vital engine for industrialisation of the PRC from the late 1940s. The industrial transformation of Northeast Eurasia thus continued across various historical stages, taking place under diverse political regimes including imperialism, colonialism, nationalism, and socialism. We cannot understand the transition of the region without seeing its historical continuities.

Fourth, the dominant economic mode of frontier-building in this region was (and to some extent still is) a planned economy, as opposed to a market economy. On the one hand, local products (soybeans, rice, coal, timber, and industrial goods) were directly sold to the global capitalist market in exchange for industrial products; on the other hand, various states proactively controlled and commanded local economic development in order to transforming this "virgin land" to an agricultural and industrial base for modern states. State projects, such as intensive infrastructure building (railways, roads), collective agricultural production, energy exploitation, and heavy industrial construction, were the main momentum of local development and continuously stimulated inward migration from the 1920s to the 1970s. The region's geostrategic importance long placed a premium on state planning. In light of this background, we have to realise that the local mode of the economy couldn't be transformed by simply introducing a *laissez-faire* market. In the 1990s,

neoliberal economic reform in northeast China, including privatising state-owned enterprises and abandoning the welfare system, has generally been deemed a failure in both economic and social terms (Cho 2013). Marketisation in both China and Russia created but one trend in this frontier: the population outflow, which began in the 1980s and accelerated in the last two decades.

Finally, even though the geopolitical rivalry from the Russo-Japanese War to the Cold War significantly confined international cooperation in the region, the frontier's transition would not have been possible if there had not been cross-border collaborations. Take the example of the Trans-Siberian Railway (1891–1916) (including the Chinese Eastern Railway and South Manchurian Railway attached to it), a grand project that significantly changed Northeast Eurasia's political, economic, and ecological landscapes. The construction of the railway combined the efforts of engineers, labourers, managers, local suppliers, and technicians from Russia, China, Korea, and Japan. It was hardly an enterprise completed by one government or one group of people. By the same token, northeast China and Primorsky became rice producers only because Korean immigrants, through years of experiment in the early twentieth century, applied Japanese seed and their farming skill to the paddy fields in this high-latitude area (Yi 1999). Later the Chinese, Russian, and Japanese all promoted rice farming in this area, to the extent that the principal food of the local population changed from millet to rice. This history of local cooperation is particularly pertinent in this analysis. In this multinational frontier, no single nation could build a thriving economy or society on its own.

3 Hunchun: A Case Study

Perhaps no city better exemplifies the historical evolution of this joint frontier than Hunchun, a border town in Yanbian Korean Autonomous Prefecture, Jilin Province, China. Located at the mouth of the Tumen River and facing the settlement of Posyet in Russia, the city of Rasŏn in North Korea, and the Sea of Japan, Hunchun is a hub for the whole region. The township was first built by the Koguryŏ kingdom and set up by the Parhae dynasty as the eastern capital (Longyuanfu) and political centre. During the Parhae period (698–926), the rulers sent envoys from Hunchun to Japan 34 times, receiving 13 return visits. Trade between Parhae and Japan (fur, textile, Ginseng) was once thriving until the Jurchen occupied Hunchun in the tenth century. In 1714, the Qing established a mid-ranking banner unit

of assistant commandant (*xieling*) in Hunchun, and in 1859, promoted it to vice-commander-in-chief (*fudutong*). According to the terms of the Qing–Russian *Treaty of Beijing* (1860), Russia occupied the mouth of the Tumen River, so that Hunchun (and the whole of northeast China) lost direct access to the Sea of Japan.[13]

In the late nineteenth century, Hunchun was no longer a military town inhabited mainly by the Manchu. With the opening of Manchuria, this border town soon grew to be a centre of the regional market network. Merchants from China, Japan, and Russia flooded in, along with Han and Korean agricultural immigrants. By 1910, Hunchun was home to nearly 38,000 people and 100-odd firms. Adjoined by the Posyet Bay of Russia, Hunchun was an important intersection of several land and maritime routes in northeast Asia, hence proudly claiming itself to be the centre of the Hunchun–Vladivostok commercial circle (Huang 1988: 22–23).

The Hunchun–Vladivostok circle connected with the business circles in Shandong, Shanghai, and Japan. Many Hunchun merchants built commercial networks by setting up headquarters in Shanghai, general branches in Hunchun and Vladivostok, and retail shops in towns and villages in eastern Jilin (Huang 1988). Constructed in this way, the world market was linked with the multilateral frontier of Jilin-Hamgyŏng-Primorsky. Local agricultural products (soybean bricks, soybean oil, vegetables, livestock, and timber) were exported from Hunchun in exchange for industrial products from inner China, Russia, and other countries (Ge 1995: 212).[14]

When the Chinese Eastern Railway, which connected Siberia and Vladivostok through Manchuria, was built in 1903, Hunchun's status as a regional commercial centre was weakened. Now cargo imported from Vladivostok and Posyet Bay could be delivered to Manchuria and Russia without passing through Hunchun. But what was more significant was the border restriction that resulted from the military tensions between Japan and the newly established Soviet Union in the 1920s. In 1922, the Soviet Union turned Vladivostok into a navy port and closed off the border, curtailing overseas trade. A decade later, Japan occupied the whole Manchuria and established the puppet regime of Manchukuo (1932–1945). From the 1920s to the end of the Second World War, international trade in Hunchun was monopolised by Japan. The once thriving multinational commercial town became an easy channel for Japan to dump its products to Manchuria.[15] During the Cold War,

aside from very limited exchanges between China and North Korea, there was hardly any international trade in Hunchun.[16]

The end of the Cold War brought new opportunities for local development. In 1992 the United Nations Development Programme (UNDP) endorsed the Tumen River Area Development Programme (renamed the Greater Tumen Initiative in 2005) to revitalise the local economy.[17] Proposed first by China, the programme envisaged regional economic cooperation among the neighbouring countries and aimed to create a free trade zone in the Tumen River delta. Hunchun, of course, was regarded as the linchpin to implement this plan. The city soon established a Border Economic Cooperation Zone in the hope of following the successful developmental model of Chinese coastal cities. After several years of high-speed development and investment fever, however, the market-oriented project reached a bottleneck. Since the late 1990s, the program has stagnated. Trying to pinpoint the reason for the failure, one local official suggested that the shortage of institutionalised international cooperation was the largest obstacle.[18] Most observers also attribute the difficulty to the ongoing geopolitical tensions in this region.[19]

Recognising the difficulties, the Chinese government altered the original plan and refocused on developing the province of Jilin, hoping that its economic power would radiate to the frontier. In 2009, the Jilin provincial government presented the "Outline of the Tumen River Area Cooperative Development Program Considering Changchun-Jilin-Tumen as a Pilot Zone for Development and Opening."[20] The programme soon received the Chinese central government's endorsement.[21] The new plan prioritised the economic integration of the three sub-regions in Jilin: Changchun, the city of Jilin, and the Yanbian Korean Autonomous Prefecture. Hunchun's strategic status was again highlighted. Viewing industrialised regions such as Changchun and Jilin as its hinterland, the Chinese promised to turn Hunchun into the "bridgehead of Tumen River regional cooperation."[22] Some progress has been made since 2009, especially in infrastructure. The collaboration with North Korea, including the long-term lease of the Rasŏn port and trans-border tourism, also shows some positive signs. Yet the ambitious programme faces challenges in the form of international and domestic politics, long-term investment, and a sustainable social environment. Considering especially the current awkward China–North Korea relationship since North Korean leader Kim Jung Un assumed power in 2011, it is hard to predict how far the bilateral economic cooperation can go.

From a local perspective, neither the Tumen Initiative nor the Changchun–Jilin–Tumen programme is a new creation. Rather, each can be seen as a return to the past or the resumption of an historical trajectory that was interrupted by geopolitical conflict in the last century. From this perspective, we should recognise that the historical evolution of Hunchun—and the northeast frontier in general—was never just about economy or trade. Even though Hunchun once played a leading role in the local trade network, the prosperity of such a network was contingent on the overall social–ecological transition of Northeast Eurasia in general. The key to its historical success was not so much the logic of a trans-border free market but a comprehensive transformation of the frontier society within a dynamic region. Without a grand vision for promoting social and ecological development in Hunchun and throughout the region, the economy will eventually lose momentum. In the past two decades, infrastructure in Hunchun has grown dramatically. However, a significant portion of the local population, especially young ethnic Koreans, have left for employment as migrant workers in South Korea. [23] The "empty-nest" family has become a pervasive social problem in both the countryside and cities in Yanbian.

Conclusion

Russia's recent "pivot to Asia" once again drew interest to the economic potential of the Northeast Eurasian frontier. However, Russia's move is only the latest in various similar projects initiated by regional states. For example, Japan was arguably the first country to promote the concept of "the economic circle surrounding the Sea of Japan." Immediately after the end of the Cold War, this project envisioned international collaboration among Japan, Russia, China, and the two Koreas. Japan's plan was followed by the Greater Tumen Initiative, which was announced by the UNDP and endorsed by China, Russia, Mongolia, South Korea, and North Korea (which withdrew in 2009). Moreover, in the 1990s, North Korea established its first "economic special zone" in Rasŏn, a city that adjoins both Russia and China. In 2010, North Korea even promoted Rasŏn as a "special city" governed directly by P'yŏngyang. Russia's recent "pivot" only further confirms the strategic importance of this Eurasian gateway.

Unfortunately, none of the previous projects achieved their goal. If the current plan is to be more successful, it is important to learn the lessons suggested by earlier projects. The most important one, simply put, is that each country has its own national agenda in the region, and these agendas hardly coincide. Exploration of this joint frontier, then, tends to become a tool to serve certain national purposes for the countries involved, countries that have repeatedly been in conflict. Yet no country can implement the project alone. Multilateral cooperation is not only the key but also the only way to make any of these projects feasible.

By providing an alternative way to view the history and modern development of the northeast Eurasian frontier, I argue for understanding this ecological space in terms of its unique historical agency, with its own dynamic of development. It was never isolated from "civilisations," nor was it merely a joint periphery of multiple nation-states. Rather, this region not only played a crucial role in connecting various Eurasian societies but also gave birth to some great trans-regional powers. The history of this frontier is inseparable from regional and global history. Keeping this in mind, we should realise that the interaction between this joint frontier and the surrounding societies was simultaneously one of absorption and expansion. This multilateral interaction repeatedly transformed the region, making it one of the most dynamic immigrant destinations and fastest-developing areas in twentieth-century East Asia.

The current wave to revitalise the economy of this joint frontier must be seen within the historical trajectory of local and regional evolution and transformation. Any developmental project must be established within the overall development of local social and ecological systems. Comparing the trading systems in Southeast Asia, where the overseas Chinese played a critical role in forming a social network, Takeshi Hamashita says a major difficulty for the future development of Northeast Asia is "the lack of an appropriate human network that could serve as a template for regional structures" (Hamashita 1995: 320). State policy should lean towards the direction of encouraging, rather than limiting, human exchange and communication across national boundaries. International cooperation is possible only if there is sufficient local initiative as well as human agency. Last but not least, a unilaterally imposed plan cannot succeed if it serves only the short-term interests of a single state rather than the long-term welfare of a trans-

border society. By the same token, a neoliberal vision of a "free-trade zone," which highlights only economic development but not social and ecological development, is hardly sustainable.

Notes

1. The first recognition of the importance of the region in Anglophone literature came in the 1990s after the collapse of the Soviet Union. See, for example, Stephen Kotkin, and David Wolff, eds., *Rediscovering Russia in Asia: Siberia and the Russian Far East* (New York: Routledge, 1995); Mark J. Valencia, ed., *The Russian Far East in Transition: Opportunities for regional economic cooperation* (Boulder: Westview Press, 1995); Tsuneo Akaha, ed., *Politics and economics in the Russian Far East: Changing ties with Asia-Pacific* (London: Routledge, 1997); Peggy Falkenheim Meyer, "The Russian Far East's economic integration with Northeast Asia: Problems and prospects," *Pacific Affairs*, Vol. 72, No. 2 (Summer 1999), pp. 209–224.
2. For example, the Association for Asian Studies, the world's leading academic organization in Asian studies, doesn't list Russia or the Russian Far East within its research umbrella.
3. I use this term to refer to an area that roughly includes the eastern part of northeast China (Jilin and Heilongjiang Provinces, and eastern part of Inner Mongolia), the southern part of the Russian Far East (Amur Oblast, the Jewish Autonomous Oblast, Primorsky Krai, and southern Khabarovsk Krai), the eastern part of Mongolia, and the northeastern part of the Korean Peninsula.
4. According to the 2002 census, populations in Vladivostok and Khabarovsk are 594,701 and 583,072 respectively. Population in Komsomolsk-on-Amur, the third largest city in the Russian Far East, was 271,600. Source: Russian Census of 2002, http://www.perepis2002.ru/index.html?id=87
5. See, for example, Owen Lattimore, *Inner Asian frontier of China* (Boston: Beacon Press, 1967). See also Joseph Fletcher, "Ch'ing inner Asia," in Denis Crispin Twitchett and John King Fairbank, eds., *The Cambridge history of China*, Volume 10, Part 1 (London: Cambridge University Press, 1978), pp. 35–106. However, a plausible development appeared in 2015 with the publication of a new book by Evelyn Rawski, in which she argues "[f]rom the perspective of the sixteenth and seventeenth centuries … the primary Inner Asian influences come from northeast Asia." See: Evelyn Rawski, *Early Modern China and Northeast Asia: Cross-border perspectives*, (Cambridge: Cambridge University Press, 2015), p. 2.
6. For example, Yan Congjian, a Chinese writer in Ming dynasty, defines the Tartars (Mongols) as "Northern Barbarians (*di*)" and the Jurchen as "Northeastern barbarians (*dongbei yi*)" See *zhou yu zhou zi lu* (Beijing:

zhong hua shu ju, 1993). Korean texts before the twentieth century refer the Jurchen/Manchu people in its northern border as "barbarians (*ho*)." Ancient Japanese texts use the term "Emishi" or "Ezo" for aboriginal people living in northern Honshu and Hokkaido, which is composed by two Kanji characters meaning "shrimp" and "barbarian."

7. During the heyday of Russia's eastward expansion, Russian intellectuals frequently envisaged the Amur River region as "Russia's very own Mississippi." See Mark Bassin, *Imperial visions: Nationalist imagination and geographical expansion in the Russian Far East, 1840–1865*, (Cambridge: Cambridge University Press, 1999), p. 10.
8. For example, Hamashita Takeshi's study on Ryukyu, a small islands kingdom located in the intersection of the East China Sea and South China Sea, incorporated the world system theory and marginal perspective. See "The Ryukyu maritime network from the fourteenth to eighteenth century," in Hamashita Takeshi, "*China, East Asia, and the global economy: Regional and historical perspectives*" (London: Routledge, 2008).
9. The size of his expeditionvaried each time. For example, in 1411, he employed 25 giant boats and more than 1000 staff and crew members; while in the last time (1432), he had 50 giant boats with more than 2000 crew members. See: Li Jiancai, *Ming dai dong bei (*明代东北*)* (Shenyang: Liaoning Renmin Press, 1986), pp. 17–19.
10. Yishiha, "yong ning si ji (永寧寺記)" and "chong xiu yong ning si ji (重修永寧寺記)."
11. By "modernity" I mean a global socio-political transformation, which was brought by Western-oriented capitalism, colonialism, industrialism, and nationalism in the nineteenth and twentieth centuries.
12. "Jinkō suii: Kokunai saidai datta Hokkaidō (人口推移:国内最大だった北海道)" in *Hokkaidō Fan Magazine (*北海道ファンマガジン*)*, http://puchi.net/hokkaido/geo/population02.php (accessed on 8 April 2016).
13. Hunchun shi difangzhi bianzhuan weiyuanhui, *Hunchun Shi Zhi (*珲春市志*)*, (Chuangchun: Jilin renmin chubanshe, 2000), pp. 11–18.
14. Also see Tōkanfu Rinji Kantō Hashutsujo Zanmu Seirijo, *Kantō sangyō chōsasho (*間島産業調査書*), Shōgyō*, pp. 23–26, pp. 112–114.
15. Japan did that through lowering the importation tax for Japanese goods. See *Hunchun shi zhi*, p. 400 and p. 461. See also Setsurei Tsurushima, *Tomankō chiiki kaihatsu (*豆満江地域開発*)*, (Suita-shi: Kansai Daigaku Shuppanbu, 2000), p. 176.
16. *Hunchun shi zhi*, pp. 455–461.
17. See: Greater Tumen Initiative: http://www.tumenprogramme.org/ (accessed on 6 May 2015).
18. See the interview with Deng Kai, the CCP secretary of the Yanbian Korean Autonomous Prefecture, in 2007 by the Xinhua News Agency: http://news.xinhuanet.com/video/2007-10/18/content_6903527.htm.

19. For example, see Shen Yue, "Tumenjiang quyu guoji hezuo: libi yinsu yu jianyi (图们江区域国际合作:利弊因素与建议)," *Jingying guanli zhe*, 2013, Issue 27.
20. Zhenxing dongbei wang, http://chinaneast.xinhuanet.com/2009-11/17/content_18251163.htm.
21. Central People's Government of People's Republic of China, official website, http://www.gov.cn/gongbao/content/2012/content_2131970.htm (accessed on 6 May 2015).
22. Zhenxing dongbei wang, http://chinaneast.xinhuanet.com/2009-11/17/content_18251163.htm.
23. For an early observation of the population outflow in Yanbian, see Andrei Lankov, "China's Korean autonomous prefecture and China-Korea border politics," *The Asia-Pacific Journal*, Vol. 5, No. 8 (2007).

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CHAPTER 4

Transformation of the Economic Model in Asia-Pacific Region: Implications for Russia's Far East and Siberia

Igor A. Makarov

1 Introduction

The rapid economic growth in the Asia-Pacific region (APR),[1] and the rising political significance of APR states, has encouraged Russia to launch its "turn to the East" policy, which has manifested in its foreign, economic, and regional policy. This policy turn has been further accelerated by the Ukraine crisis and the deterioration in Russia's relations with Western countries.

Russia's "turn to the East" strategy not only suggests closer economic cooperation with Asian countries but also the rapid development of Siberia and the Far East as the main drivers of Russia's integration into the APR. During the Federal Assembly address in 2014, President Putin called the development of Siberia and the Far East "national priority for the entire 21st century."[2] Signaling the new direction in policy, the establishment of the Ministry for the Development of the Far East in 2012 and the creation of the state programme for the social

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and economic development of the Far East and Baikal region 2025 were the first steps in defining this new government policy initiative. To supplement these programmes and ensure their policy priority, in 2013 the government appointed a vice-premier, Yuri Trutnev, who would be responsible for the development of the Far East.

With the new policy direction, a wide debate has begun in the Russian academic community on the objectives and mechanisms for implementing and sustaining Russia's "turn to the East" (Likhacheva et al. 2010; Kokoshin et al. 2011; Bordachev and Barabanov 2012; Inozemtsev et al. 2012; Inozemtsev and Zubov 2013; Ivashentsov et al. 2014; Efimov and Kryukov 2014; Makarov et al. 2014, 2016). Consensus among academics is that Russia's window to further integrating into the APR resides in the development of Russia's Far East and Siberia, and provides a critical opportunity to rapidly develop Russia's eastern territories. The region's development not only relies upon massive state support but will also hinge on international cooperation.

However, the majority of the analyses focus on Russian needs rather than opportunities. As a result, a substantial amount of research utilises key words such as "modernisation," "innovative economy," "new industrialisation," and "development of high value-added industries" as vague objectives, without situating them in the current state of and the future possibilities for a regional economy. As a corollary, very ambitious goals are declared, such as making Central Siberia the "world centre of new industrialisation" (Krupnov et al. 2013) or the creation of "the other California" on the western shore of the Pacific Ocean (Inozemtsev et al. 2012).

Such an approach, based on notions of what Russia wants from its "turn to the East," makes sense. However, crucially missing is the demand for Russia from Asian countries. The "turn" itself started with the call by President Putin to "to catch the Chinese wind in the sails of our economy" (Putin 2012). To push this metaphor further, in order to catch this wind from Asia, Russia should identify its speed, direction, and be able to adjust to it. In other words, the country will only be able to find its place in the region if it meets the needs and requirements of all involved. Understanding this concept is especially important for the new model of development for Russia's Far East, which was declared by Minister Alexandr Galushka in 2013. The main drivers of the new model are grounded in the development of export-oriented industries and attracting foreign investment and capital to the region. However, the scarcity of knowledge about attractive niches for Asian markets persists.

The state programme for the social and economic development of the Far East and Baikal region 2025 lacks any section devoted to the analysis of opportunities for Russian producers in Asian countries. Business requires informational support from the Ministry for the Development of Far East, but the Ministry doesn't have the capacity and resources for this kind of market research.

A number of scholars have previously explored APR countries' demand for Russia's economic presence in the region. Some of the most comprehensive assessments of the potential for Russia in Asian markets have been primarily in regard to energy resources (Mitrova 2014; Paik 2015). As for other sectors, some authors suggest substantial opportunities for the export of various resource-intensive, notably energy and water, goods and services, including hydrocarbons, agricultural production, metals, fish, pulp and paper, chemical production, data-processing, and tourism (Likhacheva et al. 2010; Bordachev and Barabanov 2012; Makarov et al. 2014, 2016). However, deficient knowledge about the interests and needs of APR countries is only one side of the problem, the other is that these interests and needs tend to change very quickly. At the beginning of 2015, these interests were already significantly different from those of 2013, when the new export-oriented model of Far East development was declared. Asia is at the beginning of a long-term process of transformation, and its implications for the development of Siberia and Russian Far East have yet to be recognised.

This chapter is an attempt to bridge this gap, and it explores the economic transformation of the APR to determine the possible implications for Russia's eastern territories. A special focus is paid to the new risks and opportunities for differing Russian projects, industries, and territories. The chapter also provides an estimate of whether current policies to develop Russia's Siberia and Far East are relevant to the changes observed in the APR. The analysis provides a good starting point for recommendations about Russia's development of Siberia and Far East policy.

The chapter is structured as follows. Section two provides a detailed examination of the APR's transformation and application of the new model of development. Section three discusses the risks and opportunities Asia's transformation brings to the development of Russia's Siberia and Far East. The section includes suggestions on how Russia's current policies can respond to these risks and opportunities. Finally, section four provides recommendations for Russian Far East policy.

2 Transformation of the APR's Economic and Development Model

For the last decade and a half, Asian countries, notably China, have been the main drivers of global economic growth. South and East Asia were initially "the world factory" that provided developed countries with cheap consumer goods. Currently, Asia is supplementing conventional specialisation in these cheaper goods with developed clusters of high-tech production, world-class financial centres, and dense infrastructure networks. All this has gradually transformed Asia into one of the most diversified regions in the world. This development in both social and economic realms has significantly changed the foundation of economic growth in Asia that had operated for decades. The transformation of the Asian model consists of four interconnected shifts:

1. The type of economic growth: from extensive economic growth based on the use of cheap labour and exploitation of natural resources for producing goods for export to intensive economic growth based on growing internal demand;
2. The sectorial structure of the economy: from labour-intensive products to relatively high-quality and high-tech goods and services aimed to meet the demand of a growing middle class;
3. The geography of exports: from developed countries as a main market for Asian goods, based on the "Asia for the world" model, to a focus on intraregional markets, the "Asia for Asia" model;
4. The geography of economic growth: from coastal areas that have been the core of Asian economic growth for the last decades ("four Asian tigers" and eastern provinces of China) to former periphery regions, such as the developing countries of South-East Asia, Mongolia, Central Asia, and the central and western provinces of China.

2.1 Shift 1: Type of economic growth

For the last 50 years, Asian countries have developed their own economic model to catch up with the West. This model was implemented by Japan, the Republic of Korea, Taiwan, and Singapore, and all these states were able to attain developed nation status and high levels of income. More recently, a similar model to achieve economic growth has also been implemented by Malaysia, Thailand, and China. As the world has seen, these

countries have shifted away from this model of economic development, which in turn has had important implications for the world. Since 2006 in China the share of exports in GDP has decreased from 36% to 21%, in Malaysia from 96% to 68%, in Singapore from 184% to 124%[3] (Table 4.1).

The phasing out of the model of export-led growth is most obvious in China. Since the beginning of market reforms in the late 1970s, its annual rates of GDP growth have exceeded 10%. As a result, China, currently, represents 15% of world GDP with the prospect of becoming the world's largest economy in the near future. However, for the last several years China has faced significant slowdown. In 2015, the GDP growth rate fell to 6.8%, the lowest since 1990 (Table 4.2).

China's implementation of the export-led economic growth model ushered in its tremendous growth; at the same time, the slowdown has been explained by neoclassical economic growth models, such as the Solow–Swan model.[4] To some extent China repeated the path of previous leaders of Asian economic growth, such as Japan and the Republic of Korea, which faced structural slowdowns in the late 20th century. China's "economic miracle" was based upon using cheap labour, initiating large

Table 4.1 Share of exports in GDP in APR countries in 2006–2015

	2006 (%)	*2007 (%)*	*2008 (%)*	*2009 (%)*	*2010 (%)*	*2011 (%)*	*2012 (%)*	*2013 (%)*	*2014 (%)*	*2015 (%)*
China	36	35	31	24	26	25	24	23	23	21
Japan	15	16	16	12	14	14	13	15	15	15
India	13	13	15	12	13	16	16	16	16	13
Republic of Korea	32	33	42	40	43	46	45	43	41	38
Indonesia	25	24	25	20	21	23	21	20	20	17
Thailand	58	58	60	54	56	59	57	54	56	54
Malaysia	96	88	84	75	78	77	72	71	69	68
Singapore	184	166	176	140	149	149	141	136	133	124
Philippines	39	34	28	23	26	22	21	21	22	20
Vietnam	60	62	63	54	62	70	74	77	81	84
Myanmar	31	31	22	18	17	15	15	18	17	17
Cambodia	52	51	45	40	46	54	58	59	64	65
Brunei	60	57	65	61	65	67	68	63	61	91
Laos	25	20	21	19	26	27	24	21	23	23
ASEAN countries	36	33	34	28	29	29	29	29	28	26

Source: Created by the author based on: Euromonitor International: Exports, GDP (US dollars). URL: http://www.portal.euromonitor.com/portal/magazine/homemain#, accessed 18 April 2016

Table 4.2 GDP growth rates in APR countries in 2006–2015 (current prices)

	2006 (%)	*2007 (%)*	*2008 (%)*	*2009 (%)*	*2010 (%)*	*2011 (%)*	*2012 (%)*	*2013 (%)*	*2014 (%)*	*2015 (%)*
China	12.7	14.2	9.6	9.2	10.4	9.3	7.7	7.7	7.3	6.8
Japan	1.7	2.2	−1.0	−5.5	4.7	−0.6	1.9	1.8	0.0	0.5
India	9.3	9.8	3.9	8.5	10.5	6.3	3.2	4.9	5.6	7.4
Republic of Korea	5.2	5.1	2.3	0.3	6.3	3.7	2.0	2.7	3.3	2.6
Indonesia	5.5	6.3	6.0	4.6	6.2	6.5	6.2	5.7	5.0	4.7
Thailand	4.9	5.4	1.7	−0.9	7.3	0.3	6.4	3.0	0.7	2.8
Malaysia	5.6	6.3	4.8	−1.5	7.4	5.1	5.6	4.0	6.0	4.8
Singapore	8.6	9.0	1.7	−0.8	14.8	5.2	1.3	3.0	2.9	1.7
Philippines	5.2	6.6	4.2	1.1	7.6	3.6	6.8	7.0	6.1	5.4
Vietnam	7.0	7.1	5.7	5.4	6.4	6.2	5.2	5.2	6.0	6.7
Myanmar	13.1	12.0	10.3	10.6	10.2	6.0	6.3	5.3	8.5	8.5
Cambodia	10.8	10.2	6.7	0.1	6.0	7.1	7.3	6.9	7.2	7.0
Brunei	4.4	0.2	−1.9	−1.8	2.6	3.4	0.9	1.8	5.3	−1.2
Laos	8.6	7.8	7.8	7.5	8.1	8.0	7.9	8.0	7.4	7.5
ASEAN countries	6.0	6.7	4.1	1.6	8.0	4.6	5.4	4.7	4.7	4.6

Source: Created by the author based on: Euromonitor International, indicator: GDP growth rates. URL: http://www.portal.euromonitor.com/portal/magazine/homemain#, accessed 18 April 2016

infrastructure projects, and extracting natural resources. Living standards have improved significantly over the last decades, and coastal provinces that had been the core of economic growth have started to lose their competitive advantages. Currently, China's manufacturing production can hardly compete with goods from other Asian countries on price or with Western products on product quality (Woo 2012; Zhuang et al. 2011). Infrastructure projects can no longer be one of the drivers of economic growth; nearly all the necessary infrastructure on China's eastern coast has already been built. Pollution and depletion of renewable natural resources (forests, soils, water) are one of the key obstacles to maintaining China's previous economic activity.

The social costs of extensive economic growth under extractive political and economic institutions are high. The benefits of the rapid rise of incomes have been felt countrywide, but the distribution of them is strikingly uneven. Economic growth has increased income inequality and sharpened regional disparities throughout the country (Xie and Zhou 2014). Social security and the provision of public goods that could be a strong mitigating factor are still underdeveloped. Rising demographic burdens as a consequence of the one-child policy and increasing calls for

social justice that are a corollary of rising incomes add additional pressure on the system.

Framed in this way, it is impossible for China to overcome these obstacles without major transformation of the economic growth model. Discussions began among the Chinese political elites before the financial crisis of 2008–2009. Premier Wen Jibao declared that "China's stimulus package focuses on expanding domestic demand and is aimed at driving economic growth through both consumption and investment."[5] Though certain measures were taken to boost consumption, conventional measures such as state capital investment in infrastructure, housing, and innovation still dominated (Bulman 2010; Grigoryev and Kulpina 2011). The large-scale economic transformation was postponed until the 18th National Congress of the Chinese Communist Party in 2012, where the structural reforms were launched. These are aimed at expanding internal demand and prioritising the development of the service sector and high-tech industries (Zhang and Zhang 2013). The shift simultaneously from export oriented to internal demand oriented and from extensive to intensive economic growth cannot be classified as successful yet. Many structural problems associated with the public sector, banking system, regional disparities, population aging, and institutional development impede China's ability to overcome the slowdown.

The shift in China's economic growth model has led to deep changes in the system of economic relations in the APR. While Japan and the Republic of Korea have finished their turn towards internal demand as a driver of the economy, and China and Malaysia are in the process of implementation, the less-developed countries have received an additional boost to their exports. These countries are gradually reorienting their exports to the needs of Chinese consumers, which provides an opportunity for rapid economic growth for the periphery countries that have lagged behind in economic development. The "factory of the world" concept has already moved from Japan to "four Asian tigers" (Republic of Korea, Hong Kong, Singapore, and Taiwan) and then to the eastern provinces of China, and is moving once again to India, Indonesia, the Philippines, and Vietnam. This transition is well explained by the geese-flying paradigm developed by Akamatsu (1962). In accordance to this pattern, it may continue in the less-developed nations in Asia, including Laos, Cambodia, Myanmar, and Bangladesh. Additionally, this evolution in the Chinese economic model will present new opportunities and niches for Russian businesses.

2.2 *Shift 2: Sectorial Structure of the Economy*

From 2009 to 2014, disposable income in the world's developing countries expanded by 38%, while in the APR it increased by 84%. Consumer expenditure grew proportionally.[6] The expanding middle class in East, South, and Southeast Asia has created rising demand for high-quality foodstuffs, consumer goods, cars, luxury products, leisure activities, education, healthcare, and public services. This had led to the rapid development of the corresponding industries throughout Asia.

The service sector demonstrates the highest growth rates in comparison to other sectors. Since 2000, its share has grown in all the largest countries of the APR except Thailand. The country where this trend is the clearest is China, where the share of services in GDP has increased from 39% in 2000 to 47% in 2014 (Fig. 4.1). On the contrary, the share of agriculture during the same period has fallen everywhere except Thailand, Indonesia, and Malaysia.

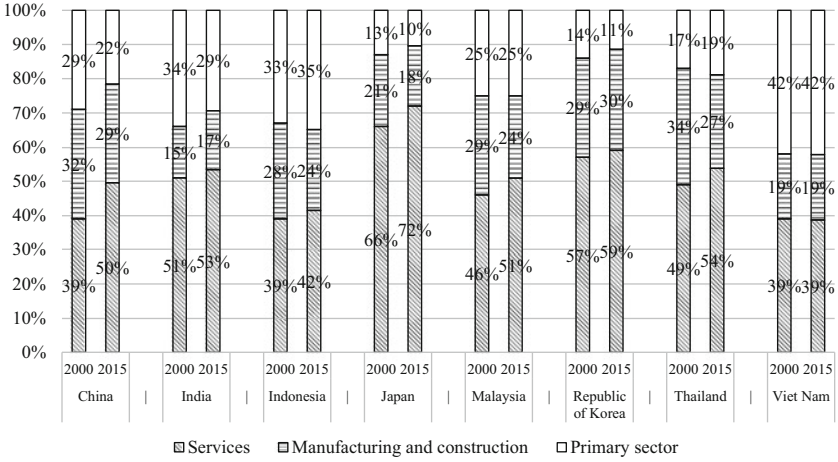

Fig. 4.1 Shares of sectors in APR economies in 2000 and 2015 (% of GDP). *Source*: Created by the author based on: Euromonitor International: GDP (US dollars), Manufacturing as a % of GDP, services as a % of GDP. URL: http://www.portal.euromonitor.com/portal/magazine/homemain#, accessed 18 April 2016

The industrial sector of the APR includes five main industries that represent nearly a half of total industrial output (Fig. 4.2); these are metallurgy, chemicals, production of foodstuff, production of motor vehicles and machinery. Following the global financial crisis of 2008–2009 all these industries grew between 6% and 10% annually.[7] The highest growth rates are in the machinery sector, which reflects the gradual shift in Asia towards producing more complicated goods. Among the other industries, the high-

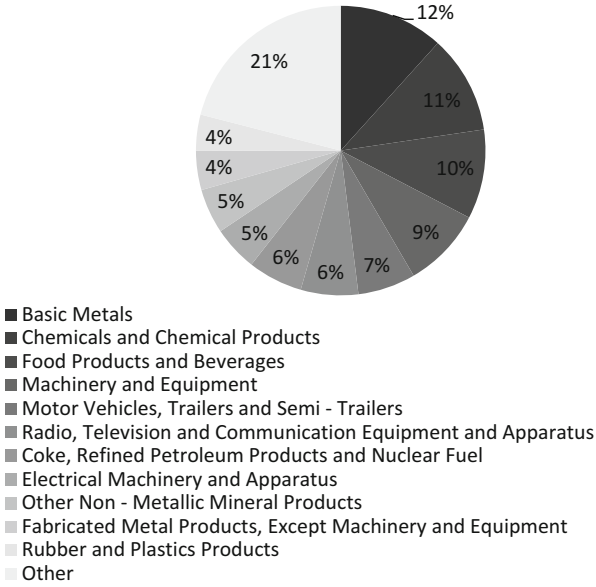

Fig. 4.2 Structure of industrial output in APR in 2014. *Source*: Created by the author based on Euromonitor International: Industrial Output. URL: http://www.portal.euromonitor.com/portal/magazine/homemain#, accessed 1 April 2015. (Euromonitor International database aggregate 'Asia Pacific' includes China, India, Japan, Republic of Korea, Taiwan, Hong Kong, Macao, Sri Lanka, ASEAN (apart from Cambodia and Myanmar owing to the lack of data), Bangladesh, Mongolia, and a range of countries which are usually not included in APR: Afghanistan, Pakistan, Kazakhstan, Kirgizia, Tajikistan, Armenia, Azerbaijan, and Fiji. As the size of these economies is not very large compared to economies of APR countries, this is not crucial for the interpretation of regional data.)

est growth rates belong to the production of different consumer durables, notably of furniture and wood products. As for the extractive industries, their growth decelerated significantly in 2014, because of falling oil prices that placed a downward pressure on the prices of all types of raw materials.

Although the industrial structure of the various economies differs across Asia, some common trends emerge in the analysis. One of the trends is towards a more complicated sectorial structure. Developed countries of the region are already the centres for producing high-tech goods and services. This specialisation now involves the richest regions of China, India, and the Association of Southeast Asian Nations (ASEAN) states. Developing countries of the APR and the provinces of central and western China, which previously saw the domination of the agrarian sector, are now beginning to transition into the new "world factories." The role of agriculture is declining in most of the countries, but in some cases has been growing, specifically in those countries where it has been commercialised and remains one of the cores of export specialisation, for instance in Thailand, Vietnam, and Malaysia.

The changing sectorial structure of APR economies has had significant implications for exporters to the region. Specifically impacted by this re-orientation are raw materials in light of China's declining infrastructure development and the bubble in its construction sector. Concurrently, new niches are emerging throughout the Asian markets because of rising demand for consumer goods and services, especially luxury goods and tourism services that are not produced domestically. While new niches are emerging, agricultural production is declining and consumers are increasingly purchasing foodstuff from overseas markets. For Russia, the speed of transformation in the APR makes it difficult to form long-term strategies. On the one hand, Russia's specialisation in exporting raw materials to Asia can hardly be sustainable either in the medium or long term, and on the other, new opportunities will appear, such as the production of more resource-intensive consumer goods and services, including agriculture and tourism.

2.3 Shift 3: Geography of Exports

Rising incomes and development of human capital has led to an increase in China's labour costs. It was the main factor for the reallocation of labour-intensive industries from eastern China to the central and western regions as well as overseas.

In 2015, monthly minimum wages of official workers in China varied from $137 to $639 depending on province. Among all the other

developing economies of the APR only Thailand and Malaysia have similar monthly minimum wage rates ($381 and $254 respectively) (Knowler 2015). To compare, in Vietnam the figure amounted to $101–142, in Indonesia $71–230, in the Philippines $110–220, in Laos $110. In South Asian countries wages are even lower: $40–130 in India, $49–72 in Sri Lanka, $68 in Bangladesh (Knowler 2015). Even in Russia after devaluation of the ruble in 2014–2015 average wages nominated in dollars became lower than in China for the first time ever.

Supplementing the high labour costs, another reason encouraging transnational companies to transfer their enterprises from China to neighbouring countries is the high social insurance cost, which amounts approximately to 35% of wages with high variation across regions. In other regional countries it is significantly lower, ranging from 22% in Vietnam to 5.2% in Thailand (Devonshire-Ellis 2014).

One of the industries that has been shifting its base is the textile industry because of its low capital costs and high labour intensity. Just a few decades ago, the industry was one of the pillars of the Chinese economic miracle. Now most of China's textile industry has moved to Vietnam, Myanmar, Bangladesh, and other developing regional states.

Antiquated labour-intensive industries that are being transferred from China to its western and central provinces, South, and Southeast Asia are being replaced by more technologically advanced industries, such as automotive industries and electronics, that have been transferred to China from Japan and Republic of Korea. The main motivations for this transfer are the proximity to target markets and the lower labour costs, which are much higher than in South or Southeast Asia but still much lower than in Japan or Korea.

Supplementing the transfer of industry and investment flows is the expanding intraregional trade. Asian exports have been conventionally oriented to developed countries. However, the stagnant demand from Europe and growing consumption in Asia have shifted these export flows towards regional markets. In 2000, 48.9% of Asian exports remained within the region, and by 2014 this share had grown to 52.3%.[8] As highlighted previously, these trends have resulted in the transition from an Asia as world factory model to an Asia for Asia model, as regional domestic demand increases (Bordachev et al. 2014).

The shift from interregional towards intraregional trade is one of the key reasons why Asian countries have been proliferating and intensifying their negotiations of bilateral and multilateral free trade agreements (FTAs).

The expansion of FTAs in Asia can be seen in the implementation of the China–ASEAN (2012) and China–Korea (2016) FTAs, the ASEAN Economic Community (AEC) in 2016, and the Regional Comprehensive Economic Partnership (RCEP), which would connect Oceania, East, South, and Southeast Asia in a regional FTA.

2.4 Shift 4: Geography of Economic Growth

Economic growth has always been unequally distributed across countries and provinces of the APR. Following the Second World War, the core was in Japan, then included the "four Asian tigers," encompassing the eastern Chinese provinces. States and provinces that were once on the periphery, only enjoying slight economic growth, have now begun to blossom as the centre has begun to include them.

This shift is determined by two main factors:

1. The transfer of industrial production from coastal areas of China to central and western regions and neighbouring countries, which gives them the capacity to maintain higher rates economic growth through utilising cheap labour (*Shift 3*).
2. Transition of the eastern provinces of China towards intensive economic growth, which is accompanied by the decrease in growth rates (*Shift 1*).

One of the consequences of the trends is the relative acceleration of economic growth in the periphery countries and provinces which have succeeded in getting involved in the regional value chains. One good example of this trend is Mongolia, where average rates of GDP growth in 2011–2013 amounted to 13.9%, the highest in the whole world.[9] The Central Asian countries have similar ambitions, and are enthusiastic about being involved in China's Silk Road Economic Belt project (Zhang 2015).

As highlighted, the inclusion of the periphery area has been occurring in China as well, as industry and economic growth shift from the east to central and western provinces because of cheaper labour costs. Additionally, new infrastructure development further entices industries to transition to these new growth areas. As a result, central and western provinces have the highest rates of economic growth in the country.

Since the global economic crisis, economic growth in China has slowed down relative to pre-crisis levels. The average growth rate of regional

GDP in Shanghai in 2009–2014 was 4.1 percentage points lower than in 2004–2008, in Zhejiang by 4.3 percentage points, in Inner Mongolia by 7.6 percentage points.[10] However, the provinces of central and western China have witnessed higher growth rates. For instance, Chongjin and Guizhou had rates that were higher than pre-crisis rates by 1 percentage point, and Yunnan by 0.8 of a percentage point.[11]

Further complementing the burgeoning growth in China's central and western provinces is the growing economic cooperation between China and Central Asia on the development of China's proposed Silk Road Economic Belt and One Belt One Road initiatives. One critical initiative that would bolster these projects is the construction of a transportation corridor to Europe, going through China's western provinces into Central Asia. This would add a strategic imperative to further developing China's western provinces and infrastructure. China's embrace of Europe has a geostrategic dimension as well; China wants to expand its presence in Central Eurasia, as it is currently in competition with the USA over the East and South China Seas (Denisov 2015). In this light, Russia has the opportunity to be a major beneficiary of these trends and processes.

3 Russia's 'Turn to the East' in the Context of Transformation of Asian Economic Model

Asia's transition to a new model of economic growth, as highlighted, has significant implication for Russia's "turn to the east" and the development of Siberia and the Far East. In order for Russia to take advantage and integrate itself further into the APR, it requires new strategic thinking on the part of Russian political and intellectual elites, which have so far demonstrated an incomplete understanding of the dynamics. This is one reason why Russia's turn to Asia has not been as fast as hoped (Fig. 4.3).

Demonstrating the problems facing Russia–Asia economic relations is the trade volatility between Russia and APR states represented by trade turnover. In 2010–2011, Russia–APR trade turnover grew 42% a year on average (Fig. 4.4). The main reason for this expansion was increasing trade with China. By 2009, China had become Russia's main trade partner, for the first time surpassing Germany. This expansion led to optimistic expectations for the future of bilateral trade and was reflected in a declaration by the leaders of both China and Russia in 2011. President Putin and President Xi Jinping presented the aim to increase trade to $100 billion by 2015 and to $200 billion by 2020.[12]

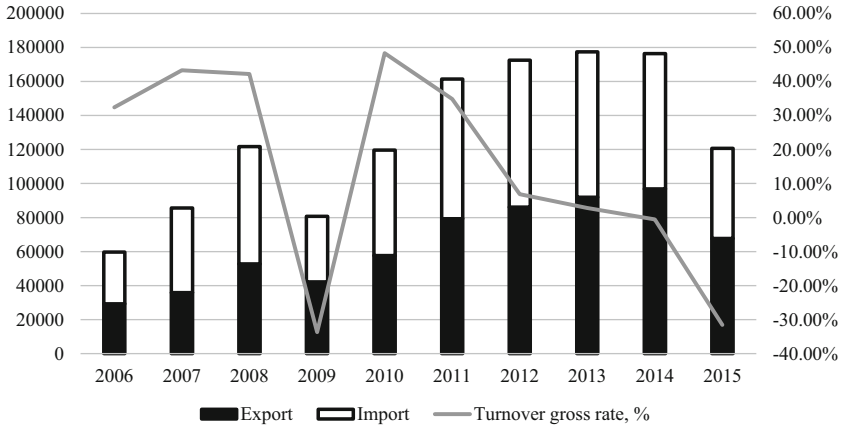

Fig. 4.3 Trade turnover between Russia and APR countries, million dollars (left axis) and rates of its growth, % (right axis) in 2006–2015. *Source*: Created by the author based on: Federal Customs Service of the Russian Federation, URL: http://www.customs.ru/index.php?option=com_newsfts&view=category&id=125&Itemid=1976, accessed 18 April 2015

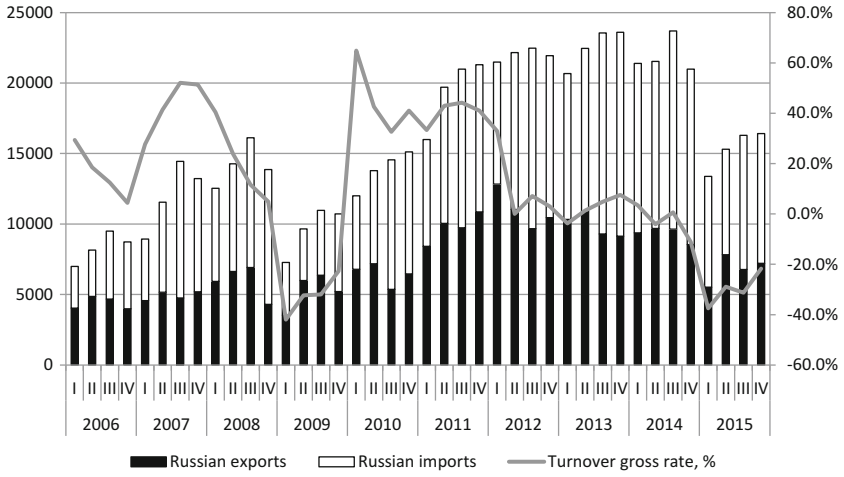

Fig. 4.4 Russia–China trade turnover, million dollars (left axis) and rates of its growth, % (right axis) in 2006–2015. *Source*: Created by the author based on: Federal Customs Service of the Russian Federation, URL: http://www.customs.ru/index.php?option=com_newsfts&view=category&id=125&Itemid=1976, accessed 18 April 2016

By 2016, the goal of increasing trade to the leaders' aspiration level fell short. In 2012, as the rhetoric for Russia's "turn to the east" increased in the speeches of political elites and President Putin, rates of growth of Russia–China trade decreased to 6%, further declined to 1% by 2013, and was actually –1% in 2014 (Fig. 4.5). A similar deceleration in trade can be seen in Russia–APR trade as well. In 2015, Russia–APR trade substantially dropped by 32%, and the only country that maintained the volumes of trade with Russia was India. The largest decline in trade was seen in Russia–ASEAN trade, which fell 41% in 2015, and China–Russia trade, considered key trading partnership by Russia, decreased by 31%.

In addition to the slowdown in trade, Chinese investment into Russia was not significant despite political support and the signing of numerous memorandums of understanding at the highest levels. Chinese investments were limited to a few deals involving Russian energy projects connected to Chinese state-controlled banks and the Silk Road Fund. With regard to other APR states, investments into Russia were minimal if not non-existent.

As a result of the disappointing dynamics of Russia's trade and investment cooperation with its Asian partners in 2015, wide criticism of Russia's "turn to the east" started in the Russian media and among the intellectual elite (Gabuev 2015; Zadorozhniy 2016; Korostikov 2016).

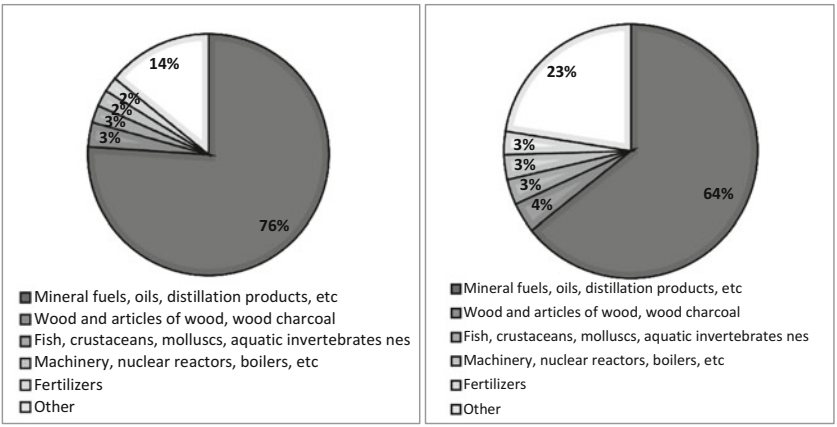

Fig. 4.5 Structure of Russian exports to Asia in 2014 (left) and in 2015 (right). *Source*: Created by the author based on: Federal Customs Service of the Russian Federation, URL: http://www.customs.ru/index.php?option=com_newsfts&view=category&id=125&Itemid=1976, accessed 18 April 2016

Although the criticisms were not unfounded, a number of objective factors affecting trade and investment dynamics should be taken into account. The first of these is the fall in oil prices in the international markets. Hydrocarbons are the main good exported from Russia to Asia. The devaluation led to sharp decrease in export value, though the physical volume of goods provided remained the same. Second, the internal economic situation in Russia as the country's GDP fell by 3.7% in 2015. The Russian ruble exchange rate against the dollar has halved since the first months of 2014. As a result consumption and imports have slumped dramatically. Both these reasons have affected overall Russian trade regardless of the trade partner. Russian trade with Europe fell in 2015 even more than that with APR countries, resulting in the growth of Asian countries' share of the total volume of Russia's trade.[13]

Investments to Russia were also affected by economic problems and deteriorating investment climate. The poor investment climate in Russia is brought about by its economic decline and also its precarious international political standing (Makarov and Morozkina 2015). Among all the APR states, only Japan joined in the sanctions against Russia, but in the other countries banks find it risky to finance any Russian projects because of possible sanctions from the USA (Gabuev 2015).

The third main reason for the decline in Russia–APR trade is more fundamental and structural in nature. The previous structure of Russian exports and the mechanism employed under the "turn to the east" strategy were well suited for the economic model that previously held for the APR. However, the new model for the APR doesn't correspond with Russia's strategy. In 2014, Russia's exports to the APR consisted overwhelmingly of raw materials (Fig. 4.5). While the share of raw materials fell in 2015 because of the decline in oil prices, this hasn't meant that Russia's exports became more technologically advanced.

The main weakness facing the structure of Russian exports to Asia, especially China, is that the demand for Russian goods, specifically raw materials, is unlikely to grow in the future. As most of the demand for Russian raw materials emanated from the construction sector and traditional industries in China, they are not poised to increase as China, and the APR in general, has shifted its economic model and continues to transition to a more service- and domestic demand-oriented economy (*Shifts 1* and *2*). As seen, consumer goods trade is growing, but these goods are absent from Russia's export structure.

In recognising the limits of its current export structure to the APR, Russia is attempting to adjust to the transition to the "Asia for Asia" model (*Shift 3*). Framed in this light, the development of the Far East and Siberia is constructed to take advantage of this shift and attract Asian capital and investment into the region. In order to entice Asian investment into the region and help create export-oriented industries, the Russian government created special advance economic zones called territories of rapid development (TRD). These zones aim to provide businesses with tax incentives and a favourable administrative regime. In addition, government ensures infrastructural support of so-called priority investment projects—large projects realized by Russian business primarily in the resource production sector. As of April 2016, 12 TRDs had been approved and nine priority projects had gained state support and approval. Moreover, Vladivostok and all ports in the Primorye region had gained free port status, which should make them even more attractive for foreign businesses and investors. While these measures were being put in place, they were revealed to be insufficient. Though Russian business is enthusiastic about them, the TRDs are still not attractive for foreign companies: by the end of 2015, only one foreign resident had registered in one of them (Gabuev 2015). This can be attributed to several factors: economic instability, economic sanctions, scarcity of labour, and poor infrastructure. These issues represent substantial anxieties for international investors in the long term.

As Chinese industries continue to transfer operations to neighbouring countries, such as the ASEAN states, Central Asia, and Mongolia, integrating themselves further in value chains, China and ASEAN have begun to pay special attention to the infrastructure and connectivity issue, especially focusing on "hard" infrastructure. Over the last few years, ASEAN under the ASEAN Economic Community (AEC) and Connectivity Blueprints, APEC's infrastructure programmes, and China's One Belt One Road initiative have signaled the commitment of these states and organisations to advancing and constructing infrastructure that will connect the differing regions of the APR. Compared to these plans, Russia–China transboundary connectivity is underdeveloped and has suppressed the potential of industrial cooperation, requiring investment in transportation infrastructure to bolster the relationship.

One of the impediments to fully facilitating Russia's "turn to the east" is that Russia's plans do not take into account *Shift 4*—the transition of industries and economic growth to the former periphery states and prov-

inces, such as South and Southeast Asia, and China's central and western provinces. Russia for too long has not paid enough attention to bolstering its relationship with the Southeast Asian states, and has only considered the region as part of the larger APR. This lack of attention to ASEAN was demonstrated by the fact that President Putin has never attended ASEAN's East Asian Summit, which brings together the leaders of ASEANs partners, even though Russia has been a participating member since 2011. Russian trade and investment cooperation with ASEAN remain limited, and only two states, Singapore and Vietnam, have a strong commercial relationship; Vietnam in fact signed an FTA with the Eurasian Economic Union (EAEU) in 2015.

Signaling Russia's new commitment to responding to *Shift 4* and the "turn to the east" is Russia–China cooperation on the development of the EAEU and the Silk Road Economic Belt initiative. China first proposed the Silk Road Economic Belt initiative in 2013 with the goal of developing routes between China's central and western provinces with Europe, further highlighting the growing importance of Central Asia and Eurasia as a new pole for economic growth and international cooperation. In May 2015, President Putin and President Xi Jinping signed a joint statement on cooperation on the construction of both the EAEU and the Silk Road Economic Belt initiative, highlighting that both projects are not competing entities but complementary (Bordachev et al. 2015). While being a signal, this joint statement remains the only significant reaction from Russia to China's "turn to the west".

Russia's "turn to the east" hasn't progressed as fast as hoped because of a combination of factors that have resulted from the shifts identified in this chapter, the issues facing the Russian economy, and the lacklustre mechanisms put in place. In order for Russia to take advantage of the growth in the APR, it needs to reconceptualise its policies towards the region. Without doing so, it will be increasingly difficult for Russia not only to further integrate itself into the APR but also to attract Asian countries and businesses into the Far East and Siberia.

4 Lessons from Previous Mistakes

In order to accelerate its integration to APR, Russia should find market niches that it can fill and that have expansion potential while taking into account *Shifts 1–3*. Owing to the scarcity of labour in the Russian Far East and Siberia, it is unable to compete with China, Southeast Asia, South

Asia, and Central Asia in producing labour-intensive goods. Additionally, the Far East and Siberia cannot compete with the established economies and industrial centres of Japan, the Republic of Korea, and China's coastal provinces in producing capital-intensive goods. While Russia is able to produce some capital- and labour-intensive goods, they are usually oriented to the domestic Russian market. While being less competitive in these sectors, Russia still has a competitive advantage in natural resources. Russia's Siberia and Far East account for 10% of the world's explored oil, about 25% natural gas, 12% of coal, 9% of gold, 7% of platinum, 9% of lead, 5% of iron ore, up to 14% of molybdenum, and up to 21% of nickel (Kokoshin et al. 2011; Inozemtsev et al. 2012). The Far East and Siberia possess about 16% of the world's fresh water (excluding groundwater) and roughly 21% of the world's forests. Siberia and the Far East contain 22% of Russia's arable land (Likhacheva et al. 2010). Finally, the marine bioresources of the Far East are among the richest in the world.

Russia's competitive advantages in natural resources will become increasingly attractive for Asia's new economic model. To use it, Russia should make a transition from exports of primitive raw materials with limited potential for demand expansion under the new Asian economic model to exports of resource-intensive consumer goods to attract corresponding industries to its territory.

Natural resources scarcity and environmental degradation have become major limitations for Asian economic growth. Energy, water, environment, and food are issues of particular importance. In a decade, China is likely to face "peak coal" production, the point where coal production reaches its maximum capacity (Energy Research Institute of Russian Academy of Science, Analytical Center 2014). In order to prevent negative consequences of this situation and mitigate pollution problems, China has begun to shift from coal to gas. As this will increase energy costs, Chinese companies are being encouraged to shift their energy-intensive industries to other countries. As the Russian Far East and Siberia with their cheap hydro energy and massive oil and gas reserves are in close proximity to China, this represents a tremendous opportunity. An example of such a transfer is the data processing centre in the Irkutsk region, which was jointly launched by En+ Group, HUAWEI, CDS, LANIT Company, and the Irkutsk regional government.[14]

Another avenue by which Russia–China cooperation may be strengthened is by mitigating the water scarcity problem in China. Population growth and unsustainable economic development over the last few decades

have made China a country that suffers from water stress, and in a decade this may be transformed into a full-scale water crisis. In the light of this, China would be obliged to reduce its water use, and consequently decrease the production of water-intensive goods. As in the case of energy-intensive industries, they may be transferred to water-abundant countries, including Russia (Likhacheva and Makarov 2014). Such production includes chemical products, pulp and paper, and food. The latter is the most important for China, as potential for growth in food production is limited not only in terms of water but also in terms of arable land. At the same time, Russia possesses 9% of the world's arable lands and has a potential for expanding its area by at least 10 million hectares and raising grain crop productivity by at least 150% (Likhacheva et al. 2010).

As the Far East and Siberia have an abundance of fisheries and forests, these sectors can be developed in a similar manner. Instead of extensive and predatory exploitation of these resources, which in some cases is illegal (Wyatt 2014), the sustainable practices of fish farming and forest management can be implemented. Farmed fish, paper, and wood products can be key elements in Russia's exports specialisation. Significant institutional changes should be driven in Far Eastern forestry and fishery sectors in order to achieve this (Thornton 2011). Currently, and unfortunately, these two industries are among the most corrupted and criminalised in Russia.

Falling prices in a majority of raw materials has lessened their export benefits, especially in light of the transition ongoing in China as highlighted previously. Russian gas would be one of the exceptions and represents a tremendous opportunity for the country, as growing concerns regarding pollution and climate change have prompted a shift from coal to gas. However, in most cases Russia would benefit more from producing resource-intensive goods for the growing Asian markets than by exporting raw materials.

In order for Russia to take advantage of the "Asia for Asia" model (*Shift 3*) it should cooperate in the development of transboundary transportation infrastructure. There are a number of opportunities in the Primorye region in this regard. First is the development of the Russia–China transportation corridors "Primorye 1", "Primorye 2," and "Primorye 3" connecting China's northeast with Russian ports on the Pacific ocean. While these corridors may be oriented towards transit, they can be utilised for exporting Russian products to China. The second is the joint development of transport projects with the Koreas. Unfortunately, the newly raised tensions on the Korean peninsula have led to the suspension of trilateral cooperation on these projects, including the Hasan–Rajin Port railway. However, South Korea is still moving ahead with its Eurasia initiative

that will help bolster connectivity. Another important opportunity is the Russia–Mongolia–China corridor that will connect the Russian Far East and Siberia with China's central and western provinces, giving them the opportunity to become the main centres of economic growth in the country. This will help transfer energy-intensive production to Siberia where companies can benefit from low energy costs, and provide new opportunities for Russian grain exports.

In order to further bolster Russia's role in the APR, it would be beneficial for Russia to continue to diversify its relations with Asian countries and by doing so become less dependent on China. While there may be political obstacles to furthering relations with Japan and South Korea, the two countries have expressed their interest in continuing to invest in Russia, especially in light of China's growing presence in Northeast Asia. Crucially, Russia should pay more attention to Southeast Asia, which is on the path to rapid development (*Shift 4*). Russia should utilise its strong relationship with Vietnam to help usher in an FTA with ASEAN. Additionally, Russia should also pay attention to and enhance its relationship with India, as the latter is also reorienting itself to Asia and represents a huge market.

As Russia examines the opportunities arising from the economic growth in China's periphery provinces and the launch of the Silk Road Economic Belt initiative, it is crucial that the two countries should begin to develop a common agenda for relations with the EAEU and put into action the joint Russia–China statement made in May 2015. With regard to Russia's participation in the Silk Road Economic Belt initiative, special attention needs to be paid to Siberia and how to further integrate the region into the initiative. Additionally, Russia should seek to integrate its development plans for the Far East into these initiatives. While in his address to the Federal Assembly in 2013 President Putin proclaimed the development of Siberia and the Far East "a national priority for the whole twenty-first century," he neglected to mention Siberia in his addresses in 2014 and 2015.[15]

Development of the Russian Far East is impossible without the development of Siberia, as these two regions are closely intertwined historically, economically, and most importantly logistically. Moreover, western and eastern Siberia possess great potential in human resources and for the development of high value-added industries. It would be logical to advance the rapid development model not only for the Far East but for Siberia, as was conceived originally when the idea of 'turn to the east' was initiated. Development plans for the two regions need to be interconnected, and should better correspond to the objectives of adapting eastern vector of Russia's economic and foreign policy to the "Asia for Asia" model.

Notes

1. Hereinafter we will consider APR as China, Japan, Republic of Korea, and ten ASEAN countries and India.
2. Presidential Address to the Federal Assembly, 12 December 2013. URL: http://en.kremlin.ru/events/president/news/19825, accessed 12 May 2016.
3. Exports to GDP ratio exceeds 100% in Singapore because of the large volume of re-exports which are accounted in exports and not accounted in GDP.
4. This model explains long-run growth by capital accumulation, growth in labour, and technical progress. Capital accumulation may be a source of rapid economic growth at the early stage, but in the long run returns from capital diminish, thereby leading to deceleration of growth. In the long run, growth is achievable only through technical progress.
5. Full speech by Wen Jiabao at 2009 Summer Davos in Dalian, 10 September 2009. URL: http://www.china-embassy.org/eng/xw/t583639.htm, accessed 12 May 2016.
6. Euromonitor International, *Source*: Euromonitor International: Disposable Income, Consumer Expenditure URL: http://www.portal.euromonitor.com/portal/magazine/homemain#, accessed 18 April 2016.
7. Euromonitor International: GDP (US dollars), Manufacturing as a % of GDP, services as a % of GDP. URL: http://www.portal.euromonitor.com/portal/magazine/homemain#, accessed 18 April 2016.
8. World Trade Organization. International Trade Statistics 2001. Table III.3 Intra- and inter-regional merchandise trade, 2000. URL: https://www.wto.org/english/res_e/Statis_e/its2001_e/section3/iii03.xls; World Trade Organization. International Trade Statistics 2015. Table 1.4 Intra- and inter-regional merchandise trade, 2014. URL: https://www.wto.org/english/res_e/statis_e/its2015_e/section1_e/i04.xls, accessed 18 April 2016.
9. World Development Indicators: GDP growth (annual %). URL: http://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG, accessed 18 April 2016.
10. National Bureau of Statistics of China, indicator: Gross Regional Product and indicesURL: http://www.stats.gov.cn/tjsj/ndsj/2015/indexeh.htm, accessed 18 April 2016.
11. National Bureau of Statistics of China, indicator: Gross Regional Product and indicesURL: http://www.stats.gov.cn/tjsj/ndsj/2015/indexeh.htm, accessed 18 April 2016.
12. See: Joint Statement by Russia and China on the development of Chinese-Russian relations and a comprehensive strategic partnership and coopera-

tion, 5 June 2012. URL: http://kremlin.ru/supplement/1230, accessed 16 May 2016.

13. Federal Customs Service of the Russian Federation. Foreign trade statistics. Foreign Trade of the Russian Federation with Key Countries and Country Groups in January-December 2015. URL: www.customs.ru/attachments/article/22580/WEB_UTSA_09.xls, accessed 18 April 2016.
14. En+ Group, HUAWEI, CDS, LANIT Group and Irkutsk Region Government Set to Build One of Asia's Largest Cloud Computing Datacenters, 3 September 2015. URL: http://eng.enplus.ru/press/enplus/1861, accessed 18 April 2016.
15. Presidential Address to the Federal Assembly, 12 December 2013. URL: http://en.kremlin.ru/events/president/news/19825, accessed 12 May 2016.

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CHAPTER 5

Korea's Eurasia Initiative and the Development of Russia's Far East and Siberia

Jae-Young Lee

1 Introduction

The international economic order is rapidly transforming. Since the onset of the global financial crisis in 2008 the USA, Europe, and other advanced economies have sunk into a deep recession to varying degrees. While the world economy has struggled to rebound, the political and economic profile of Eurasia has risen significantly on the international stage, garnering attention and interest worldwide. As a result, states in Eurasia are showing increasing willingness to cooperate with one another in order to enhance their own interests and position, forming diverse strategies and initiatives of cooperation. There are several key projects that are being driven on regional stages. Russia launched the Eurasian Economic Union (EAEU) in January 2015, based on the Customs Union it had in place with the neighbouring states of Belarus and Kazakhstan. The EAEU is poised to become a platform upon which Russia can extend its reach in the region. Pursuing a new concept and vision of the "Euro-Pacific," Russia has also begun to pursue its so-called "Eastern Policy," actively seeking to develop

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the Russian Far East and Eastern Siberia, and thereby enhance its presence in Asia-Pacific. China, in the meantime, has set out to build a new interstate economic zone in the region under its vision for the New Silk Road Economic Belt.[1] South Korea, for its part, has developed its Eurasia Initiative, involving the reinforcement of economic ties with regional states under a new paradigm for international economic cooperation;[2] thus paving the ground upon which the reunified Korea could engage the region and the world in the future.

Since Korea and Russia established diplomatic ties in 1990, various studies on the methods of cooperation between the two countries as the centre of the Eurasia continent have been conducted, mostly focusing on the regional cooperation between Korea and Russia's Far East and Siberia. This is partly because the Russian Far East and Siberia have abundant natural resources. However, the more important reason is that this region is geographically close to the Korean peninsula and is the gateway for Korea to the Eurasian continent. The existing literature on cooperation between Korea and the Russian Far East and Siberia can be categorised into comprehensive and sectored studies. One of the most comprehensive studies, conducted by Lee and others (2010), which evaluates the state of economic cooperation between Korea and the Russian Far East, analyses the progress and implications of economic cooperation in the greater Far East area among China, Japan, the USA, and the European Union (EU), and provides medium- and long-term prospects for economic cooperation between Korea and the greater Far East region (Lee et al. 2010). Sectorial research literature encompasses energy and resources cooperation between Russian Far East and Northeast Asian countries (Lee and Novitskiy 2010); railway transportation cooperation and linkages between the trans-Korean railway and the trans-Siberian railway (Won et al. 2015; Lee 2002); and methods of multilateral and Korea–Russia cooperation in the Russian Arctic Ocean development (Kim et al. 2014).

Some of the most recent studies focus on the policies and outlook of the Eurasia Initiative. For example, Jeh (2015) analyses Russia's "Look East" policy and Korea's Eurasia Initiative, and argues that Korea needs to expand into the special economic zone in the Far East in order to promote the Korea–Russia partnership (Jeh 2015). In addition, Zakharova and Asmolov (2015) hold that the Korea's Eurasia Initiative will ultimately contribute to the realisation of several projects including linking railways, gas pipelines, and power infrastructure among South Korea, North Korea,

and Russia, which the latter has long been interested in. At the same time, the study suggests that a number of critical issues such as improving relations with North Korea should be solved to reap the positive outcomes of the initiative (Zakharova and Asmolov 2015).

Despite the large body of literature on cooperation between Korea and the Russian Far East and Siberia, a comprehensive and systematic study in line with the Eurasia Initiative has been absent. Therefore, the objective of this study is to delineate the key features of an appropriate strategy for Korea's cooperation with other states in Eurasia based on an analysis of the current Eurasia Initiative. To this end, we need first to explore and understand how the recent rise of Eurasia in world politics and economics has prompted the development of the Eurasia Initiative. Second, we review the key features and terms of the Eurasia Initiative, and reach our own evaluation and conclusion. Finally, we present the terms and conditions of Korea's strategy for cooperation with Eurasia, particularly focusing on Russia's plan for the development of the Russian Far East and Siberia.

2 Rise of Eurasia and the Increasing Need for Cooperation

In a broad term, Eurasia encompasses Europe and Asia, which have some of the world's largest economies including the EU, China, Russia, and India. At the same time, Eurasia represents 40 percent of the world's land mass and 70 percent of its population (4.9 billion), and 60 percent of the world's GDP (KIEP 2013). In a narrow sense, some confine the region to the post-Soviet region including Russia, China, and Mongolia. Regardless of the geographical classification, it is apparent that the Eurasia continent is emerging. As Table 5.1 shows, from 2005 to 2014 the GDP growth rates in the major Eurasian countries, China, India, Russia, Central Asia, and Mongolia, were higher than the international average.

Table 5.1 GDP Growth of Major Eurasia Countries (%)

	China	*India*	*Russia*	*Central Asia*	*Mongolia*	*World*
2005–2014	9.9	7.7	3.4	7.3	8.9	2.7

Source: Created by the author based on Global Insight (2015), *Online Database*, www.ihs.com, accessed 15 April 2016.

The recent rise of the relative standing and importance of Eurasia in international relations is rife with implications for the emergence of new superpowers, and the possible transition of the world's political and economic centre to the region. China, regarded as an emerging superpower and positioned as the core of the eastern part of Eurasia, proves a case in point (World Bank 2014). Moreover, Russia and the states of Central Asia, including Mongolia, are also continuing rapid economic growth based on the growth potential brought about by abundant natural resources.

The economic growth and expansion of China in the twenty-first century has seriously threatened the existing world order underpinned by American hegemony. Between 2000 and 2013, the Chinese economy grew at an unprecedented rate of 9.85 percent each year on average. A Goldman Sachs report from 2003 estimated that China's economy would grow larger than the American counterpart by 2041 (Goldman Sachs 2013). In a 2008 report, however, the projection sped up the date to 2027 (O'Neil and Stupnytska 2009). In 2013, China accounted for USD 9.24 trillion of the worldwide total GDP, coming in second after the U.S. with USD 16.8 trillion GDP.

Russia, at the centre of Eurasia, is the eighth largest economy in the world with a GDP of USD 2.096 trillion as of 2013. With a population of 142.8 million and a GDP per capita of USD 14,680, Russia is emerging as one of the most important new markets in the world. In a report on the mid- to long-term prospects for the Russian economy in 2011, the Institute of World Economy and International Relations (IMEMO) projected that Russia would become one of the world's five largest economies in just ten years. IMEMO forecasted that Russia's contribution to world GDP (in terms of the purchasing power parity (PPP)) and GDP per capita would increase from 2.1 percent and USD 19,700 in 2010 to 3.6 percent and USD 29,800 by 2020, respectively (*ИМЭМО* 2011). It seems impossible because there are some obstacles that may prevent these optimistic projections from materialising, such as the economic sanctions that the USA and the EU imposed on Russia after March 2014 over the Ukraine crisis. The Russian economy may not be able to maintain its annual growth rate of 7 percent in the short run, but the country still possesses immeasurably great potential in the long term.

Having joined the World Trade Organization (WTO) in August 2012, Russia has actively paved new grounds for its evolution as an international economic power, consolidating market economy institutions and broadening the horizons for commerce and trade. Once Russia begins to reinforce

the fairness and transparency of its laws as required by the WTO, the country will set out to increase its volume of international trade and investment with even greater vigour, pursuing and strengthening ties through economic cooperation with neighbouring states in Asia-Pacific and beyond. With the success of the development of the Russian Far East and Siberia, the Russian economy has the potential to grow at an unprecedented pace.

Concurrently, the states of Central Asia, including Mongolia, are also witnessing rapid economic growth. Uzbekistan and Kazakhstan, vying for leadership in Central Asia, saw their real GDPs grow by 8.25 percent and 6.45 percent, respectively, each year between 2011 and 2013 (Global Insight 2014; EIU 2014). Mongolia with its abundant natural resources saw its real GDP grow by the remarkable rate of 11.78 percent a year during the same period of time. Mongolia is regarded as one of the countries with the greatest growth potentials in the world. Based on its rich mineral resources, Mongolia has achieved a remarkable economic growth from 2011 to 2014 with an annual growth rate of 10.7 percent (Global Insight 2015). Moreover, its GDP is expected to multiply double or even triple in the next decade or so (Lee 2015: 189). With easy access to the massive markets all around, such as China, Russia, and India, Central Asia is increasingly looked to as the next source of energy capable of replacing or supplementing the Middle East. Mongolia is also evolving into an important emerging market thanks to its supplies of mineral resources.

Taking all this into account, Korean policymakers need to diversify the end targets of its Eurasia Initiative, and reinforce ties of cooperation not only with China, but also the members of the Commonwealth of Independent States (CIS) and other important actors in Eurasia. Framed in this way, Korea not only needs to sustain and strengthen its cooperation across Asia-Pacific, but also improve the quality and bolster its relations with the Eurasian states, thus pursuing two-track development, sea and land, simultaneously.

Russia is likely to become the most important partner in Korea's plan for enhancing partnerships across Eurasia. This is not only because of Russia's political and economic importance, but also because of its geographical proximity to the Korean Peninsula, and its likelihood to serve as the window through which the reunified Korea may enter Eurasia (Кирьянов 2014). As the Putin administration has begun to accelerate the Russian plan for Far Eastern development under the vision for a Euro–Pacific region, it is poised to welcome new opportunities for broadening cooperation with Asia-Pacific states. In order to ensure the success of its

vision for Eurasia, Seoul needs first and foremost to build rapport and mutual confidence with Moscow, bringing them onto a par with Korea's relations with the USA and Japan. The old practice in Korean politics of conscious distancing from Russia, with its roots in the Cold War era, should now come to an end, giving way to a more complex and robust plan for political and economic engagement.

South Korea has so far succeeded in multiplying its volumes of trade and economic cooperation with former Communist states under its Northward Expansion policy towards the end of the 1980s. However, the country now stands at a crossroads and must pay increasing attention to the *quality* of its Eurasian cooperation. South Korea needs a Northward Expansion policy 2.0. Korea should therefore outgrow its focus on the mere exchange of goods, promoting, instead, increasing exchange of services and people, the development of infrastructure projects, and mutual investment with Eurasian states. Most importantly, Korea needs to reinforce its partnerships with Eurasia over energy, logistics, and transportation, thus preparing for opportunities for growth and expansion.

3 Main Contents and Evaluation of the Eurasia Initiative

At the KIEP Conference on 'Global Cooperation in the Era of Eurasia in October 2013', President Park Geun-hye advocated the Eurasia Initiative, emphasising the need to promote economic growth and the peaceful reunification of the two Koreas through multilevel cooperation with the Eurasian continent. The Eurasia Initiative reflects the need for Korea to expand and strengthen cooperation with Eurasia amid the rapidly changing international economic order. As South Korea relies heavily on international trade and investment, it needs to diversify its economic relations through enhancing partnerships with Eurasian states to pave the way for sustainable economic growth.

As Table 5.2 shows, the Park administration's Eurasia Initiative is centred on three main ideals of Eurasia: Eurasia as an integrated, creative, and peaceful continent. The initiative offers a macro picture of the strategic actions necessary to achieve these goals (KIEP 2014: 12–19). Eurasia as an integrated continent requires the reinforcement of the region-wide logistics networks and the elimination of physical barriers to exchange. It thus involves the development of the Silk Road Express (SRX), a comprehensive and complex cluster of networks connecting Eurasia to the Northern Sea

Table 5.2 Main Direction and Contents of the Eurasia Initiative

Ideal	*Objectives and goals*		
One continent	(Massive single market) Building logistics, energy, and trade networks		
	Logistics (connecting railways and roads)	Energy (developing resources and building smart grid)	Trade (creating a single market)
	Connecting SRX and Northern Sea Route	Jointly developing shale gas in China and oil and gas in East Siberia	Accelerating negotiations for Korea–Japan–China FTA, RCEP, and TPP
continent of Creativity	Fostering economic cooperation based on creative economy and expansion of cultural and human exchanges		
	Applying latest science and IT	Promoting cultural exchange	Facilitating human exchange
	Creating new values-added by applying ICT to energy/logistics	Organising cultural events	Establishing networks for youth exchange
Continent of peace	Achieving peace and resolving security threats toward greater commerce and cultural exchange		
	Trust-Building Process on the Korean Peninsula	Northeast Asian Peace and Cooperation Initiative	
	Trilateral cooperation among North Korea–South Korea–Russia and North Korea–South Korea–China to realise peaceful unification	Cooperation on climate change, natural disasters, nuclear security, and soft issues such as knowledge management and environmental protection	

Source: author's summary of President Park's keynote address at the KIEP Conference on Global Cooperation in the Era of Eurasia (held on 18 October 2013 in Seoul, Korea)

Route, international development of energy resources and networks, and the expansion of energy infrastructure, such as smart grids. The initiative also envisions greater debates about the liberalisation of trade (e.g., negotiations on the tripartite free trade agreement among Korea, China, and Japan) and the creation of a single regional market based on multilateral free trade agreements such as the Regional Comprehensive Economic Partnership (RCEP) and the Trans-Pacific Partnership (TPP). Eurasia as a creative continent requires greater cooperation on the advancement of science, technology, and information for the development of a creative economy, which will help foster greater cultural and human capital exchange. Eurasia as a continent of peace necessitates the improvement of relations on the Korean Peninsula and the growth of peaceful cooperation across Northeast Asia toward greater prosperity and peace.

South Korea's Eurasia Initiative envisions a single integrated economic bloc and region-wide areas of peace with far-reaching political and military implications. It represents the aspirational goals of creating a community of peace over and beyond Asia by fostering greater cooperation and exchange across diverse sectors, including transportation and logistics. The strong partnership among Eurasian member states is necessary, in turn, to help the Korean Peninsula overcome the current state of tension by inducing North Korea to open up and embrace reform. The Eurasia Initiative requires the improvement of the North–South relations on the Korean Peninsula and the reinforcement of Korea's cooperation with other Northeast Asian states to significantly improve and strengthen Korea's relations with Eurasian states.

The Korean Peninsula occupies a critical geopolitical arena and has also historically served as a gateway for civilisations and commerce. The experiences of the Korean War and the Cold War, however, have severely inhibited the two Koreas' ability to seek out and establish a balanced partnership with world powers. The Northward Expansion policy of the Roh Tae-woo administration in South Korea, launched in the late 1980s, has brought Seoul closer to China and Russia. Nevertheless, in order for Korea to reclaim its identity as a key bridge between maritime and continental powers, it needs to re-establish the Korean Peninsula as an integrated economic zone, and shift the focus of its national development strategy from the maritime powers to the continental powers, thus making full use of the Eurasian window of opportunity (Lee et al. 2007: 161). In the light of these facts, the Park administration's Eurasia Initiative could not have come about at a more timely moment. In recognition of the growing uncertainty over the existing international economic order, the initiative emphasises the need to strengthen Korea's partnerships with other states in Eurasia to ensure the sustainable growth of its economy, the improvement of its relations with the North, its successful entry into the Russian Far East, Siberia, and Central Asia, and the opening up of the North for Korea's expansion.

The Eurasia Initiative is complex and multilayered in its scope and goals. One can, however, hardly disagree with the view that the Eurasia Initiative is still a mere piece of a conceptual project serving only a secondary role to specific policies and economic projects (Севастьянов 2014: 200). There are two main reasons for this. First, at the time of declaring the Eurasia Initiative, the Park administration has failed to offer concomitantly detailed policies or action plans in addition to an overarching vision. Second, the regional scope of the Eurasia Initiative is indeed quite broad, encompassing

Asia and Europe, and suffers because the initiative itself fails to delineate specific zones or subzones of cooperation required. Of course, the Eurasia Initiative aspires toward being a declaration of the sweeping vision and future ambitions of the South Korean government.

Numerous organisations and research institutions of the Korean government have thus set out to find ways in which to realise the ideals of the Eurasia Initiative, organising active debates and research projects. Various ministries and departments have organised interdepartmental policy debates to discuss specific goals concerning the Eurasia Initiative, to review and develop the blueprints for subsequent actions, and define the countries or areas with greater priority for cooperation. Research institutions have begun to organise diverse conferences in and outside Korea, thus promoting the initiative and seeking out expert insight. Some of these research institutions have also organised teams of government officials, researchers, business people, and other experts as delegates visiting major states in Eurasia to participate in diverse policy discussions. The National Assembly, for its part, launched the Eurasia Railway Steering Committee in January 2014, with the goal of developing and implementing a master plan for the creation of the SRX. The private sector responded to this by establishing the Private-Sector Cooperation Committee for the Eurasia Railway in February 2014, with the participation of major construction companies, public corporations, and research institutions in Korea.

In early 2014, 16 think tanks and policy study groups in Korea coalesced to assemble the Council of Eurasia Initiative Research Institutes, with the goal of creating a comprehensive and systemic economic cooperation road map and thereby delineating specific actions to be taken. The Council divides its research scope into five areas—transportation and logistics, energy and resources, agriculture/forestry/fishery, commerce and industries, and development finance—to establish detailed plans and identify core projects to be initiated. The final outcome, titled the Road Map for Entering Eurasia: Toward Realising the Eurasia Initiative, finally obtained approval on 10 December 2014 at the Ministerial Meeting on International Economic Policy.[3] As Table 5.3 shows, the road map envisions the Russian Far East, Central Asia, and Mongolia as key hubs of the new networks to connect Eurasia, and calls for the elimination of physical barriers, greater networks for transportation and logistics, the establishment of new energy and information, communication, and technological (ICT) networks, and the creation of institutional supporting measures to ensure the creation of the SRX (Ministry of Strategy and Finance 2015).

The roadmap presented above in Table 5.2 can be understood as specifying the contents of the Eurasia Initiative. While the Eurasia Initiative indicated the Korean government's vision and direction of cooperation in Eurasia, the Eurasia Initiative Roadmap contains specific projects and implementation plans, including potential partner countries and priorities, in order to accomplish the spirit of the Initiative. In February 2015, the Korean government launched the Eurasian Economic Cooperation Committee. As a joint committee of government agencies, the Eurasian Economic Cooperation Committee's goal is to control and manage economic cooperation policies and projects in regards to the Eurasia.

In order for Korea to succeed with its Eurasian aspirations, it needs to first and foremost clarify the geographical scope of cooperation and name the specific countries with which it seeks to enhance its partnership. The most important of the three ideals guiding the Eurasia Initiative is Eurasia as an integrated continent, which requires the reinforcement and expansion of connectivity throughout the region (Jeh 2014: 87). The three main poles of today's international economy, North America, Europe, and Asia, have established forums through which they can discuss and negotiate issues of economic cooperation with implications for policy areas outside the economic realm (Kang et al. 2014: 91–92). North America and Europe, for example, began their discussions and negotiations on the Trans-Atlantic Trade and Investment Partnership (TTIP) in early 2013. East Asia and North America, in the meantime, regularly interact via the Asia-Pacific Economic Cooperation (APEC). While East Asia and Europe have launched the Asia Europe Meeting (ASEM) to handle similar tasks, this forum remains the most underdeveloped. Given the underdeveloped state of interaction between East Asia and Europe, Korea, as a main pillar of the East Asian economy and also having entered an FTA with the EU, should have a significant role in strengthening ties between East Asia and Europe.

While we should certainly understand Eurasia in the broad sense when we discuss the Eurasia Initiative, policymakers still need to clarify the specific scope of partnerships and cooperation on the basis of the selective focus principle. The core scope of the Eurasia Initiative therefore involves the Russian Far East and Siberia, the three northeastern provinces of China, the CIS member states, and Mongolia, all of which lie in the immediate vicinity of the Korean Peninsula and have core interests in the Korean and Eurasian economies. By strengthening ties with these regions, Korea will be able in the long run to promote the development of resources in the Arctic Ocean, increase cooperation over logistics north of the Korean Peninsula, and provide a greater boost for small and medium businesses and for cooperation over scientific and technological development.

Table 5.3 Main Components of the Eurasia Initiative Roadmap

Categories	*Major Implementation Tasks*		
Economic cooperation network	Silk Road express	ICT network	Power network
	Rajin–Khasan Logistics Project, railways technical cooperation, network expansion, etc.	High-speed research networks, combined geographic information network	Korea–Russia power connection, Northeast Asia Super grids
	Arctic Sea routes development	Central Asian transportation and logistics	Energy grids, Exchanges
Base for economic cooperation & Creation of demand	Central Asia farm development	Trilateral industrial complex for cooperation	Agro-industrial complexes
	Wheat farm and post-harvest management in Kazakhstan, Realtime transaction system	Connecting to the Russia leading development zone, Developing industrial complex	Agricultural complexes in the Maritime Province, grain terminal, etc.
	Logistics hub (i.e., Mongolia and Hunchun)	Exclusive port development for the marine products	Agricultural development in East–Mongolia
	ICT Network	Industrial Cooperation	Energy Network
	Expansion of electrical system for trade and customs	Shipbuilding cluster, certification liaison, etc.	Energy efficiency, new and renewable energy
	Cooperation in resources exploitation	Employment/Financial cooperation	Cultural/Medical cooperation, etc.
Building the base for cooperation	A base for industrial cooperation	Building a cooperative system	Improving commercial environment
	Business support centre, strengthening Knowledge Sharing Programmes, etc.	Resources exploitation council, Business consultative bodies, etc.	Building a base for the FTA with the Eurasian Economic Union(EEU)

Source: Author's summary based on Ministry of Strategy and Finance, "Base Camp for Economic Cooperation and Corporate Expansion in Eurasia" (press release), 6 February 2015

4 Korea's Strategy for Cooperation with Eurasia: The Russian Far East and Siberia

As highlighted, the Eurasia Initiative Roadmap defines the Russian Far East as a centre of economic cooperation. In this sense, it is necessary to review the accomplishments and limits of Korea–Russia cooperation in this region and discuss ways for future cooperation. While the total trade volume between Korea and the Russian Far East is insignificant in absolute terms, it takes a large part of the entire trade volume between Korea and Russia. In 2014, Korea's total volume of trade in Russia was around USD 27.3 billion and that in the Far East accounted 37.45 percent (USD 10.2 billion) of the total turnover (Дальневосточное таможенное управление).

Unlike trade, Korea's investment in the greater East Far region is marginal. In 2013, Korea's foreign direct investment (FDI) to this region recorded USD 25 million, representing only 1% of the entire FDI to this region. Korea's investment is small in comparison to other states, as Japan invested USD 913 million, India invested USD 462 million, and China invested USD 70 million (Jeh et al. 2014: 45–46).

Moreover, from 2008 to 2013, the total amount of Korea's direct investment to Russia was USD 203 million while that to the greater Far East region accounted for only 7.35 percent of the total amount, or USD 14.9 million (UISIS 2014). Overall, Korea's investment to Russia has been concentrated on a few major cities such as Moscow and Saint Petersburg, and neglected the Far East and Siberia. Moreover, unlike other Northeast Asian countries such as China and Japan, Korea has been less active in building large infrastructure projects and exploiting resources in the region. Nevertheless, it is worth noting that Korea's portfolio of investments in this region has expanded from agricultural and resource development to construction and logistics businesses.

While Korea may need to develop new projects to enhance its cooperation with Eurasia, it should not neglect making good on the past promises and resolutions for greater cooperation. Recall the "Three Mega Projects" that have been discussed for some time. These projects involve connecting the gas pipelines of the two Koreas and Russia; expanding the smart grid for energy from Russia to South Korea via North; and connecting the Trans-Korea Railway (TKR) and the Trans-Siberia Railway (TSR). These projects require focused cooperation particularly on the Russian Far East and Siberia sections, and also carry far-reaching implications and consequences for the Korean Peninsula and beyond. In order to bring these dream projects to fruition, Korean policymakers need

to first and foremost focus on improving relations with North Korea. We therefore cannot think of the Eurasia Initiative in a vacuum, independent of the other two key policy objectives of the current Korean government—namely, the Korean Peninsula Trust-Building Process and the Northeast Asia Peaceful Cooperation Initiative. Policymakers pursuing the Eurasia Initiative cannot afford to exclude North Korea from the process, as they did under the Northward Expansion policy in the past.

Accordingly, it is of paramount importance for the Korean government to secure access for Korean businesses to the current Najin–Hasan Project, in which Russia and North Korea are working together to restore and expand the 54 kilometre railway and cargo terminals between Najin and Hasan. The project is important because it envisions combining sea and land routes for logistics by connecting the Port of Najin with the TSR. The project also offers a great testing ground for the Park administration's SRX project, and may help Korea garner greater international support for its Eurasian Railway project in the future by allowing the country to earn the trust of neighbouring states to embark on other projects. Given the fact that coal produced in Siberia will be shipped to the Port of Najin and enter South Korea by ship in 2015 as it did in 2014,[4] South Korea has all the more reason to join this project and increase its presence.

Korea also needs to expedite the project for connecting the natural gas pipes that supply the gas produced in the Russian Far East and Siberia to the Korean Peninsula. Asia-Pacific states received only 15.3 percent and 7 percent, respectively, of Russia's crude oil and natural gas exports in 2014 (Lee 2014: 39). As Moscow intends to raise these figures to 25 percent or so by 2030, the project holds great promise. The optimal strategy for this project is to develop and connect gas pipes between Vladivostok, North Korea, and South Korea. An alternative to this solution would require developing underwater gas pipelines between Russia and Shantung, China, via the Yellow Sea, to bring the gas into Incheon. The Lee Myung-bak administration at first set out to develop a 850 kilometre gas pipeline from Vladivostok via North Korea to Sokcho, South Korea. This project fell through for a number of reasons. In May 2014, Gazprom of Russia and China National Petroleum Corporation (CNPC) entered into a natural gas supply agreement, worth USD 400 billion, in which Russia will supply 38 billion cubic meters of natural gas annually to China for 30 years starting in 2018 (Financial News 2014). The new gas pipeline, known as the Eastern Route Line, will connect the gas fields in Kovykta and Chayanda in Russia to Harbin, Shenyang, Beijing, and Shantung in China via Blagoveshchensk.

According to Dr Keun-Wook Paik at the Oxford Institute for Energy Studies, it is economically feasible to build a new gas pipeline between Shantung and Incheon, as the distance between the two regions is only roughly 300 kilometres and the water between them only goes down to 55 metres in depth on average (Joong-ang Sunday 2014). Once this pipeline is built, Korean businesses will be able to produce gas in Central Asia, and have the supplies sent to Incheon via the pipeline across China and the Yellow Sea. Moreover, Korean policymakers can exert greater pressure upon North Korea to denuclearise by offering to build a pipeline connecting Kaesong and Pyongyang to Incheon in return. These projects are meant to supplement, not replace, the original plan for developing the pipeline from Vladivostok via North Korea to South Korea.

Another prospective project involves supplying surplus energy from the Russian Far East to North Korea. This would significantly help North Korea in its economic reconstruction process, with Pyongyang expressing, on a number of occasions, its wish to receive energy and electricity support from the outside world. North Korean and international aid efforts to increase the country's number of power plants have all failed to mitigate acute shortages of electricity. North Korea lacks the capital to modernise its power plant facilities and transmission lines, let alone build new power plants. The international community has also been reluctant to help North Korea because of the nuclear threat Pyongyang poses. Russia has been one of the few countries that has taken an interest in stabilising power supplies in North Korea. The creation of a new thermal or nuclear power plant, however, involves prohibitively high costs and also takes a significantly long time to complete. The more efficient alternative is to supply surplus electricity in Russia to North Korea.[5]

Russian experts have proposed that a 500 kilovolts transmission line be established between Vladivostok and Chongjin, extending for 380 kilometres in total. More specifically, the line will run for about 250 kilometres from Vladivostok to Kraskino, and for another 130 kilometres from Kraskino to Chongjin. The line will chiefly benefit businesses in the Najin–Sonbong Special Economic Zone, the railway near the transmission line, and the businesses in Chongjin. This solution came to prominence when United Energy System (UES), a national energy corporation in Russia, held meetings with its subsidiary, Vostok Energo, and the North Korean Ministry of Electricity, Coals, and Industries, and in October 2001 on the request by the North Korean government launched a feasibility study. The study revealed that the proposed transmission line will require three to four years to complete, at a cost of USD 160 million to USD 180 million, including

the cost of surveys, design, and engineering (Korovko 2005: 55–66). One key benefit of this approach is that it could provide a solution for North Korea's chronic energy crisis. Moreover, the project can be expanded to involve the creation of a high-voltage transmission line leading to the border between the two Koreas, thus allowing South Korea also to benefit from surplus Russian energy. This, in turn, will help Russia reap profits from the excess thermal power plants it has.

Most importantly, policymakers ought to first establish effective and sustainable channels through which they can pursue ongoing cooperation. Korea needs to construct channels of cooperation with Eurasian states in order to ensure the stability, growth, and success of cooperation. A good first step would be to enter into free trade agreements (FTAs) with these states. Korea needs actively to join the process of economic integration unfolding across Eurasia today, thus lowering the tariffs and trade barriers with Eurasian states and further facilitate mutual exchange and trade. Korea and Russia organised a joint research group that held two meetings in 2007 and 2008 to discuss the prospects for the creation of a bilateral economic partnership between the two countries; however, no progress has been made since. Through entering such an arrangement, Korea could achieve significant institutional improvements in its partnership with Russia, prompting the latter to lower its customs barrier, strengthen investor protection, open up new markets to investment, ensure protection of intellectual property rights, foster greater human exchange, and enforce quotas on fishery products. Russia has already expanded its Customs Union into the EAEU, which now includes Russia, Belarus, Kazakhstan, and Armenia as members.

The EAEU, established on 2 January 2015, now encompasses a sizable economic bloc with a total population of 179.2 million and a total GDP of USD 2.196 trillion. It is likely to open its membership to other neighbouring states, including Tajikistan. Given this move toward economic integration, Korea should rise to the moment and enter an FTA with the EAEU to secure its early access to the growing regional markets. As of February 2016, Korea and EAEU are conducting joint research on a feasibility study of a potential Korea–EAEU FTA (Table 5.4).

In addition, Korea should pursue greater cooperation in the development of logistics and transportation infrastructure, particularly the Northern Sea Route, which is of paramount importance for energy resources development. Through this type of cooperation, Korea will be able to enhance its logistics advantage by linking the Korean Peninsula, the Russian Far East, and the Northern Sea, and also enjoy easy access to the Northern

Table 5.4 Eurasian Economic Union (2014)

	Population (in millions)	*GDP (USD billion)*	*GDP per capita (USD)*
Russia	143.4	1884.1	13,076.7
Belarus	9.5	76.1	8013.7
Kazakhstan	17.4	216.0	12,436.9
Armenia	3.1	12.0	3849.3
Kyrgyzstan	5.8	7.4	1267.2
Total	179.2	2195.6	–

Source: Based on Global Insight (2016). *Online Database*, www.ihs.com, accessed March 2, 2016

Sea Route, which Russia seeks to develop for resource exploitation and exploration. The Northern Sea Route, when completed between Busan and Rotterdam, will reduce the logistics distance from 22,000 kilometres (involving the use of the Suez Canal) to 5000 kilometres, and reduce the time from 40 days to 30 (Ministry of Strategy and Finance).

In order to prompt the development of logistics and transportation infrastructure as well as resource development, Korea will need to establish institutional channels of cooperation, akin to Asia-Pacific and the Asian Arctic Regional Committee, which is proposed by Visiting Professor Kim Seok-Hwan of Hanguk University of Foreign Studies (Kim et al. 2014). Situated far from the Arctic Region, Korea has almost no chance of joining the Arctic Council as a full-standing member. With observer status, however, Korea will have the opportunity to participate in Arctic-related governance issues. In order for Korea to enhance its role on the international stage and play more of a leading role, it is critical that the state establish a forum for multilateral cooperation. The Barents–Euro Arctic Council (BEAC) in Europe includes both Arctic and non-Arctic states as its members,[6] and promotes cooperation among states and regions bordering the Barents Sea and the Arctic Region. In establishing a multilateral forum, Korea and other Asia-Pacific states will be able to coordinate with European partners to expand logistic networks and cooperation on the development of the North Sea Route and resource exploration. A multilateral body similar to Asia-Pacific and the Asian Arctic Regional Committee should be open to Korea, Japan, China, Singapore, India, Russia, and other Eurasian states. The secretariat for the committee should be headquartered in Korea, with Korea organising diverse events and programmes on a regular basis and serving as a key hub for multilateral cooperation.

In addition, Korean policymakers should also dramatically expand the scope of their plan for developing the Russian Far East and Siberia in response to Moscow's plan for the region. It is of paramount importance for the Korean government to create and enlarge the "room for growth" to the north of the Korean Peninsula in order to ensure the sustainable growth of the Korean economy in the future. Moscow declared the Long-Term Far Eastern Development Plan 2025 in 2009 and revised it in 2014 reflecting the changed situation. As the Putin government continues to seek stronger partnerships with Northeast Asian states to achieve the plan, Korea should seize the opportunity and enter the valued Russian region. In response to Moscow's plan, Korea should first start developing plans for small and medium projects, and then larger projects of cooperation in the future.[7]

Another Russian policy initiative that has great promise for Korea is the plan for the creation of a Zone of Advanced Socioeconomic Development (ZASD). The Russian Ministry for development of the Far East has surveyed over 400 candidate sites and finally chosen 14 of them on the basis of their location and amenability to infrastructure expansion.[8] The ZASD plan was announced with multiple goals in mind, including: providing investors with the infrastructure and tax benefits they need; lowering administrative barriers to investment; fostering industries with exports oriented to Asia-Pacific; and accelerating the development of the Far East through connecting the region to the expanding value chains in Asia-Pacific. Moscow designated Khabarovsk, Komsomolsk, and Nadezhdinskoe as the top-priority sites for the ZASD project on 14 February 2015, releasing a plan for fostering light manufacturing, food processing, and transportation and logistics in this region. The plan was made into law and took effect on 30 March 2015(Министерство РФ по развитию Дальнего Востока 2015) Major infrastructure development will take place in these three regions over the next two years, with investors and tenant businesses allowed to move in by 2018. The Russian Department for Far Eastern Development has shown a great interest in recruiting businesses from the neighbouring states into these new zones, including Korean businesses. These latter will be able to redesign the regional division of labour in these zones by utilizing the rich natural resources of Russia, the capital and advanced technology of South Korea, and the cheap and abundant labour force of North Korea in order to produce semi-finished goods and parts, re-exporting them to Korea and elsewhere around the world for the production of finished goods.

In order to bolster and consolidate its economic partnership with the Russian Far East and Siberia, Seoul needs to work with Moscow on developing and implementing a programme for cooperation for the Russian Far East. Korea can learn from the example that China set when it developed a national programme for cooperation for the development of China's north-eastern regions and the Russian Far East, thus systematising and institutionalising cooperation on a massive scale with Russia on the development of transportation infrastructure, the production and processing of agricultural products, the production and processing of timber, construction subcontracting and the production of construction materials, and the development of minerals and energy resources (Lee et al. 2010: 96–99).

5 Conclusion

The Park administration has demonstrated its support for the Eurasia Initiative, showing its resolve to strengthen cooperation with Eurasian states in light of the growing importance of the region in international politics and economics. The first partner targeted by the Eurasia Initiative is Russia, as the Russian Far East and Siberia, bordering the Korean Peninsula, provide a key passageway through which Korea can enter and increase its presence. These Russian regions possess not only abundant amounts of oil, natural gas, and other key resources, but also increasing demand for massive infrastructure projects. These regions are key to both sustainable economic growth and the peaceful reunification of the Korean Peninsula. These regions, as a matter of fact, will provide ideal complements for the Korean economy, given the structure of production factors and the industrial sector.

However, regional economic cooperation between Korea and the Russian Far East and Siberia has been less than satisfactory and below the expectations of both sides. This is due to a number of factors. Objectively, the regional investment environment is still lacking considering the small market size and dated infrastructure, as well as the severe weather and lack of a labour force. While the Russian government itself has initiated development plans in the Far East region several times, they were unsuccessful because of insufficient capital. In the case of Korea, both the lack of funding for large infrastructure development and resource exploitation and an unstable Korean peninsula have prevented South Korea from actively promoting cooperative projects with North Korea and Russia. Additionally, the sanctions against North Korea beginning on 3 March 2016 following North Korea's fourth nuclear experiment on 6 January 2016 and the

firing of a long-range missile on 7 February 2016 will inhibit cooperation between Korea and the greater Russian Far East region in the short term.

However, it is important to note that the Eurasia Initiative is one of the most important external policies of South Korea for the next 20 to 30 years, and will be modified and enhanced in line with domestic and global changes. In this sense, it is expected that cooperation between Korea and the Russian Far East will be strengthened in the long run. Since Russia hosted the APEC Summit in Vladivostok in 2012, the Russian government has promoted "Russia's Look East Policy" in order to develop the Far East and Siberian region more actively.

In order to bring its ambitious plan to fruition, the Korean government needs to consider the following. First, rebuild trust and improve relations between the two Koreas. Eurasia as a continent of peace, envisioned in the Eurasia Initiative, is only possible when there is a strong infrastructure of trust throughout the region. The mega projects, such as the connecting of the TSK and the TSR, the creation of the gas pipelines linking the two Koreas and Russia, and the expansion of the energy supply networks, cannot be realised without close cooperation from North Korea.

Thus, South Korea needs to restore its relations with North Korea and promote multilateral cooperative economic projects among South Korea, North Korea, and Russia. At the same time, North Korea should completely denuclearise by agreeing on a peace treaty with international powers in order for the sanctions on North Korea to be lifted. This will allow North Korea to actively participate in international multilateral cooperative projects such as the development projects in the Far East.

In February 2015, the South Korean government launched a new system for providing a comprehensive range of supporting measures for the realisation of the Eurasia Initiative. The Eurasia Economic Cooperation Coordination Committee will provide support for Korean businesses seeking to enter new markets in the Russian Far East, Central Asia, and Mongolia. The Committee, moreover, will need to make systematic and comprehensive preparations for Korean businesses in the region by seeking out and arranging intergovernmental discussions over the improvement of business and investment environments.

Second, the Korean government needs to approach the development of the Russian Far East and Siberia more through multilateral channels than bilateral ones. For the Russian Far East and Siberia to invite projects of massive international scale and risk that no single state can individually manage, South Korea needs to establish channels for global cooperation

similar to the Greater Tumen Initiative (GTI). These initiatives should encourage Russia, China, Mongolia, and other interested states to take part. The Asian Infrastructure Investment Bank (AIIB) may provide another important channel for multilateral cooperation.

Finally, in order for Korea to strengthen its strategic cooperation with the Eurasian states it needs to attract Eurasian businesses into Korea (Lee et al. 2012: 29–30). In comparison to the major investments that Korean businesses have made in Eurasia, Eurasian businesses have been quite reluctant to invest in Korea. The ideal is to reach a balance over investment and cooperation by encouraging Russian and Eurasian businesses to make their way and invest in the Korean Peninsula. Russia may want to signal stronger ties by implementing a concerted effort to invest more in the Korean peninsula, in order to build trust. The overlapping ties of economic cooperation and investment, in turn, will prompt the interested states to support and assist in the maintenance of peace and security over the Korean Peninsula.

Notes

1. In his address at Nazarbayev University in Kazakhstan on 7 September 2013, Xi Jinping, President of the People's Republic of China, delineated China's plan for the development of a new Silk Road Economic Belt encompassing a total population of three billion. Central Asia falls in the middle of the newly envisioned economic zone. For a more detailed discussion of the subject, see Ju Jang-hwan, "China's Policy Regarding Central Asia: Background, Terms, and Prospects of China's Westward Expansion Strategy," *Eurasia Initiative and the Future of Korea's Cooperation with Central Asia*, KIEP–Central Asian Economics Society International Seminar (Seoul), 9 May 2014, pp. 57–58.
2. This new paradigm indicates the Park Administration's initiative on strengthening the industrial cooperation between Korea and Eurasia countries based on the concept of Creative Economy in order to achieve mutual benefits.
3. Internal document, The 162nd Ministerial Meeting on International Economic Policy, 10 December 2014.
4. The trial shipment of the Najin–Hasan Logistics Project, involving cooperation among the two Koreas and Russia, resulted in the shipment of 40,000 tons of Siberian coals to the Port of Pohang in South Korea on 1 December 2014.

5. For a detailed discussion on the subject, see Lee Jae-Young, "Searching for the Cooperation between Russia and North Korea in the Area of Power Industry," *The Journal of Siberian and Far Eastern Studies*, No. 3, 2007, pp. 102–104.
6. For a more detailed discussion of the subject, see the BEAC website, at http://www.beac.st/in-English/Barents-Euro-Arctic-Council, accessed 17 May 2016 .
7. For a more detailed discussion on the subject, see Lee Jae-Young et al., *The 20 Years of Korea–Russia Far Eastern Economic Cooperation: New vision and its realization*, Seoul: KIEP, 2010, pp. 290–291.
8. Moscow has designated five ZASDs in the Littoral Province, three in Khabarovsk, two in the Sakha Republic (Yakutia), two in the Province of Amur, one in the Province of Kamchatka, and one in the Jewish Autonomous Oblast.

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PART II

Factors of International Cooperation in the Development of Pacific Russia

CHAPTER 6

Russia and Energy Transactions in Northeast Asia

Satoshi Sakai

1 Introduction

This chapter examines the relations between Russia, as an energy supplier, and the three consumer countries of China, Japan, and South Korea from the perspective of supply and demand for hydrocarbons, that is petroleum, gas (for the purposes of this chapter primarily natural gas), and coal in Northeast Asia, and their prospects for the future.[1]

The development of Russia's Eastern Siberia and Far East relies on two vehicles for possible cash inflows. First, natural resources exports to the Pacific-rim countries in the short/medium term and, second, capital inflow from inside/outside Russia into the manufacturing sectors of the region in the medium/long term. While capital inflows mainly depend on how the economic policies of the Russian government can attract investors, the natural resources exports are, to a large extent, subject to their own economy, as they have to follow world market pricing for resources.

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The current prices of natural resources (oil, gas, coal, and metals) in the world market adversely affect Russia's resource exports because of their rapid fall since the end of 2014. As many experts/specialists have discussed, Russia's grand policy of "Look East" stands on political and economic motifs (Huang and Korolev 2015). While political motivation may not change in the near future as far as the confrontation with the West continues in Ukraine and possibly in the Middle East as well, the economic motif, if not damaged, may also delay the realisation of the grand policy—the economic development of Russia's East Siberia and Far East.

2 Russia's Supply Capacity

Russia can be considered the only country in Northeast Asia with the potential to supply hydrocarbon energy resources both now and in the future. The hydrocarbon resource reserves of Russia's Eastern Siberia and the Far East (the Siberian Federal District and Far Eastern Federal District), that is, the resources within Russia that are exportable to Northeast Asia in terms of distance even if they must still be scrutinised in terms of their economic viability, account for between 11% and 14% of Russia's total oil and both of the associated and natural gas resources (Korzhubaev et al. 2009). The "Energy Strategy of Russia for the Period Up To 2030" (Approved by Governmental Decree N° 1715-r, dated 13 November 2009) projects proven oil reserves in Eastern Siberia to increase by 2565 million tonnes between 2013 and 2030.[2] Likewise, they account for between 18% and 19% of Russia's total reserves of gas and condensates, with gas reserves in Eastern Siberia projected to increase by more than 3 trillion m^3 (C1+C2) between 2013 and 2030.[3] However, it is said that only 6% of potential reserves have been explored, and it will likely be some time before more accurate figures become available; this is true for coal as well. Figures appearing in 2007 estimated coal reserves in Eastern Siberia at 61,100 million tonnes (A+B+C1) and in the Russian Far East at 19,500 million tonnes, but so far only a tiny portion of all that likely exists there has been explored.[4]

In this way, looking only at reserves, it is clear that there is extra supply capacity both for supplying the other regions of Russia and for exporting. However, as we shall see below, Russia's oil, gas, and coal in Eastern Siberia and the Far East also face many problems.

2.1 Oil

The primary project developers are the oil companies such as Rosneft, SNG (Surgutneftegaz), and Gazprom Neft. Rosneft, with 69.5% of its shares held by the Government of the Russian Federation, controls the bulk of both reserves and production in Eastern Siberia and the Far East (Table 6.1).

Transportation is primarily by pipeline, and is the responsibility of state-owned Transneftj. The East Siberia–Pacific Ocean Pipeline (VSTO) exports crude oil to China from Skovorodino and to the Pacific for export by sea at Kozmino. In addition to the pipeline, Russian Railways (RZhD) transports slightly less than 2 million tonnes annually eastbound by rail from Skovorodino.[5]

Table 6.1 The major oil fields in Eastern Siberia and the Far East

Company	*Oil field*	*Reserves*[a]	*Production volume*
Rosneft	Vankor	Original oil in place: 500 million t	2013: 153.1 million bl
	Suzunskoe	A+B+C1+C2 56 million t	
	Tagulskoe	A+B+C1+C2 292 million t	
	Lodochnoe	A+B+C1+C2 47 million t	
	Verkhnechonskoe	Proven reserves: 1349 million bl	2014 plan: 7.8 million t
	Jurubcheno-Tokhomskoe (including Agaleevskoe gas condensate field)	Proven reserves: 238 million bl	
	Sakhalinmorneftegaz	Proven reserves: 139 million bl	2010: 1.69 million t
	Sakhalin-1 (Rosneft interest: 20%)	Proven reserves: 70 million t	2011: 6.98 million t
Surgutneftegas	Talakanskoe		2013: 5.93 million t

Source: Compiled by the author based on Rosneft and Surgutneftegas data, http://www.rosneft.com/Upstream/ProductionAndDevelopment/, http://www.surgutneftegas.ru/en/investors/reports/annual/, accessed 15 May 2015

[a]Petroleum, condensate

The challenge facing transportation is the enormous distances involved. The distance from the Vankor oil field, presently accounting for the bulk of Eastern Siberia oil production, to Kozmino exceeds 7000 km.[6] Half of Russia's exports to China and Asia-Pacific are now being met by crude oil from Western Siberia. If this situation continues into the future, depending on movements in future international oil prices, Russian exports could face severe economic challenges because of costs charged related to transportation distances.[7]

Though Transneft does not release figures for the actual oil transmission cost over VSTO, some estimates show that VSTO transportation cost was $120/ton.[8] If that is the case, then (even ignoring taxes and transportation costs up to Tayshet, the entry point for the VSTO), the break-even point for eastbound Russian oil sales would be a crude oil price of around $25/barrel, assuming production costs of $50/tonne. In reality, the oil company's profit picture cannot be described as favourable even at crude oil prices of twice that at $50/barrel, unless preferential measures are taken on the transportation cost and tax fronts, even though the cross-subsidies that Transneft provides for crude oil transportation tariffs throughout Russia (for some directions/routes hiked, while for others lowered) offer some help.[9]

Increasing eastbound oil shipments and exports would lead to a decline in westbound exports, as Russia's total oil production is forecasted not to increase much for the coming ten to 15 years. In addition, it would also make it more difficult over time to continue Russia's current practice of blending high-sulphur crude from the Urals with low-sulphur Siberian crude within Transneft's transport network, because more low-sulphur Siberian crude will head for the East and less for the West. As a result, it may cause degradation of crude quality for the West by enhancing its sulphur content ratio. Transneft has already raised this issue with the Russian government and oil production companies.

Regarding transport capacity, there are plans to increase VSTO's capacity to 80 million tonnes between Skovorodino–Tajshetm and to 50 million tonnes between Skovorodino–Kozmino by 2019. According to Transneft, the destination for these shipments will be: 30 million tonnes to China, 14 million tonnes to domestic existing refineries; 12 million tonnes to the new petrochemicals and oil refining complex that Rosneft is planning to build in the Far East, and the remaining 24 million tonnes to be allocated to exports shipped from Kozmino.[10]

Consequently, even if Skovorodino–Kozmino transport capacity does reach 50 million tonnes, it will not result in that much of a change from present export volume to countries other than China.[11] Of course, it will also be dependent upon how smoothly Rosneft's refinery and petrochemical plans proceed. If their implementation falls behind the original plan, then there may be a chance that the volume assigned for unrealised domestic consumption can be distributed to countries other than China.

Regarding exports from Kozmino, exports to Japan in 2014 were the highest on record at 8.9 million tonnes, amounting to 36% of total exports from Kozmino, followed by China-bound exports at 5.9 million tonnes or 24% of total exports. South Korea also purchased 3.7 million tonnes, or 15% of total exports. But in 2015, the exports to China amounted to 14.7 million tons or 48.3% of the total exports, while Japan and South Korea decreased their shares down to 28.7% and 10.5% respectively, though the export volume to them did not change that much.[12]

As a light crude oil, this oil sells with some premium over Dubai Crude. Transneftj has hopes of elevating ESPO blend (a name derived from the initials for VSTO's name in English: "East Siberia–Pacific Ocean") into a benchmark crude for the Asia-Pacific region. However, it could prove an obstacle to such aspirations if Russia has to place volume restrictions on sales to countries other than China, as mentioned above.

To summarise, Russia's oil exports to the East cannot avoid economic hurdles because of their long-distance inland transportation costs, and the sector may be further damaged if oil prices in the international market go down to less than $25/barrel. Moreover, an increase in oil exports to the East may cause some decreases on the same scale to the West, accompanied by oil quality deterioration.

2.2 Gas

The major gas fields in Eastern Siberia and the Far East are described in Table 6.2, and the characteristics of the Sakhalin gas fields (Sakhalin 1, Sakhalin 2, and Sakhalin 3), the primary developers of which are Gazprom and the oil companies producing associated gas, are presented in Table 6.3.

There are also a number of challenges facing eastbound natural gas exports. In 2003, the Russian government appointed Gazprom to be the coordinator for gas-related undertakings in Eastern Siberia and the Far East, while at the same time recognising the company's monopoly on gas trunklines

Table 6.2 The major gas fields in Eastern Siberia and the Far East (continental zone)

Gas field	*Owner*	*Reserves (C1+C2) (m^3)*	*Planned start of production*
Chajandinskoe	Gazprom	1.3 trillion	2017
Kovyktinskoe	Gazprom	1.9 trillion	2019
Tas-Jurjakhskoe	Gazprom	102.7 billion	2021
Verkhneviljuchanskoe	Gazprom	139.6 billion	2023
Srednebotuobinskoe	Rosneft	167.9 billion	?
Talakanskoe	Surgutneftegaz	63.0 billion	2019
Dulisjminskoe	Sberbank-kapital	77.3 billion	2023
Jaraktinskoe	INK	34.0 billion	2034
Vakunajskoe	Gazprom neft	37.0 billion	2036
Verkhnechonskoe	Rosneft	145.0 billion	2037

Source: Compiled by the author based on data from RusEnergy, http://www.rusenergy.com/en/about/, accessed 15 May 2016

Table 6.3 The primary Sakhalin gas fields

Gas field	*Owner*	*Reserves (C1+C2) (m^3)*	*Production launch*
Sakhalin-1	Exxon Mobil/SODECO/ONGC/ Rosneft	485.0 billion	Crude oil & natural gas /2005
Sakhalin-2	Gazprom/Shell/Mitsui/Mitsubishi	500.0 billion	Crude oil/1999; gas/2009
Sakhalin-3	Gazprom	609.0 billion (1.4 trillion m^3?)	Gas/2012
	Rosneft/Sinopec	40.0 billion	Gas/2017 (?)

Source: Compiled by the author based on the date from RusEnergy, http://www.rusenergy.com/en/about/, accessed 15 May 2016

throughout Russia. As a result, all exports to the Asia-Pacific region with the exception of gas produced by projects with production-sharing agreements became a Gazprom monopoly. However, Rosneft is currently questioning this monopolistic structure (Barsukov and Mel'nikov 2014).

Rosneft's assertion is based on the fact that the gas production volume by non-Gazprom companies in Russia has been increasing, and now their share exceeds 30% of the total gas production of Russia, as opposed to the 1990s when their share was less than 10%.[13] For this reason, Rosneft holds that

they should be entitled to export their gas independently from Gazprom. If Gazprom's monopoly is kept, then it may suppress the production motivation of the non-Gazprom companies, followed by possible lower-than-expected gas production increases in the East Siberia and the Far East.

Regarding gas exports, there is also the issue of using pipelines or liquefied natural gas (LNG). There are currently various proposals on the table for using pipelines to export Russian LNG to China through the eastern route, which was agreed in 2014, and a possible western route that is currently under negotiation, South Korea's negotiations are currently suspended, as is a Japanese proposal, which was opposed by Gazprom for economic reasons. Three names have surfaced regarding LNG exports: Sakhalin-2 expansion, Vladivostok LNG (Gazprom), and Far Eastern LNG (Rosneft). Of these, Gazprom is said to be under pressure to choose between liquefying Sakhalin gas to make LNG, and shipping it to China by pipeline. Again, even looking solely at LNG projects, there is an emerging debate over whether Russian's national interest would be best served by preventing an excessive proliferation of projects in order to avoid Russia-to-Russia competition, or if it should leave the outcome to the results of corporate competition. In the free market, competition theoretically results in the natural selection of survivors, as far as such survivors show the best economies (low production cost and low sales prices). The debate in Russia outlined here implies that gas exports are not always regarded as pure economic activities of production companies.

Further, it is projected that LNG supply and demand in world markets, including Asia, will lessen at least till 2020 owing to expanding global LNG production capacities. There is a question mark over whether the economics of even the surviving Russian LNG projects would be competitive with projects in other countries given this market trend. A new 6.9 million tonne project in Papua New Guinea and a new 8.5 million tonne project in Australia have both just started up, and it is expected that abundant LNG will pour into the Asia-Pacific market in 2015–2017 from six projects in Australia (total 53.3 million tonnes)[14] and five projects in the United States (total 48.25 million tonnes),[15] together with 2 million tonnes of new LNG from Indonesia.[16]

In summary, the current monopoly of Russia's gas exports by Gazprom is under criticism from other Russian gas producers and, depending on its outcome, gas export plans to the East may be unstable for a certain period. Furthermore, Russia has to tackle the problems, in other words pipeline/LNG selection as forms of gas exports, and how to allow export competition among Russian companies in the world markets.

2.3 Coal

The coal reserves of Eastern Siberia are believed to exceed even those of Western Siberia, currently the primary area of production, but much of the region has to witness large exploration, and the current proven reserves (A+B+C1) alone cannot be considered a fair indication of the massive potential that might exist. The major sedimentary basins include Kansk-Achinsk, Irkutsk, Ulugkhem, and Tunguska, and by region, basins are found in Krasnojarsk Krai, Irkutsk Oblast, and the Republic of Khakassia, among others.

An internal presentation by Russia's Ministry of Energy in March 2014 forecasted that by 2030 Russian coal production would reach 410–460 million tonnes and its exports would reach 170–205 million tonnes, with eastbound rising to 120 million tonnes and westbound holding at the current 84 million tonnes or falling to 60 million tonnes (Dzhumailo 2014). This presentation was practically a revised version of the "Long-Term Program for the Development of the Coal Industry for the Period up to 2030" prepared in 2012, and strongly advocated a shift toward eastbound exports.[17] In order to achieve these goals, a plan is being implemented to increase rail transport capacity from Western and Eastern Siberia to coal-loading terminals in the Far East. At present, it is being advanced by expanding the eastbound transportation capacity of the existing Trans-Siberian Railway and the Baikal–Amur Mainline (BAM) to 75 million tonnes per year by 2018.[18] The 562 billion rubles in funds committed to this undertaking is one of the largest construction investments Russia is making in its ongoing development of the Far East. A plan is also in place for building or expanding coal-loading terminals at three Far East locations (total loading capacity of 64 million tonnes) and is moving toward implementation.

Examining the sales of the coal companies that are the primary developers for these projects, SUEK, the largest, has annual sales of $5.38 billion, not far short of Peabody Energy in the USA, the world's largest private coal company. Compared to state-owned enterprises in China or India, however, or to private companies such as Rio Tinto or BHP Billiton, which are also producing and selling other energy and mineral resources besides coal, it is in a different class. There is also a great gap in size of turnover even *vis-à-vis* Russia's own oil and gas production companies, such as Gazprom's 2013 sales of $161.25 billion, Lukoil's sales of $119.1 billion, and Rosneft's sales of $99.5 billion.[19] These comparisons with major foreign players and other Russian energy production companies imply that Russian coal producers are financially on a smaller scale, less competitive compared to foreigners, and less influential in lobbying around governmental industrial policies.

The differences in company scales within Russia are unlikely to work to the advantage of developing Eastern Siberia and the Far East, which, to a greater or lesser degree, will require action on the political front as well. RZhD, with coal accounting for 25% of its total freight traffic, has asserted that the fact that its freight fees have been kept at artificially low levels (on average, Rb.128.8/t/km in 2013) is the reason it is unprofitable and has been lobbying the government year after year to raise its rates (Aliev 2012). At a time when prices for China-bound Australian coal have fallen into the $90 range, an increase in domestic transportation costs would be a life and death issue for Russia's coal companies (Husainov 2016).

To summarise, the long-distance transportation of energy resources from production fields to export ports places a significant monetary burden on production companies and most seriously affects the Russian coal industries. The railway tariffs practically decide the fate of coal export economy, but coal producers do not seem to have enough lobbying power to reduce the tariffs.

2.4 Shared Issues for Oil, Gas, and Coal

Competition with out-of-region suppliers is one of the major issues. As indicated below, if Russia intends to increase its share of Chinese, Japanese, and South Korean energy imports, it must be more competitive than its competitors, beginning with the states of the Middle East and Australia (Table 6.4).

Sources: Created by the author based on information from different sources, such as Xinhua, Japan's Ministry of Finance Japan, South Korean Customs Service

Russia has had no choice but to remain a "price taker," basing its own pricing on international prices. If Russia were to seize the initiative in price formation as a seller, it would most likely be in crude oil. This chapter has already touched upon moves to elevate the "ESPO" crude exported to Asian markets from Kozmino into an international benchmark crude equivalent to West Texas Intermediate (WTI) and Brent Crude. However, even if an ESPO brand does make its appearance, it is unlikely that its price level would diverge greatly from the Dubai benchmark price, as some degree of fungibility exists between Middle Eastern and Russian crude. In other words, Russia and its oil exports cannot be divorced from the reality of the international markets and pricing, highlighting that Far East development is constrained by international commodity prices, as far as it relies on cash inflows through natural resources exports to Pacific-rim countries in the short and medium term.

Table 6.4 Structure of oil, gas, and coal import in China, Japan, and South Korea

Crude Oil Import Sources:	
China	
Sources (2015):	Saudi Arabia/15.3%, **Russia/11.9%**, Angola/11.7%, Iraq/9.7%, Oman/9.7%, Iran/8%
Imports (2015):	331 million tonnes (6.16 million b/d)
Japan	
Sources (2014):	Saudi Arabia/31.6%, UAE/24.4%, Qatar/10.8%, **Russia/8.2%**, Kuwait/7.1%, Africa/1.8%
Imports (2014):	Approx. 170 million tonnes (199,700 thousand k litre)
Korea	
Sources (2015):	Saudi Arabia/27%, Kuwait/12.9%, Iraq/11.7%, Qatar/10%, UAE/8.7%, **Russia/5.4%**
Imports (2015):	Approx. 137.8 million tonnes
Gas Imports Sources:	
China	
Sources (2014):	Turkmen/44%, Qatar/16%, Australia/9%, Malaysia/7%, Indonesia/6%, Uzbek/4%, Kazakh/1%, **Russia/0.3%**
Imports (2015):	Approx. 64.7 billion m^3 (Pipeline/33.1 billion m^3, LNG/27.2 billion m^3)
Japan	
Sources (2014):	Australia/21.9%, Malaysia/18.3%,Qatar/17.2%, **Russia/8.9**%
Imports (2014):	120.6 billion m^3 (LNG/85.05 million tonnes)
Korea	
Sources (2015):	Qatar/37.3%, Oman/12%, Indonesia/11.3%, Malaysia/11.1%, **Russia/8%**
Imports (2015):	Approx. 46.0 billion m^3 (LNG/33.37 million tonnes)
Coal Import Sources:	
China	
Sources (2013):	(Steam coal) Australia, Indonesia; (Coking coal) Australia, Mongolia, Canada, United States; (Anthracite coal) North Korea, Vietnam, **Russia**; (Lignite/brown coal) Indonesia, Philippines, Mongolia
Imports (2014):	291.2 million tonnes
Japan	
Sources (2014):	Australia/63.4%, Indonesia/18.7%, **Russia/8.0%**, Canada/4.9%, United States/3.3%
Imports (2014):	187.69 million tonnes
Korea	
Sources (2015):	Australia/45.2%, Indonesia/25.2%, **Russia/17.1%**, Canada/6.9%
Imports (2015):	135.1 million tonnes

Regarding coal in the Asian market, the sales price for Australian coal automatically becomes the region's benchmark price because of that nation's unassailable market position. The price of Australian coal has been affected in recent years by Chinese demand trends, and there has recently been a marked fall in price. Russia's own coal prices—both for export and for domestic demand—are also impacted by international prices. Prices fell by 27% to an average of $76 per tonne in 2013 alone, and it has been reported that 16% of Russian coal producers have slid into the red (Dzhumailo et al. 2014).

Even if Russian coal exports reach 120 million tonnes in 2030, this would still be only slightly more than a third of what Australia already exports today. It will not be easy for Russia to overtake the export leader in volume, nor even second-place Indonesia. However, there have been forecasts that Indonesian coal exports will peak around 2020 because of rising domestic demand at home (Kawakami et al. 2015). It will of course depend on how much Indonesian exports actually do decline, but for Russia both the opportunity and the challenge will depend on how effectively it can step in to fill that gap, because export growth can only be realised through expanding the share of sales.

Another issue is *domestic demand in* East Siberia and the Far East. It goes without saying that Russia's highest priority is to fully meet domestic demand. However, the demand for energy resources from Eastern Siberia and the Far East is dependent upon how much progress is made in developing these regions, or to look at it differently, how much of the investment capital flows into these regions will come from both home and abroad. The emphasis of the current Russian government, however, is on attracting manufacturing industries, and if it succeeds it is unlikely to result in any explosive growth in demand for resources.

3 The Importer Countries: China, Japan, and South Korea

3.1 Energy Resources Demand Forecasts

For several years, all forecasts of energy demand, regardless of which institution generates them, have been subject to multiple revisions after they have been issued. Even forecasts for Chinese demand, which had been growing at a rapid pace, were scaled back significantly in the second half of 2014. Consequently, we should confine ourselves in this discussion to using these

forecast values simply as reference values for those given points in time. Bearing that in mind, the International Energy Agency (IEA)'s World Energy Outlook 2014 sees world oil demand rising to 103 million barrels per day in 2040, with gas demand rising to 5.4 trillion m³ and coal demand to 6350 million tonnes. In addition, World Energy Outlook 2014 sees 232 GW of nuclear power capacity being added over that same period.[20]

Regarding China alone, the US Energy Information Agency (EIA) sees Chinese energy demand reaching around 150×1000 quadrillion Btu in 2020, rising further to 200×1000 quadrillion Btu in 2030. The International Energy Agency (IEA) also predicts that China will become the world's largest oil-consuming country for the first time in the early 2030s.[21] However, in the second half of 2014, China substantially scaled back its own demand forecasts for all forms of energy resources for the time being. One Chinese study that looked at a number of possible economic growth scenarios, forecasts demand in the year 2030 of oil at 583–632 million tonnes, and gas at 381–541 billion m³ (Ran 2014; Wang 2014). The IEA scenario anticipates coal's share of primary energy declining to 55% by the year 2030.[22]

As a practical problem, the question of how to best to hold down growth in China's domestic energy resources consumption has been a major issue for years. In natural gas, for example, should China reach the same level of per-capita gas consumption in volume terms as the USA in 2016, it would be consuming three-quarters of the world's entire current gas production on its own. This is not possible, and at some point the country will hit the limits of consumable natural gas. With that in mind, the current Chinese government has embarked on a shift to what it calls "The New Normal," focusing on improved efficiency of capital and appropriate profits. This indicates that the growth of China's demand for energy resources in the future may not be as large as Russia had expected.

Turning to Japan, there are no forecasts for any major increase in the country's total energy demand, and demand for hydrocarbon energy resources will instead be impacted by what happens regarding the reactivation of nuclear power plants shut down following the Great East Japan Earthquake of 11 March 2011. The Ministry of Economy, Trade, and Industry generated a new scenario in 2015, which forecasts 489 million kl in crude oil equivalent by 2030 as primary energy demand, and a quarter of it is expected to be shared by non-fossil energy.[23] Japan, as well as China, may not give Russia an optimistic scenario for increasing energy resources exports.

South Korea has plans for the large-scale construction of new nuclear power plants, and the speed with which they are implemented will affect the country's demand for hydrocarbon energy resources. Under "National Basic Energy Plan, Korea (2008–2030)" prepared by the South Korean government in 2008, Korea's total primary energy demand in 2030 was forecasted to reach 300 million toe (ton oil equivalent), with nuclear power accounting for 27.8%, coal 15.7%, and renewable energies 11.5%.[24]

3.2 Common Issues of Importer Countries

All three importer countries share the four following issues:

- Reducing dependence on imports
- When necessary to import, assuring the security of delivery
- Reducing import prices
- Achieving an environmentally conscious energy mix

Regarding concrete measures for achieving each of these four goals, import dependency can be reduced by holding down the growth in total demand volume by both improving energy consumption efficiency and promoting the development of domestically produced energy. China, Japan, and South Korea all see the first as a major issue, and are working to reduce their individual dependency. The latter is an issue of particular concern for China, itself a resource-rich country, and for Japan, which is investigating the future potential of methane hydrates.

Ensuring the security of energy imports becomes a question of securing the safety of seaborne transportation, given that all three countries are highly dependent on the Middle East. Together with securing their sea lanes, either collectively or individually, another concrete measure is to recalibrate their excessive dependence on the Middle East. From this perspective, Russian resources could prove an attractive alternative. The greatest concern to all three importer countries is import costs. All will pursue measures both for maintaining stable import prices and for coping with periods of large price volatilities.

Focusing on oil prices, the most immediate concern for all the importer countries is whether the conditions that occurred in 2011–2013, with the average annual price of oil topping $100/barrel, will arise again, and if so, when. Some commentators have asserted that the surge in international oil prices beginning in 2003 and the return to high prices after the dip

following the Lehman Shock, as well as the sudden drop in prices since autumn 2014, were largely caused by a flood of speculative capital reflecting expectations.[25] Current predictions about the Chinese economy, its potential, and long-term economic trends will continue to have the largest impact on oil prices in the future. If Chinese economic growth slows, and the China fever among speculators burns itself out, we arrive at a forecast for continued low crude oil prices for the time being.[26]

Total global demand for crude oil came to 4100 million tonnes in 2013. Of that, international trade volume and US production volume combined came to 3150 million tonnes.[27] We can view at least this much as being the volume that follows market prices. At the same time, at the beginning of 2015 there was said to be around 70 million tonnes or more excess supply on the global oil market (Lawler 2015). It is hard to find a rational explanation in terms of supply and demand theory for oil prices falling to less than half of their previous levels simply on that small a surplus alone.

According to private analysis firms, the scale of global financial assets has grown from 2.46 times global GDP in 2000 to 2.86 times global GDP in 2014 (Roxburgh et al. 2011). In other words, that much wealth is constantly circling the world in search of higher yields. There are many who believe that it was a portion of that wealth flooding into international oil markets that drove the spike in oil prices that began in 2003. That influx was predicated on expectations that oil prices would rise in the future. It seems beyond doubt that speculative money flows have been one of the primary causes of rising oil prices since 2003, but it remains unclear how much they contributed to the increase, creating a situation where we can no longer determine what the price of oil based on actual demand should be (Juvenal and Petrella 2011).

Turning next to natural gas, the Asian market where many gas contracts are currently linked to oil prices will, at least for the time being, continue to be strongly influenced by the price of oil. The global gas market, unlike oil, is divided into three separate, large markets, the USA, Europe, and Asia, and particularly since 2008, prices have come to move at different levels in each of these markets. In the USA the spot market dominates, in Europe both the spot market and long-term pipeline contracts coexist, and in Asia, long-term contracts account for the vast majority of contracts and price levels for gas are highest among the three. The continued interest in the question of when the world's three large gas markets might finally be linked is, in the end, driven by the hope that the LNG markets will eventually be "marketised" globally, and we will no longer see these distortions in the market.

As one step in that direction, customers are seeking changes to the traditional conditions in long-term LNG contracts, such as destination clauses and other measures. If in the next years LNG from the USA, which relies on the spot market, comes flooding into Asia, the pressure on customers to revise contracts will likely increase.[28] This also likely harbours the risk that the gas market could attract the attention of speculative capital as well, and in time come to be dominated by it.

Regarding coal, given the nature of today's market in which contracts are concluded individually, price negotiations with the sellers are currently being decided by the urgency of demand from the purchasing companies that are Chinese, Japanese, or South Korean. There have also been proposals to create a publicly posted benchmark price for coal transactions as well. However, given the distinctive nature of the market with its many oligopolistic players on the seller's side, it may not be easily achieved. That being the case, one option for buyers may be to build their own development, production, and transportation chains through capital investment in the coal-producing countries themselves.

Focusing on oil and gas, given that demand growth in Asia is the highest in the world, it is possible that in the future a separate pricing structure could be created within the region. Should that happen, one area of debate would be the participation of the consumer countries themselves in the price-setting mechanism. China alone already constitutes an enormous market, and when one considers the regional differences within China itself, it may be possible to create a market model in which a new price structure separate from current international prices is created domestically within the country, and export prices may follow. However, if indeed prices are at root determined by supply and demand, there should ultimately be little difference whether they are dominated by the producers or by the consumer countries.

3.3 Conditions by Country

All three consumer states share common governmental goals for cutting production costs for renewable energies and reducing their dependence on energy imports. However, there is a considerable gap when it comes to nuclear power between Japan, which has adopted a much more cautious stance since the 2011 disaster, and China and South Korea, which are proactively pushing ahead with new nuclear power plant construction. At the same time, both China and South Korea have particular

issues of their own, including China figuring out how far it should go in reducing the share of coal in its primary energy mix, and South Korea deciding whether it can raise its current low electricity prices to better correspond to actual fuel costs.

China

- Environmental Issues and Reducing the Share of Coal in the Primary Energy Mix

In November 2014, China and the USA agreed upon joint goals for reducing and holding down emissions, while the first revisions to China's Environmental Protection Law in 25 years took effect on 1 January 2015 (Landler 2014). There can be no doubt that the Xi Jinping administration is serious about environmental issues.

According to China's National Bureau of Statistics, the country's coal demand declined 2.9% in 2014, while production at 3870 million tonnes was down 2.5%.[29] In March 2015, China's Ministry of Industry and Information Technology stated its intention to further reduce coal demand by another 160 million tonnes over the next five years; the share of coal in China's primary energy is presently 66%, far higher than the global average of 31%.[30]

- Protecting Domestic Coal Producers

If China intends to protect its domestic companies during this period of declining demand, then it will naturally impose restrictions on coal imports. Russian coal exports to China have risen significantly in recent years, but in October 2014, China resumed levying coal import tariffs on all but a few coal categories in order to protect its domestic producers. Perhaps as a result of this measure, imports of Russian coal are said to have been declining since the start of 2015 (Yap 2014). However, approximately 60% of Chinese domestic coal production is centred in the provinces and autonomous regions of Inner Mongolia, Shanxi, and Shaanxi, and because of the limitations of its domestic rail network capacity, China has no choice but to rely on imported coal in its South China region.

- Achieving Standardised Domestic and International Energy Prices

If China is to rank among the other leading international economies, it must sooner or later abandon its practice of deliberately suppressing domestic energy prices. China is already on the way to achieving this in coal and oil, leaving only gas prices to be addressed.

- Increasing Domestic Energy Production

In March 2015, the Ministry of Industry and Information Technology stated that China would increase the share of non-fossil fuel energy to 20% of its total energy mix by 2030, and this plan was submitted to the United Nations Framework Convention on Climate Change (UNFCCC) in June 2015.[31] China has still not revealed its target energy mix for the year 2030, but it will likely involve, as in the IEA forecast, cutting the share of coal to between 50% and 60% and increasing the ratio of solar power, wind, hydro, other renewable energies, and nuclear power.

China is pinning its hopes for natural gas on expanded production of domestic shale gas. However, there is still no clear prospect for resolving the myriad of problems it faces in doing so that have long been pointed out by outside observers, including technological challenges owing to the nature of its gas fields, and the state of infrastructure development for transporting shale gas domestically (Bradsher 2014).

Japan

The greatest challenge for Japan, which possesses virtually no domestic energy resources of its own, is to how best increase its energy independence while simultaneously keeping down import costs and addressing environmental concerns.

The Japanese government finally decided on the energy mix necessary for achieving these goals, in effect, a policy decision on nuclear power generation, in July 2015, a full four years after the 11 March 2011 earthquake.[32] Following this decision, Japan will at last be able to set its target for greenhouse gas emission reductions for the year 2020 and beyond under the post-Kyoto Protocol framework. The new decision says that Japan will seek a new target for greenhouse gas emission reductions of 20.3% by the year 2030, but the figure was revised to 26% at COP21, the United Nations Conference of the Parties to the UNFCCC convened in Paris in December 2015.[33]

Thanks largely to the continued decline in oil prices since the autumn of 2015, there is a sense in Japan that the debate over the high cost of LNG imports with their prices linked to oil prices has now somewhat abated. Nonetheless, Japan was tormented by the high cost of imported LNG for the four years after the 2011 disaster. Tokyo Electric Power Co. (TEPCO) household electricity rates, for example, were 37% higher in 2013 than they were before the disaster, and it is imperative that it continues to work to diversify pricing models and procurement sources as well as contract types, both long and short to medium term, to prevent the same problem from recurring in the future.[34] Framed differently, the goal is to enable Japan and other Asian countries to be able to procure gas at the same price as the rest of the world, specifically the US and European markets, through the establishment of a rational gas pricing system. Furthermore, this goal must be achieved in a global gas market where price convergence, which is enhanced transactional liquidity and gas market integration, is expected to continue in the future. It may have been Japan's logic in the past to prioritise securing supply stability even if it meant somewhat higher prices, but at least for the time being that is no longer the case. This could prove to be the period when the interests of Japan and of the international sellers who seek to sell at higher prices are conflicting.

South Korea

South Korea is in a similar position to Japan with regard to its need to maximise energy independence, overcome environmental problems, and secure low-cost energy resources. However, it also faces a particular issue of its own, namely that the price of electric power, secondary energy, in South Korea is relatively low compared to primary energy costs. This has resulted in the unusual phenomenon of the electrification of both thermal and heating energy. This situation came about because electricity prices were set so low, but it is now being pointed out that the result has been wasteful electricity consumption and electric power shortages (Lee 2013). The loss margin taken on by Korea Electric Power Corporation (KEPCO) cannot go unaddressed forever, but as things stand the country has little choice, in order to lessen KEPCO's red ink, but to tilt toward using more coal, now 45% of total electric power, with its low power generation cost, and toward nuclear power, with 30% of total electric power, and there are plans in place to build an additional 12 reactors between 2010 and 2021 (Lee 2015). As a result, gas-fired power generation continues to struggle with profitability.

A proposal has been floated between Russia and South Korea to import 10,000 million m^3 of Russian natural gas via a pipeline running through North Korea. However, there has been no significant progress toward making this a reality (Mundy 2013). The feasibility of the project still depends on the state of shifting Korean peninsula relations.

4 Conclusion

This chapter provides an overview of the issues affecting Russia as a resource seller and its buyers, China, Japan, and South Korea. In conclusion several salient points are presented.

First, when exporting its resources Russia must go through the process of assessing the specific characteristics of the different candidate regions as they relate to its exports and, based upon those characteristics, target the export destinations that best match its own national conditions. Energy resources demand fluctuates under the impact of international politics and economics, and Russia must devise contract models resilient enough to accommodate these shifts as effectively as possible. Again, while the chapter did not touch directly upon this, Russia must also remain alert to both the possibility that technological advances could in time lower the production cost of the various renewable energies that are already coming online, to the point that they can compete on an equal footing with fossil fuels, and also to progress toward the large-scale adoption of clean coal technology, hydrogen, and methane hydrates.

Be it oil, gas, or coal, the distances involved in Russia's inland transportation will remain a problem. It will be necessary in the future to extend the construction of energy processing bases, which are already becoming a reality in Western Siberia, to Eastern Siberia and the Far East. For this to be achieved quickly, however, it will be essential for Russia to allow in foreign capital and also to create an investment environment in which that capital can participate in development projects.

Rising exports of Russian oil to China are certain to raise the total share of Asia-bound exports in Russia's overall oil exports. The question lies in whether or not these exports can be expanded beyond China to other Asian markets in an economical way. Russia can certainly take market share away from Middle East products if it lowers prices. However, the question will still remain as to whether or not, having secured that share, Russia will be able to produce sufficient economically viable oil to fill it. It is hoped that not only oil exports via VSTO but also oil from offshore development projects in the Sea of Okhotsk can be added into the mix in the near future.

As regards natural gas, the bulk of Russia's pipeline exports will go to China. In the case of LNG, however, price competitiveness will vary depending on where in Russia the gas originates. If it is indeed going to be many years before we witness an era when oil prices top $100/bl, then Russia may have little hope of prevailing against Australian, US, and East African LNG on price, given the high inland transportation costs involved in getting East Siberian gas to the Pacific coast for liquefaction and export.

A host of measures will be necessary to turn this situation around. These include the use domestically of "development support funds," including low interest loans with payment periods of 20 years or more; lowering single-year production and transportation costs by permitting the application of extremely long-term depreciation rules for companies; and expanding the scale of production to the maximum extent possible in an economical way; for example, bundling some of the gas fields of Eastern Siberia and Far East into a single economic entity. Regarding "development support funds," there is a possibility that the Asian Infrastructure Investment Bank (AIIB), which Russia has joined, could play a part in providing assistance in the future.

Coal exports present an even greater challenge than oil and gas. While long-distance transportation is a problem that coal shares with oil and gas, in the case of rail transportation, the distances involved are simply too great for the government to step in to help the industry. Even if the government did provide support for railways, it could not last for long, as it would simply be a repetition of the Soviet system. In short, the problem comes back to the fact that it is not possible to apply the same kind of cross-subsidy formula used for the Transneftj pipeline systems to the railway business in Russia. More fundamentally, however, entrusting the development of natural resources to market principles alone is a dubious proposition. The question of how best to construct an approach slightly separate from market principles without creating a mountain of unprofitable projects requires the creation and execution of flexible policies that are transparent both in their legislation and their administration.

At first glance, it would appear that there are a number of common issues shared by all three East Asian consumer countries. However, the reality is that at the actual policy level, each country will continue to address these issues each in their own way and based on their own domestic concerns. Ideally one would like to consider the ideal mix for energy resources in Northeast Asia, combining best-case scenarios for each of the three countries and eliminating any contradictions between them, but that cannot be

calculated easily. The European Union is moving forward with devising an energy policy that will transcend its individual member countries. However, this sort of grand plan is unlikely to be replicated in Asia in near future.

Nonetheless, for these three countries and Russia, it would still be meaningful to put in place some form of international consultative institution to be ready for future emergencies in the energy market. If such an institution were able to offer proposals about the optimal allocation of energy resources in Northeast Asia, or on how best to improve the economy of renewable energy, it could prove the first step toward an interregional association for international cooperation.

Developments like these might also lead to new perspectives on that key issue facing Russia today: how best to deal with foreign capital in energy resource development. Russia has maintained a cautious attitude toward inviting foreign capital into its resources sector, but the rapid development of East Siberia and the Far East may prove difficult to achieve if it cannot break out of that shell. In order to build an advantageous position *vis-à-vis* its competitors in the market as an energy resources exporter, Russia may inevitably have no choice but to allow foreign capital to participate in both the development and production stage within the country. We have to note that this is not only the case for the resource sector, but for all projects related to the development of East Siberia and the Far East.

Notes

1. This chapter is predicated on a timeline running out to approximately the year 2025, and assumes that the large-scale practical application of clean coal technology, hydrogen, and methane hydrates will not have begun within that timeframe.
2. Full text available at: http://www.energystrategy.ru/projects/docs/ES-2030_(Eng).pdf, accessed 15 May 2016. The Russian government now prepares the final draft of "The Energy Strategy of RF up to the year 2035," and no clear idea of reserve increase in the area has been reported; see: "The Energy Strategy: Oil Reserves will Grow by 15 bln tonn by 2013" (Энергостратегия: запасы нефти к 2035 году вырастут на 15 млрд тонн), *RIA Novosti*, 16 September 2015, http://ria.ru/economy/20150916/1255888064.html, accessed 15 May 2016.
3. In Russian reserve definitions, A (in current production), B (unused production capacity), and C1 (30% will shift to B and then A) denote explored reserves, depending on their degree of substantiation. The same is for C2—estimated reserve (presumed to exist), C3—potential resources and

D1/D2—forecast resources. These categories are roughly comparable to Western ones as A—Proved, C1—Probable, and C1 partially/C2—Possible.

4. See: The Program of Creation in Eastern Siberia and the Far East of the Single System of Extraction, Transportation and Gasification, With Possible Gas Export to the markets of China and Other Asian-Pacific Countries (Программа создания в Восточной Сибири и на Дальнем Востоке единой системы добычи, транспортировки газа и газоснабжения с учетом возможного экспорта газа на рынки Китая и других стран Азиатско-Тихоокеанского региона), approved my Russia's Ministry of Energy, dated 3 September 2007, No.340 (утв. приказом Министерством промышленности и энергетики РФ от 3 сентября 2007 г. N 340), available at: http://base.garant.ru/192224/#ixzz48nxHCObd, accessed 15 May 2016.
5. Based on the author's communication with the representatives of a Russian company in 2015. Owing to the confidentiality of business communication, the source cannot be disclosed.
6. The distance between Tajshet and Anzhero-Sudzhenik is 708 km; Anzhero-Sudzhenik and Purpe 1,106 km; Purpe and Vankor 550 km.
7. The current VSTO transportation tariff is Rb. 2,237/t (Приказ № 991/15 of 22 October 2015 http://fas.gov.ru/documents/documentdetails.html?id=13688), or approximately 37/ton ($=Rb.60.3 as an average rate for the year of 2015). Even so, this is preferential treatment compared to westbound transport tariffs. According to Transneftj sources, the Samotolor–Kozmino tariff is Rb.32.24/t/100 km, while it is Rb.48.96/100 km for Samotolor–Primorsk and Rb.42.88/100 km for Samotolor–Novorosijsk (Izvestia, 5 June 2014).
8. Author's estimates based on personal communications with business partners.
9. This assessment is based on the author's assumption/calculation. Even if the oil sales price is $50/barrel, i.e. around $350/ton, the remaining $180 ($350 minus $50 as production cost, minus $120 as transportation cost for Tajshet–Kozjmino) shall cover the additional transportation cost up to Tajshet (nearly for 3000 km from Vankor as above and from West Siberia, too), profit, and investment resources. I do not think it would be an easy business unless the transportation cost is artificially lowered and some other favours are given to oil companies.
10. On the VSTO extension project, see: "The Extension of Both Segments of VSTO Will be Finished by 2019 (Расширение обеих очередей ВСТО завершится в 2019 году), *RusEnergy*, 24 March 2015, http://www.rusenergy.com/ru/news/news.php?id=75501&phrase_id=2765591, accessed 15 May 2016.
11. According to the author's estimates, the maximum crude export volume that countries other than China may consume is 16–19 million tons. The volume of crude oil that China imported from Russia sharply increased from

2014 to 2015, but it may be down to the level of 2014 again owing to China's economic situation now and in future.

12. For a more detailed breakdown of export figures from Port Kozmino, see: "Port Kozmino in 2015 Shipped 48% of its Oil to China (Порт Козьмино в 2015 году отгрузил 48% нефти в Китай), *OilCapital.Ru*, http://www.oilcapital.ru/transport/280485.html, accessed 15 May 2016.
13. For more details, see: Gazprom Annual Report 2013, full English version available at http://www.gazprom.com/f/posts/07/271326/gazprom-annual-report-2013-en.pdf, accessed 15 May 2016.
14. For a detailed account of Australian LNG projects, see report by the U.S. Energy Information Administration, 28 August 2014, available at http://www.eia.gov/beta/international/analysis.cfm?iso=AUS, accessed 15 May 2016.
15. "Approved North American LNG Import/Export Terminals," The U.S. Department of Energy, Federal Energy Regulation Commission, 6 May 2016, http://www.ferc.gov/industries/gas/indus-act/lng/lng-approved.pdf, accessed 16 May 2016.
16. For more information, see: Donggi Senoro Liquefied Natural Gas, http://www.donggisenorolng.co.id/dslng-project/eng/DSLNG-project/, accessed 15 May 2015.
17. "The long term programme of Russia's coal industry development until 2013 (Долгосрочная программа развития угольной промышленности России до 2030 года), Ministry of Energy of the Russian Federation, 2014, http://minenergo.gov.ru/node/1846, accessed 15 May 2016. Under the same programme, production by 2030 is estimated at 325–430 million tons, and exports at 170 million tons.
18. Initially the plan called for expanding capacity to 55 million tons/year. However, there were strong requests from Western Siberia coal companies for an expansion in eastbound transportation as well, and the government is now considering increasing transport capacity from the present 5000–6000 tons to 7000 tons per train.
19. "400 Largest Russian Companies," rating prepared by *Expert*, No. 43, 2014, available at http://www.sgc.ru/en/press-room/media-about-us/item.wbp?article_id=cb005a1b-3777-49d5-91f2-63514ac92694&from=01/01/2000&to=10/20/2014, accessed 15 May 2016.
20. World Energy Outlook 2014 Factsheet, International Energy Agency, http://www.worldenergyoutlook.org/media/weowebsite/2014/141112_WEO_FactSheets.pdf, accessed 15 May 2016.
21. "Total Petroleum and Other Liquids Production," Energy Information Administration Outlook 2013, http://www.eia.gov/countries/cab.cfm?fips=ch, accessed 15 May 2016.

22. World Energy Outlook 2014 Factsheet: How Will Global Energy Markets Evolve to 2040? International Energy Agency, http://www.worldenergyoutlook.org/media/weowebsite/2014/141112_WEO_FactSheets.pdf, accessed 15 May 2016.
23. 489 million kl in crude oil equivalent are equal to 419.7 million tons in crude oil equivalent, while Japan's primary energy consumption in 2014 was 456.1 million tons in crude oil equivalent. For more details see BP Statistical Review of World Energy, June 2015, http://www.bp.com/content/dam/bp/pdf/energy-economics/statistical-review-2015/bp-statistical-review-of-world-energy-2015-full-report.pdf
24. For more details, see: National Basic Energy Plan, Korea (2008–2030), http://www.energyplus.or.kr/pdf/11_ing/110207_t2.pdf, accessed 15 May 2016; and Energy Policies of IEA Countries: the Republic of Korea, 2012 Review, https://www.iea.org/publications/freepublications/publication/Korea2012_free.pdf, accessed 15 May 2016.
25. "Speculative money shaking up crude market," *Nikkei Asian Review*, 17 March 2015, http://asia.nikkei.com/Markets/Commodities/Speculative-money-shaking-up-crude-market, accessed 15 May 2016.
26. US dollar interest rates are also believed to impact global speculative capital flows. If the FRB decides to raise interest rates in the future, it is conceivable that capital could leave the oil market for other profit centres. Should that happen, it becomes less likely that oil prices will soar again as they did in the recent past.
27. See: BP Statistical Review of World Energy 2014, http://www.bp.com/content/dam/bp-country/de_de/PDFs/brochures/BP-statistical-review-of-world-energy-2014-full-report.pdf, accessed 16 May 2016.
28. In the beginning of 2016, the view that oil prices will likely remain at low levels for the long term becomes dominant in the world oil markets and this seemingly begins to soften the customers pressure on LNG sellers, as no large difference is expected to be formed between oil-linked prices and hub-linked prices.
29. For more data, see: Statistical Communiqué of the People's Republic of China on the 2014 National Economic and Social Development, National Bureau of Statistics of China, 26 February 2015, http://www.stats.gov.cn/english/PressRelease/201502/t20150228_687439.html, accessed 16 May 2016.
30. "UPDATE 1-China to reduce coal consumption, lessen pollution—ministry," *Reuters*, 6 March 2015, http://uk.reuters.com/article/china-coal-cut-idUKL4N0W834Q20150306, accessed 16 May 2016.
31. See: 强化应对气候变化行动——中国国家自主贡献 (Strengthening Policies Climate Change Problem Policies—China's Independent Contribution),中国国家发展和改革委员会应对气候变司 (Department of Climate Change,

National Development and Reform Commission of China), 30 June 2015, https://web.archive.org/web/20160411221055/http://www4.unfccc.int/submissions/INDC/Published%20Documents/China/1/China%27s%20INDC%20-%20on%2030%20June%202015.pdf, accessed 16 May 2016.

32. The Ministry of Economy, Trade, and Industry formulated a plan to increase base-load electric power—which had fallen to slightly under 40% in 2013—to near 60%. Under this plan, 2030 base-load sources would be nuclear power, hydro, and coal, with nuclear power accounting for 20–22%, hydraulic power 8.8–9.2%, and coal 26%. See: *Strategic Energy Plan*, The Ministry of Economy, Trade and Industry of Japan, April 2014, http://www.enecho.meti.go.jp/en/category/others/basic_plan/pdf/4th_strategic_energy_plan.pdf, accessed 16 May 2016.
33. "Japan to pledge 20% CO2 cut—reports," *The Guardian*, April 9, 2015, http://www.theguardian.com/environment/2015/apr/09/japan-to-pledge-20-co2-cut-reports, accessed 15 May 2016.
34. The factors contributing to higher prices are: (1) adjustment costs owing to fluctuations in fuel prices; (2) rate revisions; (3) consumption tax; (4) surcharges under Japan's feed-in tariff system for renewable energy. The largest single factor is fuel price fluctuation. TEPCO's oil and gas purchasing price nearly doubled between January 2011 and 2014 alone.

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CHAPTER 7

Russia's Siberia and the Far East on the New Infrastructure Map of Eurasia

Anastasia Likhacheva

1 Introduction: The Eurasian Context

Throughout the 2000s, trade between Europe and Asia grew substantially. As a result, there was increased utilisation of the main trade and transportation routes, specifically the maritime routes of the Strait of Malacca and the Suez Canal. As a corollary, these routes became overloaded, increasing the time for delivery, and there were also increasing instances of piracy (Treves 2009). In light of the situation, a discussion about the development of alternative routes (Gaulier et al. 2007a) began: on the use of new sea routes, and the "revival" of the Silk Road, which included the American project of the New Silk Road with Afghanistan (Kuchins et al. 2010) and the European Transport Corridor Europe–Caucasus–Asia (TRASECA)

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(Emerson and Vinokurov 2009; Linn and Tiomkin 2006; Starr 2007). Simultaneously, the Asian and European powers actively developed and became attractive markets for each other, which has additionally prompted the development of new trade routes (Simpfendorfer 2011; Karrar 2010).

However, following the global financial crisis in 2008–2009, the trend described above changed. China's growth rate began to slow from double-digit growth to single digit because of issues facing the structural transformation of the economy and socio-economic development (Zhang et al. 2011). The Chinese government prioritised the transition to developing domestic consumption and inclusive growth, intensive development of China's central and western provinces, and increasing trade turnover and investment flows with Japan, Korea, the Association of Southeast Asia Nations (ASEAN) states, and South and Central Asia (Gaulier et al. 2007b). As part of this broader regional trend, Asia is shifting from the "Asia for the world" and "Factory Asia" models (Baldwin 2013) and transitioning to an "Asia for Asia" model (Bordachev et al. 2014). As a result, the balances of intra-regional trade and traditional North–South trade patterns have sharply shifted (Ando 2006). Conversely, Europe has not managed to return to sustainable economic growth post-crisis. According to UNCTAD data, since 2011 the growth rate of Asia–Europe trade turnover has slowed to 6.5% per year.[1] At the same time, the ability to localise production of European goods and equipment in China has increased significantly and a build-up of bilateral trade has slowed down. As tariffs have been reducing throughout Asia, and as part of this larger trend, international logistics has quickly evolved and is increasingly providing rising capacities (Egan 2014). As of 2015, global container fleets have increased by 8% and have set a new record for 20 billion Twenty-Foot Equivalent Units (TEU) (JOC Maritime News 2014).

Owing to these developments, the acute need to establish alternative commercial routes for trade between Europe and Asia is becoming increasingly complex. Among the maritime options, a route through the Strait of Malacca and the Suez Canal remains the cheapest and the best-equipped choice. Land routes linking the western provinces of China and Europe are unlikely to be the optimal option, as the route lacks high demand and is under-utilised in comparison to alternative routes. The Chinese market remains the most attractive for goods produced in Western provinces (Yang 2012). In focusing on Eurasia, the region has transitioned to become economically oriented towards Asia, as opposed to its previous European orientation.

Over the last few years, the regional powers have pushed the development of new routes in order to reduce the security risks inherent to the use of traditional sea routes. These risks primarily include the volatile security environment in Asia-Pacific and the Indian Ocean, instability in the Middle East, the growing security risk facing the Strait of Hormuz and the Suez Canal, and a growing dependence on the Strait of Malacca, which not only faces increasing incidents of piracy, but also increased tensions in the South China Sea.

Since the global financial crisis, the Asian powers, both rising and established, have initiated or supported some large-scale infrastructure projects in the region. ASEAN has significantly advanced integration, connectivity, and infrastructure development through the Connectivity Blueprint and ASEAN Economic Community. Additionally, ASEAN and its ASEAN Plus partners initiated the Regional Comprehensive Economic Partnership (RCEP) free trade negotiations. South Korean President Pak officially launched South Korea's Eurasian initiative. India started to position itself as a Eurasian power and proposed the idea of a new North–South corridor—a cross-Eurasian trade route. China has pushed its project One Belt, One Road (OBOR) as the centre of its foreign economic policy and part of its internal strategic development. Russia put such initiatives as modernisation and the promotion of the northern sea route and renovation of the Trans-Siberian route as important national development policy objectives. Figure 7.1 shows the gradual increase of large infrastructure and connectivity projects in the 2000s and 2010s.

Supplementing the new types of economic cooperation in Eurasia, Asian states, especially China and Japan, have attempted to diversify their imports and exports, specifically increasing imports of oil and food, and high-tech and machinery exports, with Latin American states (Hearn 2011; Jilberto and Hogenboom 2012; Myers and Kuwayama 2016).The reconstruction of the Panama Canal and the proposal to construct the Nicaraguan Canal will help give further impetus to the solidification of expanding relations between Asia and Latin America. In bolstering this emerging relationship, China is the main initiator and investor (Wong and Yip 2013). While signalling positive developments for Asia, these plans do not fully incorporate Eurasia. This chapter primarily focuses on the development of Siberia and the Far East, and the connection between these programmes and the development of Siberia and the Far East is marginal and indirect.

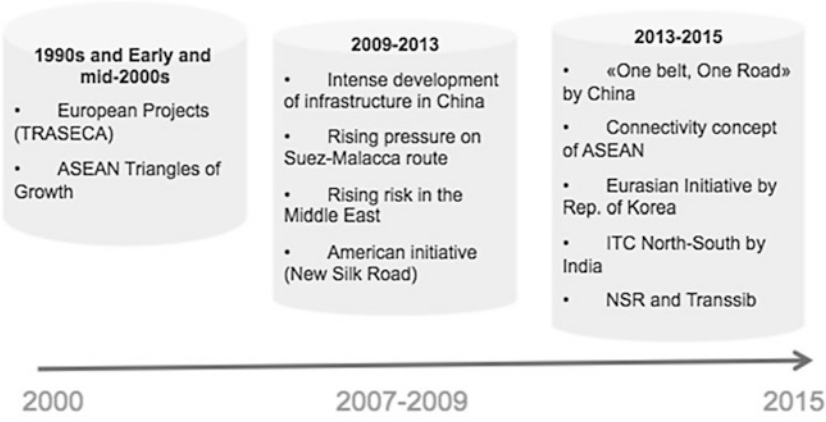

Fig. 7.1 Graduate boom of Eurasian mega-projects in 2000s and 2010s. *Source*: Summary by the author

This chapter argues that both the political and economic situation are currently favourable for extensive development of new infrastructure linkages and hubs within and around greater Eurasia. One of the main aims of the chapter is to present one of the first attempts of a comprehensive list of opportunities and projects that will facilitate connectivity.

In the following section, we briefly present the current status of the Eurasia new infrastructure map. While most of the projects are rather new or are very small scale, we provide brief descriptions based on open sources and analyse a place for Siberia and the Far East in these projects via an infrastructure component, and present both the Asian and Russian perspectives. The data utilised in the analysis comprises official documents, strategy plans, official statements of the policymakers, and business news sources to examine the extent that these projects and their links involve Siberia and the Far East. In addition, the chapter examines the dialogue surrounding these developments from Russian experts, and among the local and region business community, and analyse their views on regional prospects.

Members of this discussion group comprise several groups: first, "masterminds of the pivot to Asia", who are the statesmen, experts, and business leaders involved in the process; and second, the "transit dreamers", who are the Russian railway companies. The purpose of the chapter is not to give a definitive diagnosis of the development of Russia's Siberia and

Far East but to present a visionary approach of how to develop this region. In doing so, the conclusion proposes new approaches and measures by which Siberia and the Far East may be further connected to Asia-Pacific, and which projects and plans could benefit from cooperating.

2 New Infrastructure Map of Eurasia: Higher Speed, More Routes, and Modern Hubs

This section focuses on the major regional infrastructure projects, which will have a significant impact on the movement of people, goods, and capital throughout Eurasia. It covers China's One Belt, One Road (OBOR) initiative, and South Korea's, India's, and ASEAN's plans for regional development. As some of these projects are still in the nascent stages of implementation, it is difficult to estimate their economic impact and the implications they may have on trade flows. What links these projects together is that they all seek to develop new trade routes that will be key for widespread economic growth, and form key policies of the respective states and organisations.

2.1 One Belt, One Road

The most ambitious concept, OBOR, comprises two distinct parts, the belt and the road. The belt segment comprises the development of a network of ports in the Indian Ocean, which will facilitate Chinese investment, and the road portion is the development of ground transportation infrastructure through Central Asia and Russia as well as a network of modern roads and rail tracks between ports and major production centres in the interior of the continent (*Global Times* 2015). OBOR is progressing with the establishment of a train that travels from China to Europe and the construction of several Indian Ocean ports (Tiezzi 2014a). While ambitious, the potential of the plans should not be overestimated because sea freight is cheap and trade between China's central and western provinces and Europe is marginal. However, it should be kept in view that OBOR goes beyond transportation infrastructure, and encompasses overall economic development as well as the expansion and bolstering of regional logistics networks (Tejas 2015).

While the idea of creating the Silk Road economic belt was officially announced in China in autumn 2013, the real work on the realisation of this idea had begun much earlier. In 2013 in Astana, Kazakhstan, Chinese

President Xi Jinping invited his listeners "to join forces and through innovative methods of cooperation to create an economic zone of the Great Silk Road, to support closer economic ties between the Euro-Asian countries". According to him, "a new corridor along the Silk Road is different from the traditional model of regional cooperation that would not imply cooperation through the establishment of a supranational governing structure".[2] In November 2014, China's leader, at a meeting with the leaders of Pakistan, Bangladesh, Cambodia, Laos, Mongolia, Myanmar, and Tajikistan, declared China's readiness to invest $40 billion in the Silk Road Fund to finance the construction and upgrading of roads and railways to increase the volume of trade with European countries (RIA Novosti 2014b). While these countries are interested in the development of the Silk Road, they are also extremely keen to bolster their individual relationships with China.

While the aspirational OBOR and Silk Road initiative hold tremendous potential, a detailed overview of specific projects is lacking. As noted by Igor Denisov, "blurred geographical scope of the project and its essentials from the transport corridors in the East, South and West Asia—to continental cooperation projects" (Denisov 2015). For Russia, the greatest interest is in the land component of the OBOR and the Silk Road project, as was clearly proclaimed by both President Putin and Deputy Prime Minister Igor Shuvalov at a meeting with Chinese President Xi Jinping in May 2015 and at the Boao Summit, respectively.

In examining the development of the Silk Road project there are several factors in understanding China's rationale for the initiative. The first is the tremendous resource base, especially oil, gas, and coal, in Central Asia, specifically Kazakhstan, and the potential to enhance the industrial potential of China's western provinces (Brugier 2014; Fazilov and Chen 2013). Second is the goal of strengthening China's economic influence in Central Asia, including the region in the "Asia for Asia" model, and through increasing ties with the Eurasian Economic Union (EAEU) gain access to Russia's markets. In taking a long-term perspective, China additionally wants to set the stage for beginning to outsource, industry, particularly energy-intensive industry, to the region (Xu Hui Shen 2015). The third objective is the preservation of the relative stability in the Xinjiang Uighur Autonomous Region (XUAR) (Mackerras 2015). Roughly 45% of the area's population is Uighur, a Muslim Turkic people. Modern Uighur separatism represents one of the main problems of China's domestic policies over the last decade. Beijing's strategy to mitigate the problems is to

accelerate the development of Xinjiang and to strengthen its economic ties with other Chinese provinces and neighbouring Central Asian countries (Ramachandaran 2014). In light of the main goals behind China's project, increasing transit routes with Europe is a secondary priority, yet certainly attractive as growing trade ties and increasing risks facing maritime trade make land-based logistics more favourable in comparison.

In analysing China's initiatives, it is important to take into consideration the historical and cultural aspects. The Silk Road was one of the main corridors transmitting culture through Europe and Asia. While expansive, the Silk Road's western route stopped in modern day Afghanistan and Uzbekistan, and to the east trade rarely passed Xi'an in China. While the route is historic, China's OBOR and Silk Road are more often compared to the Marshall Plan (Tiezzi 2014b) or a new Eurasian empire (Lukin 2015a).

In analysing the infrastructure projects, there are several key initiatives that seek to create corridors from China to Europe. The first project involves Russia, China, and Kazakhstan; this "North Creek" route covers Urumqi–Omsk–Moscow–European Union, and encompasses 7500 km of railway and 6900 km of road (Karaganov and Makarov 2015). One of the other crucial routes, which is more advanced, goes from Western China to Western Europe, passing through Lianyungang, Zhengzhou, Lanzhou, Urumqi, Horgos, Almaty, Kyzylorda, Aktobe, Orenburg, Kazan, Nizhny Novgorod, Moscow, and St Petersburg, with access to the ports of the Baltic Sea. This is the only route in the plans that is currently in operation, and it has a tremendous advantage being the only existing route that goes through the China and Kazakhstan border customs zone. Since 2008, a joint venture between Deutsche Bahn and Russian Railways—Trans Eurasia Logistics—has been ongoing, and in 2011, it managed to launch the first daily freight trains from Germany to China.

One of the key issues facing the route is its limited bandwidth. To ensure the competitiveness of the route, the states will have to significantly modify it. According to Valdai club research the length of the final route should reach 8400 km, 3400 km of which was laid on the territory of China, and the 2800 and 2200 km built or upgraded in Kazakhstan and Russia respectively (Karaganov and Makarov 2015). Ideas about the reconstruction of the route are not new. Back in 2007, the countries involved signed a memorandum on the development of the roads along the route connecting St Petersburg–Kazan–Orenburg–Alma-Ata. However, this project has not been implemented because of a lack of funding to rebuild the roads to international standards. Over the past few years, interest in the proj-

ect has increased again. In July 2014 in Beijing, the Head of the Russian Presidential Administration, Sergey Ivanov, said that the connection of the Silk Road to the Trans-Siberian is extremely promising. Additionally, he said that an agreement has been made regarding the construction of a road from China through Kazakhstan to the Baltic Sea (RIA Novosti 2014a). Progress has been slow, and as of 2015 only frameworks for the projects had been unveiled. There are alternative routes to the Orenburg and Aktobe route, which involve maritime transportation in the Caspian Sea and the development of multimodal coastal infrastructure. This is extremely attractive as it is most beneficial for the development of central Siberia, and would help alleviate the over-burdened West-Siberian Railway.

Talking about particular projects as a part of OBOR that are of relevance to Russia (Global Times 2015), it is important to mention that nowadays in a unique document that reveals design content of OBOR, only previously discussed projects involving Russia appear. Thus, such a large window of opportunities for Russian regions is limited to a large extent by an agenda that was established before the crisis between Russia and the West:

> We should give full play to Inner Mongolia's proximity to Mongolia and Russia, improve the railway links connecting Heilongjiang Province with Russia and the regional railway network, strengthen cooperation between China's Heilongjiang, Jilin and Liaoning provinces and Russia's Far East region on sea-land multi-modal transport, and advance the construction of an Eurasian high-speed transport corridor linking Beijing and Moscow with the goal of building key windows opening to the north. (Global Times 2015)

Cross-border transport projects between China and Russia can play a huge role in the development of the Russian Far East. With support from China, the development of transport corridors in the Primorye region of Russia has already been launched. The project includes a transport corridor, "Primorye-1", which is operational, and the first shipments have already occurred. The corridor connects the border railway station Suifenhe with the container terminal port of Vostochny, a distance of 500 km, while the distance from Suyfenhe to the nearest Chinese port of Dalian is roughly 1300 km. The corridor has access to the Ussuriisk–Pogranichniy–Gosgranitsa motorway, and the ports of Nakhodka and Vladivostok. Its ultimate goal is the capability to ship Chinese containers to Northeast Asia and the United States.

The second corridor, "Primorye-2", connects Jilin to the ports of Slavyanka, Zarubino, and Posiet. At the end of June 2014, an agreement was signed between Tranzit-DV and the Chinese Zhong Gong Xin companies, which outlines the joint construction of Slavyanka Port for container traffic, the construction of a highway connecting the port to the border, and positioning it as the cargo port for China's northeastern provinces (RIA Novosti 2014c). For the Zarubino Port, four terminals will be constructed for specific goods, and this is expected to be launched in 2018. In predicting the utilisation of the ports, it is expected that approximately 60% of cargo flow will be with China, 30% will be export of Russian goods to Asia-Pacific, and 10% will be trade between Russia and other foreign trade partners. (Makarov et al. 2014) The third corridor, "Primorye-3", will stretch from China to Vladivostok, and is substantially a shorter route than the others that are proposed. One of the significant benefits of this corridor is that it will act not only as a hub for the transit of Chinese goods, but also as a hub for European goods and a gateway for the Northern Sea Route (NSR). However, it will be difficult to implement, since the planned turnover is dominated by container cargo and grain, and these are difficult to carry through the NSR because of lack of a proper infrastructure and the climatic conditions of the Arctic.

Complementing the Primorye corridors connecting Russia and China, other projects have been put in place. In 2013, roads and bridges linking the mainland of Khabarovsk Krai with the island Big Ussuri and China were opened, and commissioned in 2015 was the construction of a railway bridge from Nizhneleninskoye to Tongjiang, crossing the Amur River and connecting the Jewish Autonomous Region and the Chinese province of Heilongjiang. The project is designed to shorten the transportation distance by 700 km. Supplementing China–Russia connectivity and infrastructure projects, China is also firmly committed to the development of the China–Mongolia–Russia economic corridor. Following the Boao Summit in 2014, the Chinese Minister for Foreign Affairs Wang Yi announced the initiative as part of the OBOR project; it is inclusive of the Mongolian "steppe road" and the Russian Trans-Eurasian corridor projects (RIA Novosti 2015). While aspirational, the project has yet to be fully developed, despite being announced by Chinese President Xi Jinping in September 2014.

A further connection between China and Russia under the OBOR initiative is the high-speed Moscow–Beijing corridor. In May 2015, initial agreements and memorandums were signed, and the corridor is slated to connect Moscow, Yekaterinburg, Astana, Irkutsk, Ulan-Bator, Khabarovsk,

and Beijing. It has more of a Siberian focus than other related projects. It should be noted that its implementation is still in the early stages, and concerns over the competitiveness of railway lines in comparison to air traffic remains an issue.

While there exists a range of potential plans, the level of development and implementation has so far been rather disappointing. Siberia remains devoid of short- to medium-term developmental plans from both the Russian and Chinese side. Even within the OBOR project, the Trans-Siberia route's European section remains the only portion being developed. Attention is not being paid to further development of the Northern Sea Route, neglecting the opportunities there. It remains to be seen how far the development of the Primorye corridors will expand to differing parts of the Far East and Siberia, and whether the corridor will prompt the creation of new sea routes.

2.2 South Korea's Eurasian Initiative

South Korea has been one of the countries that is most keen on joining the OBOR and Silk Road projects, and it has launched its own Eurasian Initiative. Initiated on 18 October 2013 by South Korean President Park Geun-Hye, South Korea's Eurasian Initiative seeks to not only bolster South Korea's connectivity with Russia, but also the opportunity to enhance South Korea's trade and economic development (MOFAORK 2013; Korea.Net 2013; Lukyanov 2013). Currently, there are a variety of cross-border logistic projects under way that have strengthened South Korea–Russia ties. In September 2013, Russia and North Korea opened up the railway that connects Hassan and Raijin (Expert Online 2013b). The Rajin Port was designed as a coal terminal and will ship roughly 4 million tons of Russian coal per year (Expert Online 2013a). While the Hassan–Rajin railway is part of the larger Trans-Korean Railway, political tensions between Seoul and Pyongyang have caused the project to be placed on hold indefinitely, as South Korea declared it was dropping out of the project in March 2016. While the situation is unclear in the short term, it would be in the interests of South Korea to maintain interest in the Trans-Korean Railway, as it could emerge as an important corridor connecting the country to Europe. The project is in Russia's interest as well, as it offers the opportunity to further expand and modernise the Trans-Siberian Railway by linking it with the Trans-Korean Railway. In this light, Russia has an opportunity to act as a mediator between North and South Korea, as reunification on the Korean peninsula represents a significant opportunity for Russia.

2.3 International Transport Corridor "North–South"

Another key component that is driving connectivity and infrastructure linkages is the Trans-Eurasian project, which seeks to develop a cargo and passenger transportation route from St Petersburg to the Bandar Abbas Port in Iran, and potentially to Mumbai, India. The route, with a total length between 4500 and 7200 km, will facilitate the movement of goods and people from India, the Middle East, and Persian Gulf states to Russia and Western Europe. The route itself has been in existence since the 1990s, as it was utilised by the Soviet Union to ship goods to Central Asia and Iran (Khusainov 2005). Following the collapse of the Soviet Union, the route's use was halted; and only in 2000, during the Eurasian Transportation Conference in St Petersburg, was the project rekindled. During the conference, Russia, Iran, and India signed a framework agreement on establishing the international transport corridor (ITC) "North–South". In 2002, the Russian Duma ratified the plans (Khusainov 2005). The plan has expanded, and now includes new members Azerbaijan, Armenia, Belarus, Kazakhstan, Oman, Syria, Turkey, and Turkmenistan. One of the main impediments to the route is that railway infrastructure is lacking in many areas.

The North–South corridor includes three distinct routes that further connect Russia to the region. The east corridor will connect Kazakhstan to Astrakhan, Iran, Turkmenistan, and Uzbekistan. The west corridor stretches from the Caspian Sea to Azerbaijan; its route remains a work in progress as the line connecting Astara to Azerbaijan is still under construction. The third route is the Trans-Caspian corridor, which will transport goods across the sea. In order for this route to become operational, the Russians must modernise their ports and increase their capacity. Overall development is proceeding extremely slowly. For example, the Olya Port in Astrakhan, construction of which began following the fall of the Soviet Union, is not yet far enough advanced to be able to handle 1 million tonnes of cargo per year. It is expected that when it is complete the Olya Port will be able to handle upwards of 8 million tonnes of cargo per year (Rosmorport 2012). While these projects are expansive, they will have a marginal effect, if any effect at all, on the development of Siberia and the Far East, and it is Russia's intention to further connect the region to Asia-Pacific.

2.4 ASEAN Projects

ASEAN has embarked on Asia's most comprehensive regional integration and connectivity plans, both in hard and soft infrastructure. While ASEAN's own ASEAN Economic Community (AEC) seeks to further integrate its

members economically, the organisation's Connectivity Blueprint provided an overview of the ASEAN and related hard and soft infrastructure projects (Bhattacharyay 2010; Goron 2011; Das 2013). In supplementing the AEC, ASEAN and its trade partners launched RCEP, which has the potential to be one of the largest trading blocs in the world (Kimura et al. 2010; Lewis 2013). It is widely agreed upon by experts that ASEAN's regional integration projects and China's OBOR initiative are complementary and have tremendous potential (Fukunaga and Isono 2013; Pitlo III 2015).

One of the main international organisations driving the development of economic and transportation corridors over the last decades has been the Asian Development Bank (ADB). The bank's projects, including the Greater Mekong Sub-region (GMS), SiJoRi (Singapore, the Malaysian state of Johor, and the Indonesian province of Riau), BIMP–EAGA (Brunei, Indonesia, Malaysia, Philippines–East Asian Growth Area), and the IMT–GT (Indonesia, Malaysia, Thailand Growth Triangle). These projects have had a significant role in transforming logistics networks, bolstering connectivity infrastructure throughout the region, and establishing projects that enhance the competitiveness and economic growth of participating states and locales. While the numerous projects were aspirational and were met with optimism, implementation problems have dogged them and remain a significant roadblock (Heng et al. 1995; Jacob 1996).

These projects stand to greatly benefit ASEAN and East Asia, but their impact and connection to the development of Russia's Siberia and Far East is minimal. In order for Russia and ASEAN to boost relations and connectivity, it requires all actors to move beyond the previous agenda and structure of political and economic relations, and for states to look towards the future possibilities and opportunities that may arise from Russia–ASEAN cooperation.

3 Siberia and the Russian Far East

As Asia continues to integrate, Russia has been developing its own plans for infrastructure modernisation in Siberia and the Far East. In comparison with the projects previously outlined, Russia's projects seek to connect with the other major regional infrastructure initiatives. Russia's plans, which are aimed at internal development, include developing and modernising the Trans-Siberian Railway and the Northern Sea Route. While plans for the development of Siberia and the Far East have been ongoing for a long time, these modernisation projects remain critically underfunded and lack implementation.

3.1 Trans-Siberian Railway

The Trans-Siberian Railway connects Moscow with the largest cities in Siberia and the Far East and is the longest railway in the world, stretching 9298.2 km. The railway has several offshoots, including the Transmanchzhurskaya, the Mongolian railways, and the Baikal–Amur Route (BAR). The Trans-Siberian Railway is a crucial artery of Russian infrastructure, connecting the capital to other parts of the country. The railway's prominence has risen with the evolution of developmental plans for the region. It transports less than 1% of trade between Europe and Asia, with most of the traffic occurring in areas covered by OBOR and the Silk Road initiative, and the volume of trade has increased as a result of the growth in Europe–Asia trade. The Trans-Siberian Railway should not be seen as a competitor to the Silk Road initiative, but as part of the large integration and connectivity project. The route, in comparison to road infrastructure, is far better developed, as the capacity of roads to transport goods is reaching breaking point, because of underfunded maintenance and development.

In order to enhance the competitiveness of Russia's land infrastructure, not only is substantial investment required, but also tremendous modernisation and expansion are necessary. This includes construction as well as the modernisation of communication and energy infrastructure. Components of the government's modernisation scheme include increasing cargo capacity, repairing and reducing bottlenecks, and improving the speed of the train to 1500 km per day. The modernisation programme, which was approved in July 2013, for the BAR and Trans-Siberian Railway is estimated as costing $562 billion rubles, which includes $300 billion from investment railway fund, $110 billion directly from the budget and related investments, and $150 billion from the state's National Welfare Fund. Despite the difficulties facing the Russian economy in 2015, state financing of the projects were confirmed (Think Russia 2013). Despite projections, scepticism remains among experts over the ambitious and optimistic plans of the Russian railways.

In looking towards the future of the Trans-Siberian Railway, the prospects and long-term competitiveness of the railway seem positive. As the development programme for the Far East and Siberia has been announced, the Trans-Siberian railway is the best option for the movement of goods throughout the region. With the plans to increase the exports of coal from the Kuzbass coalfield by 35 million tonnes over the next 15 years, the railway will be heavily used. It should be noted, however, that this trend is dependent on coal prices maintaining current levels and an expanding market for coal in Asia (Russian Railroads 2013). Additionally, the plans

to double port facilities and capacities are under way, with the goal of boosting the amount of cargo from 163 million tonnes in 2012 to 334 million tonnes in 2030 (Rosmorport 2012). As resource exploration and exploitation continues in Siberia and the Far East, the railways are poised to be the key route to transport these resources throughout the region.

While the plans for modernising the Trans-Siberian railroad are ambitious, the competitiveness of the railway ultimately depends not only on the speedy modernisation of the infrastructure, but also on the price of energy resources and the ability to reduce delivery time. If the price of energy resources continues to decline, the railway will be unable to meet its full potential in terms of utilisation. It should be noted that the government has signalled its commitment to developing this crucial infrastructure by constructing the necessary complementary infrastructure to ensure usage of the railway, such as the upgrading of highways, elimination of bottlenecks, and the development of multimodal facilities on Russia's Pacific coast (Panova 2011). It remains to be seen how Russia and the Trans-Siberian Railway will be able to develop further links with Asian railways and new projects.

3.2 Northern Sea Route

In further expanding routes and infrastructure, Russia has committed to developing the Northern Sea Route (NSR), which will allow the country to diversify its trade and transportation routes between Europe and Asia (Blunden 2012). The NSR received its label from Russian legislation that determined what is considered the northern coast of Russia, which encompasses its northern territorial sea, internal waters, and the country's maritime exclusive economic zone. The NSR stretches from Russia's eastern border with the USA and the Bering Strait to its western border with the Matochkin Strait, Kara Gate, and the Ugra Bowl. Existing ports on the NSR include Igarka, Dudinka, Dixon, Tiksi, and Pevek. Throughout the 1980s, the NSR averaged the transportation of roughly 6.5 million tonnes of cargo per year, but by 1987 there was a sharp drop in traffic. This decline has been attributed to a decrease in production, population, and economic and investment activities throughout the region (Liu and Kronbak 2010).

While the NSR represents a new alternative route, it will not be able to supplant established routes such as the Suez Canal and the Straits of Malacca; during 2013, the NSR barely had 70 vessels pass through it, which would be the equivalent of one day on the Suez Canal (Khon et al. 2010).

Even though the NSR will not supersede the other routes, because of adverse conditions and lack of sufficient demand, it does offer an opportunity for Asian states for several reasons. First, usage of the NSR would mitigate some of the security risks associated with the other routes; second, the NSR would provide easier access to energy resources and the Arctic Shelf; and third, would provide an opportunity for states and regional companies to become involved in the development of Siberia and the Far East. One such example of corporate involvement is the Novatek's Yamal LNG project (Livinova and Makarov 2014; Makarov et al. 2014). By improving the access and operability of the NSR, Russia could overcome one of the issues facing Siberian development. The main competitive advantage of the route is that it is the shortest route connecting Europe and Asia-Pacific. The NSR would cut the distance between London and Yokohama in half and also reduce the costs associated with logistics.

Even though discussions about the development of the NSR have existed for some years, interest in the project has grown significantly since 2010 because of several factors, including the booming Asian economies, international interest in Arctic oil and gas reserves, and a reduction in ice blockages and impediments in recent years. It should be kept in mind that there are also factors which may inhibit the successful development of the route, such as the ongoing American and Western European sanctions against Russia, falling oil and energy resource prices, and a reduction in energy and resource exploitation. In order for the NSR to become successful, it will depend on the success of governmental and corporate investment and commercial policies, and its development should be framed in terms of its long-term potential (Livinova and Makarov 2014; Karaganov and Makarov 2015).

Demonstrating the government's commitment to the NSR's development, during the Federal Assembly in 2012 President Putin stated that the development of the NSR, along with other transit corridors, was being designed to "ensure transport connectedness and unity of the entire Russian territory", and represents "the most important development priority" (Kremlin.ru 2012) Furthermore, during a meeting of the Russian Security Council in April 2014 he stressed not only the need to increase the shipping capacity of the route, but also the need to accelerate the development of new ice-class vessels, and new nuclear and diesel-powered ice-breaking vessels (ITAR-TASS 2014; IIECA 2013). It should be emphasised that in addition to the commercial value of the NSR, there is also a critical military and security component, and by emphasising its strategic importance it could prompt additional interest in enhancing the

route. One policy measure that would increase the attractiveness of the NSR would be for Russia to establish a uniform system for its use, which would not only be of interest to foreign and domestic actors alike but also significantly improve navigation along the route.

For Russia, the development of the NSR is closely intertwined with the development of Siberia and the Far East, and each will be mutually supportive of the other if this development is effective. In the concluding section, the chapter transitions from an ex-post to an ex-ante analysis to examine the opportunities for the development of Siberia and the Far East in the future.

4 Options for Co-Development

Examining the perspective of Asian partners as regards the development of Siberia and the Far East, it appears that the region is of little interest to most of the actors involved, as for them it is considered to be little more than a transit point. From the Russian perspective, the outlook for the region is equally disappointing. Despite indications that the region will be developed, major Russian infrastructure and proposed projects are weakly connected both internally and to the wider region. Further dampening the prospects, there currently exists no efficient mechanism to connect the small-scale district-level projects to national and continental initiatives. Table 7.1 summarises the analysis.

In 2015, experts have been optimistic about the development of Siberia and the Far East because they believe that Asia's economic growth and Russia's ability to tap into it will be crucial triggers for furthering infrastructure development throughout the region. With the increasing economic importance of China's western and central provinces and the EAEU, these projects offer a variety of actors the opportunity to harness this momentum (Karaganov 2015). Tapping into this momentum is reliant upon constructing infrastructure and creating links between existing infrastructures that will further integrate Siberia and the Far East into regional logistics and production networks.

While there exists a variety of infrastructure projects and regional initiatives throughout Northeast Asia and Russia, none of them explicitly describe how these projects will be brought together or how they will bolster the development of Siberia and the Far East. The Ministry of Development for the Russian Far East has yet to present its vision of how to utilise the opportunities from the Vladivostok free port and Primorye corridors to further the development of Siberia and the Far East, and the NSR.

Table 7.1 The roles of Siberia and the Russian Far East in the new infrastructure map of Eurasia

Project	*Siberia*	*The Far East*	*Opportunities*
OBOR	Intense access to Trans-Siberia	The ports in the Far East, cross-border cooperation in the Amur River basin, the corridor Russia–Mongolia–China	New meridian infrastructure aimed at connecting Siberia to Central Eurasia. Intense institutional cooperation. In the long term—the connection of the Arctic regions of Siberia via the Northern Sea Route.
RCEP and connectivity concept of ASEAN	Not provided	Not provided at project level	Involvement of Siberia and the Far East in stable relationships in the region can fundamentally change the balance in the areas of food and energy security. Compatibility of the NSR with RCEP. Development of airline hubs in Siberia.
ITC "North–South"	Not provided	Not provided	Extension of the corridor to the East, which will significantly expand the base of mutual trade and give access to the energy market of Siberia to South Asia.
Eurasian Initiative of the Republic of Korea	Not provided at project level	The development of the port and rail links through Russia and the Korean Peninsula	Complete integration with the NSR, development of alternative infrastructure in Siberia apart from Transsib, development of air links between Korea and Siberia.

Source: Created by the author based on the analysis of various programme documents

In examining new opportunities rather than existing projects, one project that could tap ASEAN's own experiences in regional integration and infrastructure development is the possible development of the Amur River. ASEAN has had long experience of developing the GMS, and fostering multinational cooperation. The Amur River region not only holds potential in terms of energy exploitation, but also in tourism, environmental sustainability, and modern agriculture, which could form one of the foundations for the development of the Far East and Siberia. In its development of the Amur River, Russia should seek to craft sustainable environmental policies and should take a leading role in building an efficient joint management mechanism with its basin partners. Once in place, the potential Amur River model could be exported to the Irtysh River Basin.

Furthering the call for international cooperation, Russia and China should embark on an era of even closer collaboration. Chinese President Xi Jinping, during his trip to Moscow on 8 and 9 May 2015, confirmed that these discussions have been occurring at the highest levels (Kremlin.ru 2015). Discussions have taken place about strengthening dialogue between the EAEU and China, expanding the role of the EAEU in infrastructure plans, and creating lines of communication between international financial institutions, such as the Asia Infrastructure Investment Bank (AIIB), the BRICS bank, and the Shanghai Cooperation Organisation (SCO) Interbank mechanism. Western sanctions against Russia have prompted the state to seek out non-Western-led development institutions to facilitate development (Lukin 2015b). The EAEU's most significant achievement was the creation of a common customs, which is being bolstered by joint standards. The expansion of bureaucratic and legal instruments can foster greater opportunities for cross-border trade between the EAEU and its border neighbours (Lukin 2014). In order to truly take advantage of the opportunities arising from the EAEU, a more common understanding needs to be built between the differing levels and stakeholders in and associated with the organisation (Bordachev and Karaganov 2015).

Notes

1. Europe aggregates data of developed and developing European countries, Asia—of developed and developing Asian countries.
2. Ministry of Foreign Affairs of the People's Republic of China. *President Xi Jinping Delivers Important Speech and Proposes to Build a Silk Road Economic Belt with Central Asian Countries*. 2013/09/07. Retrieved 17 May 2016, from http://www.fmprc.gov.cn/mfa_eng/topics_665678/xjpfwzysiesgjtfhshzzfh_665686/t1076334.shtml.

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CHAPTER 8

The Russian Far East and the Northern Sea Route in Evolving Sino-Russian Strategic Relations

Marc Lanteigne

1 Introduction: Sino-Russian Relations in Uncertain Geopolitical Times

Since the Russian government under President Vladimir Putin announced its watershed 'Pivot to Asia' foreign policy initiative in 2013 (Hill and Lo 2013), the economic and strategic relationships between China and Russia have come under much greater international scrutiny. This is a product of China's growing need for energy and raw materials and Russian interests in tapping further into Asian economic growth potential, including via the Russian Far East (Дальний Восток or RFE), which borders on China and other parts of East Asia, including Japan and North Korea. The decision made by Moscow to deepen its diplomatic and economic relations with East Asia, especially with Beijing, came both as an acknowledgement that the centre of financial power in the international system had shifted to the Pacific Rim in the wake of the post-2008 global recession, and highlighted concerns in Russia that its relations with the West, including with Europe,

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were beginning to sour (Korolev 2016). Although there had been much debate in Moscow over how best to link Russia, and especially the RFE, to rising Asian economic powers, Russia's diplomatic isolation in the West as a result of the 2014 Ukraine crises has provided further impetus for Russian policymakers to seek stronger links with Asia-Pacific, especially China, given the latter's rapidly rising economic and political power.

Russia's Asia 'pivot' can also be viewed through the prism of difficult United States–Russia relations. There was initially much optimism that US–Russian relations would warm after a 'reset' policy was announced by President Obama during a July 2009 visit to Moscow, as a way of restructuring ties in the wake of active support by the previous administration of George W. Bush of a move to further expand the North Atlantic Treaty Organisation (NATO) into former Soviet lands, including Georgia and the Ukraine (White House 2009; Harding and Weaver 2009; Nexon 2014). The brief 2008 conflict between Russia and Georgia was an early sign that Moscow was nearing the end of its patience with American 'expansionist' policies in Eurasia. However, the defining event in Russian relations with the West and the decision to engage Asia to a greater degree was undoubtedly Western condemnation of Moscow's involvement in the 2014 Ukrainian conflict, including the annexation of the Crimean region, and alleged Russian support for ongoing violent secessionist movements and the carving out of a declared 'Novorossiya' confederation in the Donbas region of eastern Ukraine.

These conflicts came about after the 'Euromaidan' protests against the Ukrainian government over its policies towards the European Union (EU) resulted in the ousting of pro-Russian president Viktor Yanukovych in February 2014 (Kudelia 2014; Mearsheimer 2014; Freedman 2014). Russian culpability assumed by Western governments in the fighting in eastern Ukraine, as well as the shooting down of a Malaysian civilian airliner over the disputed zones allegedly by pro-Russian separatist forces in July 2014, created an even more toxic diplomatic atmosphere between Russia on one side, and Europe and the USA on the other.

Although China viewed the events in Ukraine with alarm, and reiterated its longstanding policy that the territorial sovereignty of states be maintained, Beijing stopped well short of criticising Russian actions and did not support economic punishment in the form of sanctions undertaken by the USA and Europe. The Ukraine crises further bolstered international perceptions of Russia as the 'loud dissenter' and China as its 'cautious partner', especially in opposition to Western strategic policies (Snetkov and Lanteigne 2015).

In March 2014, a Chinese Foreign Ministry spokesperson, commenting on the security situation in Ukraine, stated that while Beijing recognised and respected the role of non-interference and international law, 'we take into account the historical facts and realistic complexity of the Ukrainian issue' (Ministry of Foreign Affairs of the People's Republic of China 2014). These remarks were made in the wake of Beijing's decision to abstain during a United Nations (UN) Security Council vote which would have condemned the referendum held that month on whether the Crimea region should become part of the Russian Federation, (the resolution was defeated after an anticipated veto by Russia itself). Beijing had sought to define itself as more of a neutral arbiter in the dispute, proposing a three-point plan, (an international coordinating mechanism for tension reduction, greater restraint from all parties, and a focus on regional economic assistance), shortly after the vote and being critical of Western economic pressures on Moscow (Mu 2014). Under President Xi Jinping, China has continued to view Russia as a crucial economic and political partner in Asia-Pacific and in the world, and has been unwilling to participate in Western economic sanctions against the Putin regime.

At the same time, China and Russia have increased their coordination in multilateral regimes such as the BRICS grouping (Brazil, Russia, India, China, and South Africa), which has begun to deepen its structures to include embryonic financial institutions, such as the New Development Bank (NDB), designed to counter existing Western-dominated regimes such as the World Bank and Asian Development Bank (ADB) (*New York Times* 2014; Agreement on the New Development Bank 2014). Although there has been a flurry of institution-building in East Asia since the end of the Cold War, it has only been in recent years that regimes which exclude the USA and its regional allies, often with the core being Sino-Russian cooperation, have become more prevalent, raising the question of whether the region as a whole is seeing greater 'rival regionalisms' and regime divergences in Asia.

Another example of China's growing institutional power has been the development of the Asian Infrastructure Investment Bank (AIIB, 亚投行 *yatouhang*) since 2013. When Beijing originally called for an alternative source of institutionalised funding for Asian development, the first governments to agree to sign up to the proposal were largely from Southeast and Central Asia. However, by early 2015, several Western European governments, as well as Russia, also agreed to become founding members of the AIIB, despite tacit American pressure on its friends and allies to eschew contact with the Chinese institution (Higgins and Sanger 2015).

Russian commentators had suggested that Moscow's AIIB membership would be beneficial as a way of encouraging future economic partnerships which would mitigate the effects of Western sanctions since the Ukraine crisis. Russia officially joined the AIIB in April 2015 and agreed to become the third largest stakeholder in the Bank after China and India, representing 7.5% of the shares and committing US$1.3 billion in funding (Tian 2015; RT 2015). At the November 2015 Asia-Pacific Economic Cooperation (APEC) forum in Beijing, President Xi also proposed a revival of the long-discussed Free Trade Area of the Asia-Pacific (FTAAP) to counter the US-led Trans-Pacific Partnership (TPP) initiative, of which neither China nor Russia is a member (Hua 2015). The FTAAP had been a longstanding goal of APEC since the 1990s, but the large number of potential members and their differing economic structures made that goal a significant challenge, and prompted other options such as the TPP and the Regional Comprehensive Economic Partnership (RCEP), which Beijing also supports.

On the international level, there has also been a degree of policy coordination in international security issues, including over the conflict in Syria since 2011, which has resulted in the frequent use of the 'double veto' by China and Russia at the UN Security Council (Nichols and Charbonneau 2014). China and Russia have also increased their level of cooperation with the Confidence Building Measures in Asia (CICA) organisation, and continue to meet within the Shanghai Cooperation Organisation (SCO) (Kozyrev 2014). Both states had been concerned about American and Western European involvement in regime change policies in the Middle East, especially in Libya and Syria.

Nonetheless, although there has been a diplomatic warming between Beijing and Moscow under Putin and Xi, there has also been a noticeable shift in power between the two since the 1990s. No longer is China assuming the role of 'younger brother' (*didi* 弟弟) in the relationship, as was the case during the middle of the twentieth century and prior to the Sino-Soviet Split (*zhongsu jiao'e* 中苏交恶) in the 1960s. Instead, China has consistently maintained high rates of economic growth, even in the wake of the post-2008 financial crises, and more recently has sought to translate its economic power into an expanded foreign policy reaching regions outside the Asia-Pacific, including in Africa, Europe, Latin America, and also within the Former Soviet Union (FSU). Moreover, Beijing has demonstrated greater confidence in its foreign policy and in its abilities to develop new institutions and regimes that

fit better with China's international interests. The announcement and initial development by Beijing of the Belt and Road trade conduits is the most ambitious testimony yet of Beijing's economic power, as well as the shifting power dynamics between China and Russia, which may have a lasting impact on the RFE as a result of its geography and economic potential.

2 China's Opening of the 'Silk Roads'

While the Putin government has sought to shield its economy from the damaging effects of Western sanctions brought about after the Crimean and Eastern Ukrainian conflicts, China under Xi Jinping sees Russia, including the RFE and other regions of the ex-USSR, as essential components in developing expanded trade routes between East Asia and European markets. President Xi's proposal comprises a 'belt and road' (*yidai yilu* 一带一路) strategy that develops new land and maritime links with vital Western European markets. Central to these new links is the 'Silk Road Economic Belt' (*silu jingjidai* 丝路经济带), which would stretch across Central Asia and the Caucasus and Bosporus regions, with one link to Moscow and another to Northern European ports. In addition to trade, the creation of the 'belt' would entail increased bilateral cooperation between Beijing and Central Asian and Caucasus states along with Russia, and stronger institutional engagement between the SCO, a regional security regime which includes Russia, China, and Central Asian states, and the Eurasian Economic Community (EurAsEC), which gave way in January 2015 to the new Eurasian Economic Union (EEU) (Xi 2013; Tang 2013; Page 2014; Nurshayeva and Anihchuk 2014).

These overland routes, similar to the trade routes between Imperial China and Europe first established during the Han Dynasty more than two millennia ago, would be accompanied by a 'Twenty-first Century Maritime Silk Road' (MSR) (*haishang silu* 海上丝路). This route would traverse the Indian Ocean with ports in Bangladesh, India, Sri Lanka, and Eastern Africa, and also involve the countries of the Association of Southeast Asian Nations (ASEAN). Like its landlocked counterparts, the MSR also has an historical precedent in the form of Indian Ocean sea routes traversed by Chinese vessels during the Tang Dynasty (618–907 CE), which linked the Tang Empire with the Byzantine Empire in southeastern Europe and the Caliphates (Rashidun, Umayyad and Abbasid), in southwest Asia, as well as eastern Africa and the Indian subcontinent (Li 2006).

The development of the MSR, which would greatly enhance China as a maritime actor in Asia after many decades of being primarily a 'continental' power with a primary focus on securing its land borders (Ross 1999), was the result of several successful diplomatic initiatives, including a South Asia tour by President Xi in mid-2014, as well as diplomatic initiatives which Chinese officials undertook in Southeast Asia during the same year (Xinhua 2014a, b; Xi 2013). The MSR project, in addition to its potential economic importance, suggests that Beijing has become more open to the idea of an 'Indo-Pacific' sphere which is beginning to develop as East and South Asian financial and strategic interests converge (Liu 2014). The routes also demonstrate the growing attention Beijing is paying to Africa, Europe, and Russia as economic partners.

In addition, the implicit strategic value of the MSR would be that the risk of China being subject to a blockage of vital sea-lanes of communication (SLoCs) (*haishang tongdao* 海上通道) would also be lessened with a greater Chinese trade presence in the Indian Ocean. A decade ago, as China began to rely more heavily on imported goods, raw materials, and fossil fuels shipped from Europe and Africa, concerns were raised about a 'Malacca Dilemma', namely the risk of Chinese maritime commerce being subject to interference in the narrow Malacca Straits in Southeast Asia either because of piracy or through direct interference by another government seeking to impede Chinese trade. As China became more dependent on foreign energy supplies, the country's lack of a strong naval presence in the proximity of the Malacca Straits became more pressing (Lanteigne 2008; French and Chambers 2010). These announcements suggest that Beijing has developed far stronger confidence in both its power projection capabilities and its 'commercial diplomacy', meaning the ability to translate economic power into other forms, including in the strategic realm (Frost 2014). The belt and road initiatives may also mark a new phase in the economic relationship between Beijing and Russia/RFE and Central Asia. The central role of these enhanced trade and diplomatic pathways, according to Beijing, is to engage Russia and the developing economies of Central Asia and to draw European markets closer to Chinese interests.

However, the warming economic relationship between China and Russia is facing challenges in another part of the region, specifically in the Arctic, an area which has long been of interest to Moscow but is also the focus of much recent economic scrutiny from Beijing. China sees the RFE and Siberia as essential, both as a source of potential resource trade but also as a component of the Northern Sea Route (NSR), which Beijing seeks to exploit

in developing its Eurasian trade. At the October 2015 Arctic Circle conference in Reykjavík, Chinese Vice-Foreign Minister Zhang Ming outlined a six-point description of Beijing's developing Arctic policies, including the importance of far-northern shipping lanes and the rights and responsibilities of both Arctic and non-Arctic states in the region (Ministry of Foreign Affairs of the People's Republic of China 2015). Russia, while welcoming increased Chinese trade including in the RFE, has retained concerns about the potential effects of Chinese economic power on its long-evolved Arctic sovereignty. Thus, while it is probable that Russian–Western tensions may spill over into Far Northern affairs, a quieter but no less serious diplomatic competition may appear between Beijing and Moscow over how best to reconcile Chinese economic power in the RFE while providing benefits for all parties.

3 A Northern Partnership?

The Northeast Passage is roughly parallel to the northern coast of Siberia and extends from the Bering Strait and Kamchatka Peninsula to the Barents Sea and the northwestern Russian Arctic port city of Murmansk. It is viewed by many Asian economies, not only China but also Japan and South Korea, as a practical short cut for shipping to European markets. For example, Japan released its first Arctic White Paper in October 2015, which included a section that links the safe usage of Arctic shipping passages to Japanese national security (Arctic Portal Library 2015). The possibility of these routes becoming more valuable has galvanised Arctic states, especially Russia, into improving infrastructure for handling greater maritime traffic. These policies were further codified by Prime Minister Dmitry Medvedev in June 2015, when he approved a plan to rapidly increase capacity of the NSR from about 4 million tonnes that year to 80 million tonnes by 2030 (Pettersen 2015). In April 2016, Russian Foreign Minister Sergei Lavrov stressed that greater infrastructure was also required in order to ensure the safety of the NSR from threats including accidents as well as terrorism (Murmansk Bulletin 2016; Arctic.ru 2016).

Within the Northeast Passage is the NSR, and often the two terms are used interchangeably. However, from a legal standpoint the NSR has been defined since 1932, during the Stalinist era in the USSR, as the maritime space defined as Arctic waters between the islands of Novaya Zemlya in the east and the Bering Strait to the west, and as Soviet and later Russian sovereign waters (Østreng *et al.* 2013). The economic role of the region was limited until recently by Arctic ice, which made transit difficult and

dangerous without proper icebreaking vessels. It was for that reason that the Soviet Union/Russian Federation became the most prolific builder of such vessels, and currently operates 42 icebreakers, diesel and nuclear (compared with the two operated by the USA). However, with the erosion of sea ice in the Arctic region accelerating in recent years, (a new record for the smallest extent of regional sea ice was reached in the winter of 2015–2016) (National Snow and Ice Data Centre 2016), future summertime use of the NSR is being viewed as more viable, opening up both challenges and opportunities for Russia, and the possibility of another vital trade route for China. Several Asian governments, including Beijing, have expressed interest in using this passage in the future as an alternative summer route between East Asia and Europe. However, any such usage would require transit through Russian waters, including the narrow Bering Strait adjacent to the Chukotka Okrug.

Russia has made greater use of the NSR for its own ships; for example the tanker *Vladimir Tikhonov* traversed the route in August 2001, becoming the largest vessel of its type to do so. Two months later, a second tanker made the run, and in late 2012, the *Reka Ob*, under contract by the Russian energy firm Gazprom, navigated the NSR from Hammerfest, Norway to the Japanese port of Tobata in 28 days with a shipment of liquefied natural gas (LNG) (Gazprom 2012). In total, 71 ships traversed the NSR in its entirety during 2013, compared with 46 in 2012 and only four in 2010. According to Russian sources, there exists the possibility of a thirty-fold increase in shipping by 2020 and even the prospect of an ice-free NSR route by 2050 (Allianz 2014). Until that time, however, unpredictable ice and weather conditions may prevent the NSR from experiencing anything like the same level of use as the waterways further south. In 2014, 31 ships made the run owing to suboptimal conditions, and in 2015 that number had dropped to only 18.[1]

The opening up of the NSR may also have strategic and legal repercussions for Moscow, especially in the area of maritime sovereignty. The economic future of the NSR might also factor into the overall issue of RFE development, considering that new infrastructure, military and civilian, would be required in the RFE. China may play a more prominent role in that process, given that Beijing has demonstrated a willingness to develop factors and ports in the RFE and move other industries into Eastern Russia. Russian Deputy Prime Minister Dmitry Rogozin also called for a greater partnership with China on building infrastructure, including railways, to further develop the NSR for cargo shipments, potentially on a

year-round basis (Moscow Times 2016; RT 2015a, b). There have also been moves towards encouraging Sino-Russian scientific partnerships in the Arctic, illustrated by a February 2016 statement by the Chinese State Oceanic Administration that it was seeking a joint expedition with Russia in the Far North (Xinhua 2016).

These events were a considerable change from the situation in the 1990s, when the Russian Arctic regions were mostly neglected by the government of Boris Yeltsin, mainly as a result of the economic shocks in the years following the dissolution of the USSR in 1991. However, during the first two presidential terms of Vladimir Putin between 2000 and 2008, Russian Arctic policy began to assume a greater priority, with Moscow re-asserting its security interests in the region, which included an increased military presence in the waters north of Siberia (Laruelle 2014a). In September 2013, Moscow announced that routine naval patrols would be made in northern Siberian waters, shortly after a flotilla led by a Russian heavy cruiser, *Pyotr Velikiy*, completed a passage through the NSR, a feat followed in August 2014 with the first overflights of the NSR region by Sukhoi Su-34 fighter jets (Kramer 2013; ITAR-TASS 2014). A month later, a second Russian naval flotilla led by the destroyer *Admiral Levchenko* commenced an NSR journey from the northern Russian port of Severomorsk, near Murmansk, to deliver supplies and personnel to a newly re-opened base in the New Siberian Islands or Novosibirskiye Ostrova in eastern Siberia (RIA Novosti 2014). Also during September 2014, the Russian Defence Ministry announced that two bases would be re-established at Wrangel Island/Ostrov Vrangelya) and Cape Schmidt/Mys Shmidta, both located in the Chukchi Sea region near Alaska (Bodner and Eremenko 2014).

The economic possibilities of the NSR, as a third potential 'road' linking East Asia to Europe, are of increasing interest to Beijing given the potential value of the waterway in reducing time and fuel costs for its vessels travelling to European markets. For example, if the NSR were to be used by a given vessel travelling from Shanghai to Hamburg, the voyage would be approximately 6400 kilometres shorter than using the common shipping lanes in the Indian Ocean which include the Malacca Straits and Suez Canal (Lanteigne 2014). Future scenarios for China's use of Arctic waterways, especially the Northeast Passage near Siberia, would very likely require continuing warm relations between Beijing and Moscow. The bilateral energy deals announced between China and Russia in 2013–2014 will likely play a part in the broader process, but there are other logistical issues involved in future Chinese use of the passage. Moscow stipulates

that all foreign vessels traversing the area must be escorted by a Russian icebreaker, for a considerable fee. This cost varies depending on the vessels involved but normally totals hundreds of thousands of US dollars, plus added insurance charges (Lloyd's and Chatham House 2012; Yang 2015).

Russia is aware of the economic potential of greater numbers of Asian, including Chinese, vessels seeking to make use of the NSR during the summer months, and has begun to plan accordingly. The Putin government has been seeking to upgrade its already impressive icebreaker capability, including launching the largest nuclear-powered icebreaker in the world, the *50 Let Pobedy* (*Fifty Years of Victory*) in 2007. Two diesel-powered icebreakers, the *Murmansk* and the *Vladivostok*, were set to begin sea trials in the NSR in April 2016, with a vessel of the same class, the *Novorossiysk*, set for completion later that year (Byers 2013; Evers 2013; TASS 2016). There is also the potential for further added costs for Arctic shipping in light of the Polar Code negotiations led by the International Maritime Organisation (IMO) to develop baseline safety and environmental standards for ships in the region. A first draft of the Code, released in November 2014, will come into force in January 2017, as demand for the use of Arctic waterways was expected to increase (IMO 2016; Mathiesen 2014).

Nonetheless, Beijing demonstrated its commitment to participating in the future economic opening up of the NSR for commercial shipping in August–September 2013 when the Chinese cargo vessel *Yongsheng* (永盛), owned by China's Ocean Shipping Company (Cosco), traveled from the port of Dalian to Rotterdam in 33 days via the Arctic Ocean route, saving about two weeks of transit time (MacDonald-Gibson 2013). The event marked the first time a container vessel made the journey, and emphasised not only the potential viability of the passage for Chinese and East Asian shipping, but also China's growing maritime prowess. The *Yongsheng* returned to the NSR in mid-2015, sailing from Dalian to Varberg, Sweden and back, and Cosco has expressed optimism that regular usage of the NSR by Chinese cargo ships was in sight (Paris and Chu 2015; Lanteigne 2015; Chen 2015). It was also suggested during comments by the head of the Polar Research Institute of China (PRIC) in March 2013 that 5 to 15 percent of Chinese international trade could make use of the Arctic by 2020, a figure representing an estimated US$600 billion (Doyle 2013). Even if that figure proves optimistic, it is still very possible that the NSR will be of significant importance to China's expanding trade interests and may be a complement, if not a key component, of the 'Belt and Road' policies.

Much will hinge on future Sino-Russian diplomatic and economic relations. On the one hand, the two governments have greatly increased their cooperation in joint energy development since the beginning of the Xi government. In March 2013, during President Xi's first trip abroad as leader, deals were struck in Moscow which would allow China to purchase potentially up to 620,000 barrels of oil per day from Russian state-owned company OAO Rosneft as well as the joint development of a gas pipeline to China. In addition, Rosneft would join forces with the China National Petroleum Corporation (CNPC) to jointly explore the waters north of the Russian coast for fossil fuels. This was the first such deal Moscow signed with an Asian partner, and could further solidify China as an Arctic energy player and further raise China's economic profile in Siberia and the RFE (Katakey and Kennedy 2013).

In May 2014, an even more ambitious Sino-Russian natural gas deal worth US$400 billion was completed, involving cooperation between CNPC and the Russian energy firm Gazprom. China also agreed to underwrite the development of a LNG project in the Siberian region of Yamal in November 2014, proposing up to US$10 billion in initial investment (Moscow Times 2014). In addition to the potential economic benefits of these energy deals for both sides, increased economic cooperation with Beijing served to further strengthen Russia's eastern pivot as well as create a counterweight to American and Western European sanctions and economic pressures on the Putin government. For example, speaking about the need to better revive the economy of the RFE, Minister of RFE Development Alexander Galushko noted in March 2015 that relying on a local market in the territory of 6.2 million people was unworkable, and that the region was close to Asian economic powerhouses such as China, Japan, and Indonesia (Anishchuk 2014; Energy Monitor Worldwide 2014; Hill and Lo 2013; TASS 2015). The rapid fall in international energy prices since the end of 2014 may slow down new regional oil and gas projects, but both China and Russia expressed their interest in developing longer-term energy projects, given the ongoing uncertainty of the market.

4 Stumbling Blocks?

Despite frequent signs of goodwill between China and Russia on several diplomatic fronts, including how they pertain to both the RFE and its Arctic dimension, there have been signs that Moscow remains wary of too much Chinese economic and political involvement in the Arctic region.

This concern has been connected to a degree to China's potential economic roles in the RFE and the discouragement of 'Outer Manchuria' (*wai Manzhou* 外滿洲) thinking, meaning the perception of parts of the RFE as a zone of Chinese economic interest or even a 'resource area' under *de facto* Chinese economic sovereignty. There have also been concerns expressed that too much Chinese investment in the RFE might lead to a 'Finlandisation' of the region with regard to its relations with Beijing (Korolev 2016; Karaganov 2013; Mankoff 2015; Tîrnoveanu 2016).

Some of these concerns reflect the fact that the borders between China and the RFE, as well as other parts of the Soviet Union, have been longstanding security issues, at times a potential trigger for a wider conflict, since the 1960s. Although negotiations to clarify the borders between China and the former Soviet Union began in earnest in the 1990s, the last agreement to settle the Sino-Russian border was only completed in late 2004 (People's Daily 2014; Hyer 2015). There are, however, other factors involved. For example, the great difference in populations between the RFE and the Chinese provinces bordering it, as well as the growing Chinese need for external resources, including from the RFE, and the overall differences in economic growth between Russia and China since the 1990s, have often added to these negative perceptions (Laruelle 2014b; Alexseev and Hofstetter 2006; Cardenal and Araújo 2013). However, Beijing has been sensitive to such assertions, and as one report noted, China has not and would not regard Russia as an 'economic vassal', and would instead focus on projects in the RFE that would be of mutual benefit. China has sought to play up the non-resource aspects of growing cross-border trade, including in construction, transportation, science and technology, and services, in addition to energy and foodstuffs (Zhao 2015).

In terms of the Far North, although Beijing cannot claim an Arctic border, there have been arguments that the process of 'internationalisation' in the Arctic, especially as a result of economic pressures, was too great for China to stay on the sidelines, especially considering that Beijing was in a position to support, financially and politically, many economic and scientific projects in the region. For example, when China attained observer status in the Arctic Council in 2013, there were concerns among some of the Council's members, especially Canada and Russia, over whether Beijing would seek to use the organisation to challenge the political status quo of the region (Lanteigne 2014). Despite the strengthening Sino-Russian economic and diplomatic relations, the government of Vladimir Putin was nonetheless concerned that China's engagement with the Council would

adversely affect Russian Arctic policy, especially considering that Moscow has tended to view the Arctic as a regional as opposed to a global resource. Moreover, Russia's concerns about allowing both China and the EU to become observers also stemmed from the possibility that both actors, having achieved that status, would upset the power distribution within the organisation, even if the duo would not have voting rights (Røseth 2014).

China, along with other Asian states, India, Japan, Singapore, and South Korea, did attain observer status in 2013, while the EU has yet to do so. Even shortly after Beijing's success in gaining Council observer status, Russian Prime Minister Medvedev noted in a June 2013 interview with the Norwegian broadcaster *NRK* that 'There is trust in China but you and we, i.e. the Arctic states, lay down the rules here' (Flake 2013; Voice of Russia 2013). Nevertheless, since assuming an observer role in the Council, Beijing has sought to downplay its political interests in the Arctic and has stressed scientific partnerships as well as the potential of new oil and gas development projects with Arctic interests. For example, in a speech at the annual Arctic Frontiers conference in Tromsø in January 2015, Sun Xiansheng, president of the CNPC Economics and Technology Research Institute, called for expanded energy partnerships between China and Arctic states. In addition to the China–Russia energy deals in the Arctic, during 2013 the China National Offshore Oil Corporation (CNOOC) obtained the rights, in partnership with Icelandic and Norwegian firms, to explore for oil and gas in the Dreki region of the North Atlantic (China Daily 2015; Platts 2014).

Beijing's interests in the Arctic are not completely free of strategic dimensions, however. For example, there was much notice taken in September 2015 when five Chinese People's Liberation Army Navy (PLAN) vessels, after participating in joint exercises with Russian Navy ships in the North Pacific, passed through the Bering Sea off the coast of Alaska without informing the USA (Stewart 2015). Although the transit was legal under the rules of 'innocent passage', the event was likely designed at least in part to remind Washington of Beijing's increased Arctic interests. Such occurrences are likely to continue as the Arctic grows as a Chinese and international interest. Yet the current economic and political mosaic of the Arctic still favours cooperation over competition, and future Chinese military ship visits, as well as Russian talk of increased military resources diverted to the Arctic, have thus far fallen into the category of 'swaggering', meaning the display of military force for the purpose of domestic and international image enhancement (Art 1980). Unilateral use of force from

any actor in the Arctic would produce many costs and few, if any, benefits. In the case of the emerging Russia–China relationship in the Arctic, for example, the benefits of economic and scientific cooperation have been made clear.

As relations between Moscow and Europe continue to be frosty in the wake of the Ukraine/Crimea conflicts, and Russian desires to develop its Asia pivot and likely make use of Beijing's Silk Road plans, misgivings by the Putin government about China's role in the Arctic may ease as a result of growing confidence-building initiatives, including closer scientific cooperation and economic partnerships in the areas of energy and resources, and potentially in other sectors. There are several variables at work, however, in making these predictions, including the future trajectory of the economic relationship between Russia and West, especially Europe, as well as the development of the Chinese 'Belt and Road' projects. In terms of the Arctic, the fall in global fossil fuel and commodity prices, as well as sober second thoughts about the costs of developing regional infrastructure in the still very isolated region, have muted the potential for an Arctic scramble. Should this situation persist, the atmosphere for developing Sino-Russian regional cooperation will remain congenial. However, should economic conditions change and more overt zero-sum thinking with regard to Arctic resources reappear, Moscow would likely further accentuate its unique status as an Arctic power while Beijing would press for the rights of non-Arctic actors to have a greater say in regional development issues.

5 Conclusions

Although the number of ships making the run across the NSR began to decline after 2014, the potential utility of the region to East Asia and especially Chinese interests is unlikely to abate given the ongoing need for faster and less expensive trade routes between Europe and Asia and the increasing overall importance of the Arctic to China and East Asia. Beijing's announcements of the 'belt and road' initiatives are the strongest indication yet that China will still focus on exports as a primary means for growing its economy and continuing the still tenuous economic reform process under President Xi. Although it is unlikely that an 'Ice Road' using the NSR will assume the same level of importance to Chinese cross-continental trade as the Indian Ocean and Eurasia, Beijing also cannot ignore the future potential of faster shipping to Europe via the opening Arctic sea routes, and the prominent role of Russia in developing the economic possibilities of the NSR.

The question therefore is what the specific benefits will be for those states and economies located along both the proposed Chinese-backed transit routes, with Russia and the Central Asia/Caucasus regions being among the main potential beneficiaries of expanded Eurasian trade. However, there is the question of what the effects will be on these central regions, including the RFE. China is well aware that the metaphorical road to many of its rapidly developing Arctic strategy runs through Russia, and more specifically the Siberian and RFE regions. Both the future use of the NSR and the potential for further cooperation in RFE resource development will require the development of greater cooperation and trust between Beijing and Moscow.

There is the question of how Russia, as well as Europe, will respond to these 'new roads', physical and diplomatic, proposed by Beijing. The benefits for European states may be great given ongoing Chinese demands for European products as well as Europe's continued status as a purchaser of Chinese goods. The Silk Roads and the NSR may contribute greatly to the engagement process between Europe and China, and should be a source of further economic study. Just as the timetable for the land and maritime Silk Roads is an open question, the expanded use of the NSR may also require a long adjustment period given the still difficult travel conditions, even in the summer months, and the ongoing global economic uncertainty which has depressed energy and resource prices since 2015 and reduced enthusiasm for a potential Arctic 'bonanza' in the future. Nevertheless, the opening of the NSR, even at a gradual pace, appears set to create new possibilities for Chinese and Russian cooperation in the areas of economics and resources but also joint regional policy development in the Arctic, and in Siberia and the RFE.

Note

1. See Northern Sea Route Information Office, http://www.arctic-lio.com/nsr_transits for 2014 and 2015 NSR transit information.

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CHAPTER 9

Integrated International Intermodal Transport of Russia's Far East, Siberia and Korean Peninsula

Hee-Seung Na

1 Meaning of Eurasia Initiative and Transport Cooperation

The South Korean government has recently announced its 'Eurasia Initiative' and proposed the ideas of 'one continent,' 'creative continent,' and 'peaceful continent' to construct a new Eurasia. This implies that a new Eurasia that is peaceful and prosperous, and constructed upon

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communications and open-door policies, will overcome the division, isolation, tension, and conflicts within the Eurasia area. In particular, the projects involving South and North Korean railways and Eurasian railway cooperation can be part of an extremely important strategy to strengthen economic and social connections in Northeast Asia (NEA) and Eurasia. In order to realise these plans, the South Korean government is planning the Eurasia railway and promoting the Silk Road Express initiative.

Eurasia railway planning and the Silk Road Express are extremely important projects, as the Korean Peninsula connects the ocean and continent, and performs the role of a bridge between the Asia-Pacific and Eurasia economic blocs. 'One continent' is designed to overcome the physical barriers by connecting logistics networks that have been disconnected within Eurasia. This proposal is to construct a complex logistics network connecting the railways and roads of northeast Eurasia, and ultimately connect them to Europe. The proposal also seeks to realise a Silk Road Express, starting from Busan and passing through North Korea, Russia, China, Central Asia, and Europe. The Eurasian transportation and logistics network will both contribute to reducing logistics costs and revitalising trade, and will act as a driving force to create a 'creative continent.' Moreover, the government has emphasised that it will actively promote trilateral relationships between South Korea–North Korea–Russia and South Korea–North Korea–China, in order to create a 'peaceful continent.' For the Korean Peninsula to achieve this vision under the Eurasia Initiative, it is extremely important to advance the special development of the Korean Peninsula under the concept of 'open territory,' instead of 'closed territory, exclusive territory.'

Table 9.1 Import and Export Turnovers of ROK in Northeast Asia in 2011 (thousand US$)

Country	*Import*	*Export*	*Balance*
China	86,425,821	134,204,926	47,779,104
Japan	68,301,925	39,712,548	−28,589,377
Russia	10,855,392	10,306,067	−549,324
Mongolia	60,613	349,907	289,294
DPRK	913,663	800,192	−113,471

Source: Created by the author based on data from The Korea International Trade Association, http://www.kita.org/

This means that the concept of national territory needs to be recognised as an 'open space' of exchange and cooperation rather than simply a physical area. If South Korea and NEA are to form an integrated economic zone in the future, one of the most fundamental conditions is 'mutual exchange.' The Trans-Korean Railway (TKR) will revitalise personal and physical exchanges in NEA, strengthening connectivity within NEA's economic zone. Under the concept of 'open territory,' intermodal transport network development issues in NEA are crucial to establishing integrated relations in the region.

Linking the TKR and the Trans-Siberia Railway (TSR) lines are of great significance not only for the Korean Peninsula but also for NEA and Europe in terms of trans-continental railway systems. The railway project will help accelerate the building of an inter-Korean consensus and a trans-continental railway can be used as a trunk corridor for Korea, Russia, China, Central Asia, and Europe. Russia's Far East and the Korean Peninsula are gateways for entry not only to the Korean Peninsula, but also to northeastern China and the Pacific region of Russia. Recently, the intermodal logistics environment around Russia's Far East and Korean Peninsula have rapidly changed, increasing the region's value.

Phased modernisation of the TKR for its integration with TSR is slated to develop the Integrated International Intermodal Transport of Russia's Far East, Siberia, and the Korean Peninsula, which is one of the key transport projects aimed at achieving 'integration' and 'community' formation among the Eurasia countries. The ongoing pilot project is the Rajin–Hasan Project, which is the Integrated International Intermodal Transport of Russia's Far East, Siberia, and the Korean Peninsula. It is highly likely to achieve commercial success, and is significant as a demonstration of the business potential of the TKR–TSR project, the modernisation of Rajin Port, and the development of the Rason Economic Trade Zone in North Korea.

2 The Situation in Russia's Far East, Siberia, and the Korean Peninsula

Russia's Far East and the Korean Peninsula are a gateway for entry not only to South and North Korea, but also to northeastern China and Russia's Pacific region. Therefore, Russia's Far East and the Korean Peninsula have a geopolitical advantage as regards growing into a hub for NEA's export/import cargo handling and for transit trade in the NEA regions.

2.1 Northeast Asia Development

The NEA includes countries that range in diverse political and economic conditions. As is well known, NEA is home to three of the world's major powers, two of the five permanent members of the United Nations Security Council, and two of the largest economies of the world.

An Evaluation Study on the Sea–Land Routes in the Greater Tumen Region, dated February 2014, shows that between 2000 and 2012, the compound annual GDP growth rate of five NEA nations (Russia, South Korea, China, Japan, and Mongolia) was 4.1%, 1.5 times higher than that of the world (2.6%). There has been a steady increase in the share of the five nations in terms of GDP; they took 17.5% of the global GDP in 2000, 18.2% in 2004, 19.4% in 2008, and 21% in 2012. According to the same report, between 2000 and 2012, the trade volume of the five NEA nations showed exponential growth rate of 12.7% on average. There has also been a firm increase in the five nations' share in terms of global trade volume; they took 13.8% of the global trade volume in 2000, 15.8% in 2004, 17.8% in 2008, and 20.5% in 2012.[1]

NEA is expected to show continuous growth in interregional trade, increasing interdependence, and the expanded volume in the logistics market, which shows great potential for developing when the logistics networks are established. NEA additionally has huge potential for intermodal transport, given its complementary economic structure and geopolitical factors.

NEA is one of the world's three trade zones (EU, NAFTA, and NEA). The increasing rate of freight volume in Asia is exceeding that of the EU and NAFTA. A report from the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP) predicts that the world's high value-added container freight volume will more than double in around ten years.[2] However, the increased exchange of material and human resources among Asian countries is resulting in distribution facilities being continuously saturated. As the logistics networks grow and rapidly change in the Russian Far East and the Korean Peninsula, it is crucial to build the necessary transportation and logistics infrastructure to allow further integration in NEA.

2.2 Current Transport Situation in Russia's Far East and the Korean Peninsula

First, as previously mentioned, the world's high value-added container freight volume will probably more than double in around ten years. In particular, it is forecasted that the percentage of freight volume in Asia

will increase by more than 10% annually. In particular, the TSR freight volume in the Far East and Siberia area has been continuously increasing since 1999. International container traffic volume increased nine times from 70,000 twenty-foot equivalent units (TEU) in 1999 to 620,000 in 2007. The total quantity of containers increased approximately four times during the same period.[3] The international container freight volume using TSR increased after 1999. The increase in TSR freight volume exceeds freight volume in the Asia region, which highlights the business potential of connecting the South and North Korean railway and Siberian railway in the future, this being considered as a 'geography extension project' by the Coordinating Council on Trans-Siberian Transportation (CCTT).[4] In particular, the South and North Korea railway and Eurasia railway connecting Europe, Asia, and the Pacific will enhance economic collaboration between South and North Korea because of reductions in costs and transportation times, and will thereby contribute to economic cooperation in Eurasia. As some Korean experts have argued, President Park Geun-Hye's flagship Eurasia Initiative will be realised when the 'Trans-Korean Railway is connected to the Trans-Siberian Railway, when the South Korea-North Korea-Russia gas pipeline is constructed and connected to Russia's gas transportation network, and when Korean ships can freely come and go to the Arctic ports, passing through Russian Far East ports.'[5]

Ports in the Russian Far East include Vladivostok Port, Nakhodka Port, Vostochny Port, Slavyanka Port, Posyet Port, and Zarubino Port. These are all connected with TSR and have linked networks with North Korea and/or China. Vostochny Port handles the largest freight volume, 38 million tons in 2012. Nakhodka Port and Vladivostok Port handle approximately 15 million tons and 12 million tons of freight a year respectively.

Second, we should consider the rapidly changing transportation infrastructure in Russia's Far East and the Korean Peninsula. China opened the Harbin–Changchun–Shenyang Expressway, passing through the provincial capitals of the three northeastern provinces in 2012. China is already fairly well connected by a high-speed railway network. It is highly likely that the existing railway will be incorporated into the logistic network. Russia is promoting the ground-breaking 'TSR seven-day project' to reduce TSR transportation time from two weeks to one.[6] These projects taken together are increasing the value added for the Far East and Korean Peninsula as they bolster the logistics network throughout the wider region. This is the reason why international cooperation between South Korea, North Korea, and Russia must include China.

Third, South Korea's international trade had a value of $1 trillion in 2011, and the percentage of export and import trade with countries in NEA, such as China, Japan, and Russia, is as high as 40% of the gross trade amount.[7] In preparation for an increase in freight volume, the project to connect transportation infrastructures in South Korea and North Korea with those of NEA countries is very important in order to improve competitiveness.

3 NEA Countries' Approaches to the TKR–TSR Project

Dealing with intermodal transport network development issues in NEA is crucial to establishing integrated relations in the region. The following section analyses the attitude of NEA countries to the TKR–TSR Linking Project.

Russia is most active in TKR–TSR connection and modernisation. The country is developing various Eurasian transportation routes and improving traffic systems using its own transportation system modernisation programmes. The goal is to activate the economy in Siberia and the Far East and to expand these regions' political and economic influence on NEA states.

South Korea is confronting the necessity to actively devise plans for increasing participation, in order to strengthen economic cooperation with North Korea and NEA countries, and also to enhance logistics efficiency within the region. This is one of the core projects for South–North economic cooperation. Connecting the TKR to the Eurasian railway will contribute to saving distribution costs, increasing direct trade, improving international competitiveness, and promoting stability on the Korean Peninsula.

China's perspective, according to its Northeast China promotion strategy, is to be active in establishing and modernising transportation routes and connections between its northeastern provinces and Russia's Far East and the Korean Peninsula for economic development promotion in its three northeastern provinces. This route's importance is growing as it is a gateway to the northeastern part of China where there is no maritime port. For trade with China's three northeastern provinces, distribution costs can be reduced when either the ports of Russia's Far East or on the Korean Peninsula are used.

North Korea is anticipating that modernisation of its ports, roads, and railways will increase transportation earnings and help to boost its economy. Additionally, modernisation will promote economic cooperation with China's three northeastern provinces and the Russian Far East. In view of the strategic value of Russia's Far East and the Korean

Peninsula's development, it will bring huge political and economic benefits. Improving existing infrastructure by restoring the transport system and forming the logistics base through constructing logistics facilities should provide a new driving force for North Korea.

Japan has also shown interest in intermodal transport development and operation in order to expand its trade with NEA states. This reflects Japan's awareness regarding the region as a gateway to the Far East, the Korean Peninsula, and integrating its northeast provinces with the former areas, and sets the stage for broadening its trade with Russia, Mongolia, and Europe. It is anticipating economic activation in areas adjacent to the East Sea, such as Niigata, Tottori, and Kanajiwa.

For Mongolia, which has limitations as a land-locked country but is rich in mineral resources, an intermodal transportation network has a special significance in reducing its isolation in the world, but also within its own borders, and will spur economic development. Therefore, for the development of intermodal transport networks, cooperation between not only the NEA but also other neighbouring countries is necessary.

4 Phased Modernisation of the TKR for Integration into the TKR–TSR

In the twenty-first century the Korean railway has been facing demands for a variety of changes and renovation. Developing a link between South and North Korea is one route towards reunification, ending the historical separation, and beginning a new era for the Korean Peninsula. The TKR project mission is to restore the disconnected space of NEA as well as to build an inter-Korean economic community.

A railway will not only connect the two Koreas but will also upgrade inter-Korean relations, opening an era of cooperation with Eurasia. The development of the 'iron silk road' linking Europe to Asia-Pacific will reduce time and costs, directly contributing to improving inter-Korean and Eurasian economic cooperation. The TKR and Transcontinental railway project is expected to develop into an international passenger and cargo railway network, integrating the NEA and linking with Eurasia. This project specifies the completion of two international railway networks, comprising the Eurasian cargo transport network that links with the TSR and NEA's passenger and cargo transport network that connects with the Trans-China Railway (TCR). Rather than physically linking the Inter-Korean Railway with the TSR, TCR, the Trans-Mongolia Railway

(TMGR), and the Trans-Manchuria Railway (TMR), it is necessary to think about upgrading to Eurasian and NEA railway networks which are more competitive, according to the plan and strategy that exist for developing the Inter-Korean and transcontinental railway system. Based on these principles, the Eurasian network will be integrated into the TKR–TSR connection project for the two Koreas and Russia, while the NEA network needs to be carried out as a cooperation project that develops the container train links between the two Koreas and China. Long term, this will be developed to bolster the continental infrastructure, accommodating NEA and Central Asian states.

The biggest change that will be brought about by the development of the inter-Korean railway network is that its scope, which is limited to 400 km, will increase to 1000 km. Improving accessibility through improvement of the railway, a key element in long-distance mass transportation, is an essential element in implementing an integrated arterial network in the Korean peninsula, establishing the Republic of Korea (ROK)–Democratic People's Republic of Korea (DPRK) Economic Community, and supporting economic development in the DPRK.

This chapter proposes an implementation strategy for the Inter-Korean Railway, and advance a practical approach as the driving factor in structuring the inter-Korean economic community and multilateral railway cooperation. To that end, the measures aim to modernise the North Korean Railway and create a network of logistics industries strengthening international logistics competition. This will improve in stages the international competitiveness of the Inter-Korean Railway, a process that may be represented as: Minimal repair and maintenance of Inter-Korean Railway network → Profit-making by logistics industry/Reinvestment → Modernisation of North Korea's railway system for restoration → Expansion of logistics industry/International consortium → Modernisation of North Korea's railway system for building a new line → Completion of Eurasian land bridge. Therefore, it is necessary to work out the phased strategy to develop the DPRK's railway network and to suggest a medium- and long-term road map for the Inter-Korean Railway. The inter-Korean special economic zone and virtuous circle structure of the Inter-Korean Railway network are expected to create an inter-Korean economic community.**Stage 1 (Inter-Korean Railway connection stage)**: the focus of this is on the construction of regional infrastructure on the border, as Gaesung and Mt Geumgang, for example. This stage has been completed. Gyeongeui and Donghae line and overland route exist, but the operation of the Gyeongeui

cargo line is currently suspended. Following an agreement on overland route tourism in 2004, as many as 300,000 tourists visited Mt Geumgang a year. In the future the line could be used not only for the transport of goods and products to and from the Gaeseong Industrial Complex, but also the transport of humanitarian aid and trade goods, ROK and DPRK workers, and Gaeseong tourists. Recently 100 buses for commuting workers to and from the Gaeseong Industrial Complex were scheduled, but this is only a short-term remedy. To transport 100,000 workers in the future, a passenger railway is essential. In order to begin this staged approach, a full-time military agreement must be concluded. To make the best use of the railway system, with its large capacity and long distance transportation, connecting the two Koreas with Eurasia and NEA, all the legal, systematic, and technical structures must be discussed and additional stations must be brought into the fold. Logistics facilities that are associated with outdoor container yards and/or the Gaeseong Industrial Complex must be improved in line with global freight train operation trends. It will be necessary to expand logistics infrastructure by stages according to the step-by-step implementation scheme for projects in special districts for economic cooperation in the ROK–DPRK border areas, and to activate the ROK–DPRK joint railway operation committee to increase the efficiency of transit- and customs-related operations.

Stage 2 (DPRK railway restoration stage) advances the implementation of infrastructure development in preparation for the demand from DPRK–Russia, DPRK–China, and the trans-DPRK railways. It is this stage that is currently required. As the demand in DPRK at this early stage is insignificant, this focuses on the potential demand passing through DPRK, specifically the international cargo between China and Russia. To accomplish this stage, projects among the two Koreas and Russia and between the two Koreas and China need to be developed.

In March 2006, a trilateral railway operators' meeting of ROK, DPRK, and Russia was held in Vladivostok to discuss TKR–TSR linked railway operation. Being the first trilateral chief railway officers' meeting among the three countries, it enhanced the prospects for a linked TKR–TSR operation. The government-run Russian railway company explained that they had completed preparations to set about an improvement project for the Najin–Khasan section in the near future, and the DPRK emphasised the necessity to promote investment for TKR improvement at the discretion of Russia. The three parties formed a consensus on the necessity of additional studies on routes passing through TKR to improve the competitiveness of

TKR–TSR, and agreed to hold regular working-level talks on substantive issues related to the project. In particular, the Najin–Khasan improvement project is forecast to serve as a significant momentum for railway modernisation in the DPRK. The Najin–Hasan project refers to the trial effort for TKR–TSR project, and if the TSR diesel container project after Busan–Najin marine transport increases is successful commercially, it would positively influence public understanding of the need for modernisation of the DPRK railway network and TKR–TSR. It would possibly also attract 100,000 containers in the early stages of the project, the costs to be borne by South Korea: this would be about USD$70 million.

Supplementing the project, it is necessary to implement the NEA international logistics project and restoration of the Gyeongeui line as part of the trilateral cooperation among the two Koreas and China. Towards this end, an international container train connecting Shenyang to Pyeongyang and Seoul to Busan must be promoted. The Gyeongeui Line is in the most satisfactory condition out of all the DPRK railway routes. Once the costs of labour and land in the DPRK are combined with the capital and technological power of the ROK, renovation of the line is forecasted to require approximately $100 million. The recommended procedure is to complete minimum renovation in the initial phase, and then proceed with modernisation and double tracking according to demand in the mid- to long term. In addition, it is necessary to join the Organisation for Cooperation between Railways, in order to oversee international passenger and freight transport agreements so that the ROK–DPRK railways can be operated and linked with the railways of China, Russia, and Europe.

Stage 3 (modernisation of DPRK's railroad) advances improvements in infrastructure (double tracking, high speed, and Automatic Variable Gauge System) in preparation for transit and potential DPRK demand. This stage seeks to modernise DPRK's railway system based on the construction of the new line, which the author and the international consortium understand is possible. In the long run, this is the stage that will require internal improvements to allow the construction of an infrastructure network in NEA and the Korean Peninsula. However, it is a well-known fact that the railways in the DPRK are old and have deteriorated. Insufficient maintenance over the last ten years or so has resulted in trains operating at low speeds in most parts of the railway system. DPRK and Russia conducted a joint investigation into the DPRK's railways from September 2001, examining railway structures from Dumangang station to Pyeonggang station, a border station in the northern section of the

Gyeongwon Line, in 2001 and from Wonsan to Mt Geumgang in 2002. The investigation included an estimation of the investment that would be required after surveying a section extending from Dumangang station, a station adjacent to Russia, to Rajin, Cheongjin, Wonsan, and Pyeonggang (781 km), and a section from Gaeseong, via Pyeongsan, to Sepo. Russia reviewed the cost of three plans: to renovate the railway on the existing standard tracks, install dual-mode tracks for both broad-gauge and standard tracks, and install broad-gauge tracks. The construction cost for the 781 km section from Dumangang to Pyeonggang was estimated as $2.45 billion for standard track installation, $2.9 billion for dual-mode track (broad-gauge and standard tracks) installation, and $2.7 billion for broad-gauge track installation. The final decision was made to use standard tracks. Based on the plan, it was evaluated that the construction was possible with around a quarter of the construction cost in ROK, if the labour force and land in the DPRK were combined with the capital and technological power of ROK.

When it comes to the modernisation of the North Korean railway, low costs and government-led pilot projects need to be implemented during the early stages, so that they develop and spur other projects, including high-cost and large-scale private projects that will attract international investment. Such a policy is expected to provide the driving force for the silk road economic cooperation principles represented by Eurasia.

5 Transport Demand for Russia's Far East and the Korean Peninsula

This section provides an estimation of the freight volume for Russia's Far East and the Korean Peninsula.

For sea freights O/D (Overdeck) by zone (ROK–the Three Northeastern Provinces, Hebei, Beijing and, Tianjin, Far East Russia, etc.) is used. The Port of Busan, Incheon, Guangyang, and Pyeongtaek in ROK are taken into consideration for the Korean Peninsula West Corridor. The Port of Busan, Sokcho, Donghae, and Mukho in ROK are taken into consideration for the Korean Peninsula East Corridor. The Port of Dandong, Dalian, Dalianxingang, Tianjin, Tianjinxingang, and Yingkou in China are taken into consideration for the Korean Peninsula West Corridor. The Port of Vladivostok, Vostochniy, Nakhodka, and Zarubino in Russia are taken into consideration for the Korean Peninsula East Corridor. For transport demand, freight is targeted, not only import–export freight but also

transit. The freight traffic data of nine years from 2006 to 2015 has been investigated by studying the Korea Customs Service database. The freight traffic volume increased steadily for nine years despite the world economic crisis that took place in 2008. The freight traffic volume of Pusan Port for import–export and transit is massive. The freight traffic volume of Incheon, Guangyang, Pyeongtaek, and Mukho Port for import–export is a crucial factor. Recently freight traffic volume for transit increased rapidly between ROK and Russia.

Examining freight traffic in the NEA, the traffic demand for the Korean Peninsula's West and East Corridors is estimated for 2015, 2020, and 2025 in the subsequent sections. Freight traffic demand in the NEA is divided into ROK–China, Russia, ROK–trans-shipment to Russia/China.

(ROK–China and ROK–Russia Freight Traffic Direct Trade Demand) On-the-sea freight O/D by zone (Korea–the Three Northeastern Provinces, Hebei, Beijing, and Tianjin, Far East Russia, etc.) is considered. For transport demands, the estimation is only for import–export freight, which excludes trans-shipment.

The freight traffic volume of ROK–China increased steadily for ten years despite the world economic crisis that took place in 2008. In the Greater Tumen Initiative (GTI)-linked zones, the freight traffic demand in the West and East Corridor is estimated according to freight traffic data over the 10 years from 2003 to 2013 as follows. The freight demand between ROK and China will double in the next 15 years. The freight demand of transportation between ROK and China in 2025 is estimated to be 20.05 million tons. Similar to China, freight traffic of ROK–Russia increased steadily in volume for ten years despite the world economic crisis of 2008. Freight demand will double in 15 years. Freight demand for transportation between ROK and Russia in 2025 is estimated to be 10.22 million tons.

(ROK–China and Russia Freight Traffic Demand and Transit) Estimation of targeted trans-shipment between Korean ports, and China and Russia.

Freight traffic volume for ROK–China increased steadily for ten years despite the world economic crisis of 2008. In the GTI-linked zones, the freight traffic demand for the West and East Corridor is estimated according to freight traffic data over the 10 years from 2003 to 2013, as follows. The freight demand between ROK and China will double in the next 15 years. The freight demand for transportation between ROK and China in

2025 is estimated to be 18.85 million tons. Similar to China, freight traffic of ROK–Russia increased steadily between 2003 and 2013, despite the world economic crisis in 2008. In particular, freight traffic volume for transit increased rapidly between ROK and Russia. Freight traffic demand will double in the next 15 years. The freight demand of transportation between ROK and Russia in 2025 is estimated to be 4.98 million tons.

(ROK–Russia Freight Traffic Demand, total) In 2010, the volume of containers transported between Korea and the Far East region of Russia is approximately 2.9 million tons (equivalent to 250,000 TEU). It is forecast that the volume of containers between Korea and Russia will increase up to approximately 6.8 million tons in 2025 (equivalent to 570,000 TEU). The Russian government's freight volume forecast is 955 million tons in 2025. Approximately 20% of the freight volume in Russia is from the Far East areas.

6 The Integrated International Intermodal Transport for Russia's Far East, Siberia, and the Korean Peninsula: Pilot Project and the Rajin–Hasan Project

The recently promoted Rajin–Hasan project between the ROK, DPRK, and Russia is highly likely to achieve commercial success, and is significant as a demonstration of the potential business of the TKR–TSR project, the modernisation of Rajin Port, and development of the Rason Economic Trade Zone. The Rajin–Hasan project is a logistics business connecting Rajin Port and TSR through procuring freight trains, constructing freight terminals, and renovating railways (54 km) from the Rajin Port's third dock to Hasan. This business is a Eurasian international intermodal logistics transportation business, using both sea and rail, via TSR, and following maritime transportation between Busan/East Sea Port and Rajin, and shows an extremely high likelihood of commercial success. Given the strategic value of the Rason area related to the Rajin–Hasan project, this business will have a huge political and economic effect.

The Rajin–Hasan project was initially designed to transport containers; however, the plan has been modified to handle coal and bulk freight. In particular, this sector uses a complex system in which a standard gauge and a broad gauge track have been simultaneously built in, which means that transferring to a broad gauge train at the DPRK and Russian border

is available without trans-shipping or transfer after departing from Rajin Port. This complex gauge shows the advantage of drastically reducing the cross-border transportation time and procedures. The DPRK and Russia are currently undertaking discussions to simplify the passing of borders through procedures, port internationalisation, and the opening of a port. Russia recently exported Russian-produced coal into the southeast area of China through Rajin Port. It seems as though each stage of train operation, customs, and cargo handling between Rajin and Hasan was ultimately examined for the full-scale operation of Rajin Port. The Rajin–Hasan project between ROK, the DPRK, and Russia started in 2006, but ROK participation was uncertain for five years or more because of a tense relationship with the DPRK. Construction began with the establishment of a collaborative business between the DPRK and Russia, and following tests, the Rajin–Hasan railway opened. However, Merkel, a Russian coal company, proposed this project to POSCO, reigniting it as a three-party collaborative business between ROK, DPRK, and Russia. Status investigation and negotiations are currently being conducted. Additional development is being undertaken in order to construct a coal bulk port, instead of a container port as initially planned, and Korea has asked to take over 49% of the Russian share.

The project summary made public by the Russian partner is as follows. A ground-breaking ceremony for the Najin–Tuman River section, which is part of the TKR project, was held at the Tuman River station located on the border. The budget for the project is roughly 150 million Euros to build 54 km of rail, ten stations, three tunnels, 40 bridges, and rehabilitate other facilities. A joint venture company formed by DPRK's railway authority and Russian partner (RZD) is responsible for implementing the project. The transport capacity for the section Tuman-Najin River is 12 round trips or 4 million tons/day. The project is mostly aimed at channellig 100,000 TEU cargo/year from the Asia-Pacific region, particularly ROK to TSR.

As part of this project, a pilot project to transport bituminous coal from Western Siberia through North Korea's Rajin Port to Pohang, South Korea started on 23 November 2014, with 40,500 tons of Russian coal being sent out on the 23rd through Vladivostok and arriving at the Rajin Port on the 24th. The coal, which was worth $4 million, went through trans-shipment and customs clearance and was then loaded into a 56,000 ton Chinese bulk carrier, which departed from Rajin Port on the 28th and arrived in Pohang on the 29th.

In the future, Russian Railways will send container transit cargoes from the Asia-Pacific region to the TSR through Rajin Port. The most ambitious goal is to reach 100,000 TEU of freight from Korea annually to the TSR. The new container terminal is designed to accommodate 400,000 TEU per year. However, expansion up to 700,000 TEU is forecast.

For the success of the Rajin–Hasan project, the following should be considered in order to bolster cooperation between the ROK, DPRK, and Russia: (1) competitive freight charge structure; (2) speedy transportation time; (3) prompt and transparent customs procedures; and (4) plentiful port infrastructure. In particular, the ROK and Russia should provide competitive logistic services in terms of cost and time through reducing port use costs, reducing train rental costs, providing fast transportation times, and simplifying customs procedures.

Besides this, South Korea is developing new technologies to overcome the gauge differences between northeastern railways. When a South Korean train passes through North Korea, and into Russia, there is a change in gauge. The new changeable gauge technology allows the train to run through without changing wheels and without trans-shipment at the Russian border. The Russian railways use a broad gauge (1520 mm), while South Korea, North Korea, China, and Europe use a standard gauge (1435 mm), a difference of 85 mm. Trans-shipment, transfer, or exchange of train wheels to resolve the difference between the broad gauge and standard gauge railways is an obstacle to border revitalisation. Other obstacles include congestion, passenger inconvenience, infrastructure costs (land, crane, lifting jack, hangar), and labour costs. Despite these other issues, a gauge-changeable train can pass through smoothly without halting, and is appropriate for bulk transportation of hazardous freights. It is expected to play a huge role in speeding up logistics and passenger transportation in the northeast area. Cooperation between states within the northeast area, such as South Korea, North Korea, Russia, and China, is vital for its success.

Although not a complete railway transportation using TKR–TSR, this is a sea and rail type intermodal Eurasian logistic transportation. This project holds particular significance as it is promoted jointly by South Korea, North Korea, and Russia. The logistics and energy network in the Eurasian region will contribute to logistics cost reduction and trade expansion between countries within the region, performing an important role in activating Eurasian economic zones.

7 Expected Benefits of the Rajin–Hasan Project

One of the expected benefits of this project is the reduction of both transportation time and cost. This project will lead to reducing the transportation time from Busan to Moscow by approximately 20 days. In particular, it has an effect to reduce the inventory period of high value-added freight by more than 20 days, and thus is expected to create a large demand if it is linked with the automotive industry. From the perspective of logistics cost, this project will provide transportation with higher price competitiveness than marine transportation, considering that it will replace the high costs incurred by the Far East Port and reduce the cost of freight wagon purchases. In addition, this project will drastically improve the competitiveness of freight transportation in Central Asia and Mongolia.

Connection with the northeastern part of China is possible through a road extending from Rajin and Wonjeong of the DPRK to China's Hunchun. For freight transportation from Hunchun of China through Rajin—Seonbong to Japan, the inland and marine transportation distances are reduced by a tenth and a half respectively in comparison with the route through Dalian. Based on Yanji, the Yanji–Rajin–Busan route measures 1154 km, which is around 50% shorter than the Yanji–Dalian–Busan (2300 km) route. In addition, the 3450 km route of Yanji–Dalian–Niigata is reduced by approximately two-thirds to 1120 km if the Yanji–Rajin–Niigata route is used. The cities along the Tuman River and in the border areas have considerably higher potential for development into a logistics channel that extends to the East Sea and the Pacific via Rajin Port. As a reference, freight transport time between Heilongjiang Province (Harbin) and Zhejiang Province (south of Shanghai) is as follows.

- Using Inland Railway: approximately 15 days
- Using Dalian Port: approximately 7 days
- Using Rajin Port: approximately 4 days

In addition, this project holds a great strategic value for linking with the Arctic Ocean. Rajin Port is expected to act as an intermediary site for opening the North Pole route and Arctic Circle development. For logistic transportation between NEA and Europe, utilisation of the North Pole route is expected. In addition, key ports in the Far East are forecast to emerge rapidly as key international ports.

The development of a North Pole route and plans for its links, which are a part of the plans for Integrated International Intermodal Transport, is aimed at connecting the broken network by establishing a railway and logistic transportation system in the Arctic Ocean region. In addition, by using the connected transportation network, NEA plans to participate in North Pole governance, to create an opportunity for new resource and infrastructure development in the Arctic Ocean region, and thus to secure a space for future growth.

The distance between NEA and Europe is 12,700 km through the North Pole route and 20,100 km through the Suez route. The North Pole route can therefore reduce the distance by 7400 km. In October 2013, a total of three ships sailed from Russia's Ust–Luga Port to the Korean Peninsula through the Arctic Ocean. Two of the ships sailed to Gwangyang in DPRK, the other to Rajin Port. This pilot operation took approximately 35 days. The figure shows the operational route of HHL Hong Kong.

8 Developmental Recommendation

In general, the conditions for integration and community formation are based upon mutual exchange between groups and individuals, agreement of key (core) values, shared functional interests, powerful economic bonds, ability to integrate the key areas, and opening of social communication. If the NEA is to form a single economic zone in the future, one of the most fundamental conditions is none other than mutual exchange. To realise its future visions, it is important to promote spatial development of Integrated International Intermodal Transport for Russia's Far East and the Korean Peninsula under the concept of 'open territory' rather than 'closed and exclusive territory.' In order to strengthen both internal and external networks, securing of spatial nodes for network implementation and network linkages in the industrial and logistics sectors must be taken into consideration. In addition, intermodal transport networking is an important means by which competitiveness can be strengthened. Integrated International Intermodal Transport of Russia's Far East and Siberia and the Korean Peninsula is expected to play a role as a key infrastructure for international networking.

The development of Integrated International Intermodal Transportation for Russia's Far East and Siberia and the Korean Peninsula aims at achieving 'integration' and 'community formation' among Eurasia's countries. To effectively fulfil this mission, upgraded relationships and economic cooperation are a necessity. First, it is necessary to

bolster not only bilateral cooperation but also multilateral cooperation, in order to enhance awareness and expand the shared vision for the development of Integrated International Intermodal Transport for the region. It is necessary to build a cross-border cooperation mechanism to share investments and profits as well as industries and infrastructure. Second, in order to increase the effectiveness of the project, trans-frontier cooperation to actively respond to changes through the phased approach must be promoted. Third, cooperation must be promoted to increase the feasibility of trans-frontier cooperation by advancing regional development strategies for related countries and organisations as much as possible. A 'globalisation' strategy, to divide roles between government and the private sector and also between central and local governments, is necessary. Lastly, efficiency of trans-frontier cooperation must be maximised by making active use of the existing international cooperation tools available within the region.

Notes

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CHAPTER 10

Understanding Singapore's Development and Its Relevance to the Free Port of Vladivostok

Seck Tan and Anatolii Savchenko

1 Background of Russia's Turn to the East and the Free Port of Vladivostok

1.1 Geopolitical Aspirations and Economic Frustrations

The development path of the Free Port of Vladivostok had always been dominated by the geopolitics surrounding the region. In the 1960s, the city was chosen as a "showcase" of the Union of Soviet Socialist Republics (USSR) in the Pacific region. If the geopolitical impulse of Moscow was to "catch up and overtake" the United States of America (USA) 50 years ago, Vladivostok was envisaged to be a Soviet San Francisco. From a broader context of the Russia's current orientation towards Asia, the mission of

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the city is "to take its rightful place among successful cities such as Hong Kong and Singapore."[1] The Free Port of Vladivostok is one of many special tools in the development portfolio of the Russian Far East that has emerged over the past two years (2014 to present).[2] Moscow had prioritised its policy on the Far Eastern region with the intention to take advantage of its international competitive edge. However, there have been frustrations associated with both economic and geographic factors.

The automobile industry was identified as a key sector as it provides immediate employment, enhances human capital, and supports a wide range of support services. With support from the Russian President and government, an automobile factory named Sollers-Vladivostok was opened in Vladivostok in 2009.[3] Automobile components were to be shipped from Japan and South Korea for assembly in Vladivostok, and then shipped onwards to Europe. As such, Sollers was positioned as a project which would optimise the supply chain and develop the logistics sector in Vladivostok. However, the remoteness of Russia's Far East from the main economic concentration in the west added to the overall high production costs. Thus, because of geographical constraints and exogenous dynamics, Sollers failed to expand beyond the Russian market and the factory constantly requires state support. In an attempt to revive Sollers, Vladivostok's automotive industry was assigned to a "special economic zone" in 2014 with preferential treatment offered, including transport subsidies to European Russia, and budget support worth 5.3 billion rubles from the federal government.[4] Another example of the failed new industrial enterprises is Hyundai Heavy Industries, which was created to manufacture heavy power equipment. The plant did not get under way as there was insufficient domestic demand for these products.[5] Moving forward, Vladivostok should look beyond the local market and to regional markets.

The geographical location of the city is a determining factor for its development success, but Vladivostok faces peculiar challenges with its remoteness from international markets, whilst being in close proximity to the Pacific region, yet isolated from Moscow's administration. To address this remoteness, Vladivostok selected projects to be undertaken in special economic zones, which appeared sporadically after 1991, when it was an unregulated "closed city." At the end of 2015, President Putin announced that free port status would be conferred upon Vladivostok and Sevastopol.[6] With the notions of "territories of rapid development" and "free port" overlapping geographically,[7] policies had to be carefully crafted to ensure that the benefits and outcome of each initiative are not

contradictory. International events such as the APEC Summit 2012 illustrate the city's isolation from Moscow. To prepare for this Summit, the Moscow administration invested heavily in Vladivostok's infrastructure in the hope of lifting the entire region's economic status. The city and the Primorsky region benefited from rapid economic growth from new roads, bridges, airport, hotels, and the most modern university campus in Russia. However, the spillover effects to other sectors such as shipping and auxiliary services and innovative high-tech enterprises were less than was hoped for according to the official documents.[8]

Speaking at the First Eastern Economic Forum about the Russian Far East in 2015, President Putin presented the large-scale economic liberalisation of the region. The goal of this is to establish a conducive environment both for domestic and foreign businesses and to bolster and create opportunities for the Far East to compete successfully with leading trading centres of the world.[9] The same message was emphasised by the Deputy Prime Minister Yury Trutnev, who oversaw the free port project: "We will compete with not Ryazan and not with Kaluga. We will compete with China, Hong Kong, Japan, Korea, and Singapore" (Bryansk 2015). With the support of these leaders, an ambitious target has been established, but what remains is to discover how the targets can be realistically achieved.

2 Experience of Singapore

2.1 Brief History and Development Path

Singapore evolved from a forgotten fishing village to an attractive world-class metropolitan city in five decades of economic development. The city-state's strategic physical location enabled entrepôt trade (where exports and imports are channelled in and out) to be the primary source of economic growth during the formative years. As the economy developed, the driver of Singapore's progress changed from a production-based export-led industry (driven mainly by foreign direct investment (FDI)) to a service-centric economy. The achievements of Singapore have attracted global interests keen to study and understand this success story. Although Singapore is not blessed with any natural resources, it does have two noticeable resources in land and labour. Alongside machinery as physical capital, land and labour are the other two environmental and human resources that have contributed towards production and national income (Tan 2016b).

The achievement of developed nation status was a stark contrast with Singapore during the early days of independence when strikes and riots were routine daily activities. The city's transformation commenced in 1961 when the United Nations (UN) sent a team of experts, which included the leader, Dr Albert Winsemius,[10] and secretary, Alfred I.F. Tang,[11] from the first UN Industrialisation Survey Team (UNDP Global Centre for Public Service Excellence 2015). Their motto was "Expectations and Reality," with the main objective of massive job creation in the shortest time possible. Dr Winsemius presented a ten-year plan to the Singapore government in an attempt to transform the place from an entrepôt to a manufacturing and industrial centre.[12] Winsemius had encouraged large-scale public housing and set out two initial criteria:[13] (1) Removal of communism and (2) Keep and not remove the Sir Stamford Raffles statue.[14] The removal of the communists would bring about domestic stability, as they were possibly the root of strikes and riots; while keeping the statue of Sir Stamford Raffles served as a symbol of public acceptance of the city-state's British heritage (UNDP Global Centre for Public Service Excellence 2015).[15]

With adequate airport and port facilities,[16] and supporting infrastructure, Singapore's geographic position made it favourable for international trade and cemented the city-state as a financial centre.[17] Foreign firms were allowed full ownership of their investments and operations, with products ranging from garments (shirts and pyjamas), oil refining (ship repairing and rig building), petrochemicals, to ship breaking (ships were stripped with the scrap iron, feeding into steel mills which rolled steel plates and steel bars for construction of public housing) (Tan 2015). Notably, Singapore possesses the basic assets for industrialisation, with its greatest asset being the high aptitude of its labour force which is working in the manufacturing sector. In addition, it should not be forgotten that a fundamental ingredient for effective development is political stability as well as a government that follows through from planning to implementation. The phases of development can be categorised as the industries that were focused on, from labour (1960s to 1970s) to skills (1970s to 1980s) to technology (1980s to 1990s) to innovation (1990s to 2000s) to knowledge (2000s and beyond).[18]

2.2 Human Capital and Development Policies

With recommendations from the Winsemius report, development policies stemmed from certain ideals, ranging from openness to foreign investors to liberal labour policies. Export industrialisation and foreign investment-

oriented policies were aimed at providing local employment opportunities, where foreign investors would transfer their expertises and equip the local labour force with relevant skillsets.[19] A transferability of relevant skillsets to the local labour force maintained an edge over non-local labour and sustained the attractive proposition for global investors. Both these ideals were the bedrock for Singapore's human capital development in meeting investors' demand and fulfilling market conditions through up-skilling and re-skilling. When Singapore experienced a labour shortage from 1973 to 1984 as a result of economic restructuring, human capital development took priority in the form of education, training of trainers, industrial training towards skill-intensive jobs, as well as schemes for the improvement of working conditions and productivity (Tan 2015). Further benefiting Singapore was the international budget allocated from the UN, which was wisely invested in education, industrial development, and urban planning, thereby providing the groundwork for international programmes through which selected Singapore scholars could go on the United Nations Development Programme (UNDP) (UNDP Global Centre for Public Service Excellence 2015).[20]

The focus on labour employability is also evident at the national level, where early leaders were tasked to implement economic and social development policies, with employment and the labour force's well-being as guiding primary goals (Tan 2015).[21] To produce the desired outcomes, comparative advantages were identified which led to simple policy recommendations with progressive changes to adapt to dynamic conditions. Significant policy initiatives for Singapore's human capital have been attributed to:[22]

(i) A switch from low-wage, import-substitution to high-wage, export-oriented industrialisation that was considered not to be the norm during that period;
(ii) Adopt best practices from the Japanese (who were the regional leaders),[23] and the Westerners (USA and United Kingdom), but localise to Singapore's conditions—resulting in hybrid developments with continuous innovation.

During the early stages of Singapore's development, from the 1960s to 1980s, job creation, FDI, and learning from developed economies, such as Europe and the USA, were critical. There was a subsequent shift to new markets such as China and India in the late 1980s and the early millennium.

The new objective was to utilise the knowledge gleaned from the developed economies and to apply this expertise to emerging economies in China and India. As labour becomes more mobile, Singapore's strategic location and proximity to ASEAN states makes it an obvious choice to promote its labour force in the region. Singapore has been offering its expertise on economic and social matters, and has provided humanitarian assistance to the regional states. This is a clear demonstration of Singapore's strong relationships and maturity, and further illustrates the region's evolution and adaptation. The progression of human capital in Singapore is summarised in Table 10.1, as follows.

2.3 Free Trade Agreements and Subregional Economic Zone

ASEAN was set up in 1967 to address the region's political and security challenges, and provide regional stability. Today, the region has a market of 620 million people, an estimated GDP of USD $2.5 trillion (2014) and a projected annual growth of over 5 per cent till 2018 (OECD 2014).[24] By 2030, ASEAN will be the fourth largest single economy, behind the European Union, USA, and China, with a GDP of USD $10 trillion (US-ASEAN Business Council 2014). Over the past decades, the regional tariff structure disparities have been reduced, resulting in greater complementary trade amongst ASEAN members. However, there remain economic and social domains requiring added attention prior to further integration.[25] Historically, the pace of regional integration has been below Singapore's expectations in terms of ASEAN's overall standing, where the struggle to reduce tariffs is attributed to loose and narrow institutional frameworks with decisions and policy formulation left to respective Foreign Ministers (Daquila and Le 2003). Such institutional frameworks suggest that approaches within ASEAN were cautious with slow progress. This

Table 10.1 Evolving trends in Singapore's human capital since independence

Time Period	*Nature and skill levels of Singapore Workforce*	*Major markets demanding Singapore Workforce*
1960s	Manual and basic skills developing higher order skills	Europe and USA
1980s	Knowledge-based workforce	China and India (emerging markets) as addition to Europe and USA
Beyond 2000	Higher order skills and technology	ASEAN also in the market mix

prompted Singapore to seek more international Free Trade Agreements (FTAs) with other global partners, and undermined the ASEAN spirit by allowing a "back door" entry for her global partners to the ASEAN markets (Daquila and Le 2003).[26]

Singapore ensured that ASEAN members and ties would not be undermined by a "back door" entry by fostering closer economic ties with Malaysia and Indonesia. The SIJORI Growth Triangle formed by Indonesia–Malaysia–Singapore is known as the Subregional Economic Zone (SREZ). Singapore addressed the "back door" perception by including the Riau Islands in her FTA negotiation with the USA (Daquila and Le 2003). This enabled Indonesian goods access into USA, and in return the USA gained entry to Indonesia's Information Technology sector (Daquila and Le 2003). This growth triangle was first proposed in December 1989 (Ahmad 1992) and signed in December 1994 (Sparke et al. 2004); it was viewed as an avatar of the "borderless" city-region development (Parsonage 1992). Singapore was to lead and provide financial developments in Johor and Riau Islands (Batam and Bintan) (Guinness 1992); while Indonesia's Batam built eight industrial estates at the Batamindo Industrial Park to house AT&T, CIBA Vision, Epson, Philips, Seagate, Sanyo, Siemens, and Thomson. Bintan island benefited from the capital overflow from industrial parks and high-end tourist facilities (Chang 2001; Grundy-Warr et al. 1999); and Malaysia's Johor benefited from cross-border industrial re-location and tourism development projects (Guinness 1992; Parsonage 1992).

Although the growth triangle delivered impressive results, the sustainability of the effort to "fast track" development has yet to be demonstrated for cross-border cooperation (Grundy-Warr et al. 1999). A possible explanation for a less than ideal pace of development was that Johor and the Riau Islands are not representatives of their respective countries where issues (such as taxes and duties) at the local level can only be addressed at federal level; this resulted in different levels of autonomy and delays in decision-making (Grundy-Warr et al. 1999). Comparing the FTA and SREZ, the SREZ offers a better structure for advancing deeper economic integration; it is more open than FTAs and not restricted to SREZ markets (Peng 2002). In addition, the flexibility to withdraw and nil participation are also allowed in SREZ. From the discussion on FTA and SREZ, it is evident that Singapore strives to be a valuable partner as her partners develop and grow, and remains useful when they have attained a certain level of development. Further cross-border developments would require

an uninhibited flow ranging from capital, goods, services, labour, investment, and ideas. As ASEAN is made up of nations with different customs, laws, operations, and regulations, a move to a common market where development gaps will be bridged within the nations seeks to address and resolve these differences.

In late 2015, the ASEAN Economic Community (AEC), founded on a regional common market, came into effect; where goods, services, capital, and labour, particularly professionals, enjoy free mobility within ASEAN in trade and services. Nevertheless, existing FTAs between ASEAN members may dwarf the trade initiative towards a common market, as new benefits may not be as attractive as existing bilateral agreements. Political barriers and strategic risks can also potentially diminish the expected benefits for tourism and services. Directions and applicable policies on how AEC can integrate existing bilateral agreements must be made clear so that all members will benefit from existing and future polices. To date, there has been significant progress towards closer co-operation within ASEAN for Singapore, centred on people. Selected initiatives include: (1) Exports to ASEAN out of Singapore are not subjected to any tariffs, leading to lower production costs that offer a competitive edge; (2) Standards and regulations for the ASEAN region will be benchmarked against international guidelines, which help to eradicate potential barriers and risks; (3) Formerly restricted industries such as engineering and healthcare will open up to foreign interests, providing access for greater investment opportunities from Singapore; (4) The ASEAN Comprehensive Investment Agreement protects investors by providing a conducive environment that is pro-business, and will significantly reduce risks for Singaporean investors; and lastly (5) Labour mobility will be greatly enhanced in the ASEAN region for eight professions, allowing for ideas exchange and capital flows across borders.[27] (Ministry of Foreign Affairs, Singapore (2015).

From the brief history and development path of Singapore, the evolution of economic drivers with initial assistance from international agencies has been dynamic through adaptation to both exogenous and endogenous factors. Even though natural resources are rare, Singapore remains agile through its greatest endowment—human capital, which underwent significant transformations locally as well as reconfiguring to meet regional needs (via FTAs and SREZ). These would not have been made possible without strong governance and a stable political setting. As Singapore strives to be relevant to the region, it is recommended that labour mobility and

trade-enabling initiatives such as the AEC continue to be utilised, which will enable further proficiency development and capacity-building for sustainable development and handling future challenges.

The next section reviews selected projects for the free port of Vladivostok and relates them to the experience of Singapore, paying particular attention to human capital and development policies.

3 Free Port of Vladivostok

3.1 The Project Being Developed

The core model of the free port of Vladivostok hinges on mutual obligations between the Corporation of Development of the Far East management company as well as firms and residents of the free port.[28] The key tasks of the company are simplifying the handling of bureaucratic formalities and administering preferential tax treatments.[29] In return, firms and residents of the free port will invest at least 5 million rubles-worth of new businesses in the free port for the first three years.[30] The management company will undertake all communications with the state and oversee the supervision of the Agency for Development of the Human Capital on Far East. This Agency was set up primarily to provide labour for new investment projects and facilitate the re-settlement of skilled personnel from other parts of Russia, the post-Soviet space, and other countries to the Far East.[31] The Law "About Free Port Vladivostok" was implemented to help realise the geoeconomical potential of the Primorsky region. For instance, semi-processed goods from Asia and Europe shipped to Vladivostok will be processed into finished products for export to Asia-Pacific nations. Nonetheless, the peculiar features of the free port will need to be considered, such as the large area which covers 15 regions and 75 per cent of Primorsky's total population; overlapping Special Economic Zones; the "Free Port" status that applies to other ports in the Russian Far East, for example Fesco and Vostochnuu, which means that Vladivostok is not unique.[32]

The following section reviews the demographics of the free port of Vladivostok. At present, there are slightly more than 30 companies operating there, in logistics, transportation, fish farming, and fish processing, tourism, production of building materials, and new composite materials. Most of these companies were planned several years ago when the idea of a free port was planted. Some examples include:[33]

(1) PrimRing is a sports complex catered for automobiles, motorcycles, and all other technical kind of sports implemented by the Sumotori Machinery Group located in Artyom city, Vladivostok's satellite in partnership with the UK, Italy, and German counterparts;
(2) The Vladivostok Sea Fishing Port with an annual capacity of about 5 million tons of cargoes and 200 containers, and Nakhodka Sea Fishing Port situated in Nakhodka city;
(3) A New Coal Terminal as a special handing complex to ship coal to the Pacific nations and an International Maritime Trans-shipment Terminal for bulk cargo will be located in Slavyanka opposite Vladivostok on the other side of the Amur Bay.

The Primorsky region and the free port of Vladivostok have unique geographic advantages and the potential to become one of the key ports in the Asia-Pacific. It is expected that semi-finished products from Europe and Asia will be shipped to Vladivostok to be processed; they will then be exported to both the East and West as finished products. To develop export-oriented industries, there must be sound urban planning and industrial zones for core businesses and auxiliary services to thrive. There are schemes in place for foreign investors such as lowered tax rates, alleviated bureaucratic barriers, and streamlined visa and customs policies, that will help make the free port an attractive place.[34] To attract human capital, relocation subsidies will incentivise individuals to relocate to the Far East. There must be concrete schemes to enhance human capital as economy needs and industries evolve, as evident from Singapore's development path.[35] It will be no easy feat for the new coal terminal to emulate a trans-shipment proposition unless there is value-added with an additional step in coal processing as opposed to shipping in raw form. This provides cargo options in bulk (where items are shipped loose in the hold of a ship) and containerised cargo (where cargo fits into a container resulting in economical shipment).

Although the idea of export-led economic development and foreign investments looks promising, an alternative path of development is to work together with established global seaports and logistics companies. Two recent developments are highlighted as follows. Before the Law "About Free Port Vladivostok," signed in 2015, Russian Direct Investment Fund (RDIF), Changi Airport Group, and Basic Element (largest Russian industrial group) had established a consortium to develop Vladivostok International Airport.[36] In 2016, RDIF and DP World

(global ports company of the United Arab Emirates) signed a joint venture agreement for strategic investments in Russia's logistic infrastructure—the free port of Vladivostok was named as a potential city location for investing (Kane 2016).

In a bid to facilitate a world-class medical sector,[37] the Law is also extended to services such as the medical sector, where doctors with international certification are able to practise locally;[38] leading clinics such as Regional Hospital of the Primorsky Krai No. 1, Medical Centre of the Far Eastern Federal University are offered preferential terms to set up shop in the free port of Vladivostok. Approximately 100,000 to 150,000 people seek medical treatment abroad, spending about 1 billion rubles per annum (Buravtseva 2015). For example, Russians seek medical treatment in Seoul, South Korea annually for cardiovascular and cancer treatment, and artificial insemination, owing to advanced technology and the high level of services offered.[39] As the free port of Vladivostok develops, there should be additional initiatives to help it grow into a medical hub to capture outbound medical tourism and attract potential patients from the region (China and Europe). The free port has provided the simplified visa regime with an eight day visa on arrival; but this may have to be reviewed to 30 days or even a medical visa that can be extended subjected to different treatment cases. Singapore is a reputable medical centre in the ASEAN region with a developed medical infrastructure, and prides itself on innovative offerings and treatments with high success rates for major illnesses (cancer, cardiac, and preventive healthcare) (Tan 2016a). Therefore, it is recommended that prominent Russian clinics should enter a joint venture with leading medical groups in Singapore, where medical expertise could be exchanged and shared between professionals from both nations.

The free port should also aspire towards a medical education centre to further the development of human capital in the sector. This can be spearheaded by universities from both nations such as the Medical School at the National University of Singapore, Pacific State Medical University, and the School of Biomedicine at the Far Eastern Federal University, Russia, where medical students can choose to do their residency and continue their service in either country. As there is a long time lag before a doctor is fully trained, more students should be admitted to the programme so that there are sufficient doctors to service the needs in Primorsky and rural regions. This will ensure a continuous supply of doctors to sustain the area's development towards a medical centre of excellence as well as a ready and substantial supply of support staff, such as administrators,

nurses, pharmacists, and those engaged in a host of established auxiliary services, including leading pharmaceuticals and medical technology companies. Future medical developments in the free port should focus on end-to-end offerings as the socio-economic development of the Primorsky region accelerates and integration with Asia-Pacific nations materialises.

Success remains to be seen, as there are major challenges facing the free port of Vladivostok, including cost because of distance; developed ports in Japan and South Korea; and China's specialised logistics and established auxiliary industries. Vladivostok will have to compete with existing SREZs around the Asia-Pacific region and position itself as a prominent feature in existing transport routes and commodity chains. Success is also dependent on the development of global and regional initiatives: to name a few, the Northern Sea Route, Silk Road Economic Belt, International Transport Corridors Primorye-1 and Primorye-2, which are ambitious and ambiguous at the same time. Secondly, economic sanctions imposed upon Russia in 2014 will complicate and may hinder the development path. Even though there will be negative implications, there will also be opportunities for investors and reformers, where investors can take calculated risks. Other opportunities include the perception of Russia as a global trading partner (reducing trade barriers by Memorandums of Understanding, FTAs, SREZs), and assistance (promotion, logistics, transportation, intellectual property, and patents) for small and medium-size businesses and exporters. In addition, the sanctions have also spurred the agricultural and petrochemicals sectors to undergo urgent structural reforms (Lossan 2016). More importantly, the laws must stand, and there must be no cancellation or withdrawal with changes in political leadership in order to assure investor confidence.

4 Conclusion: for Future Directions—Vladivostok (and Singapore)

The goal of creating Vladivostok's free port is an attempt to minimise negative factors which hinder the industrialisation of the Russian Far East and the free port's reach to Asia-Pacific markets. Preferential conditions, including low tax rates, alleviation of bureaucratic barriers, and streamlining visa and custom policies, catering for both Russian and foreign investing firms, are aimed at attracting their operations to the free port in order to stimulate employment and enhance human capital development in the area. Singapore has been benchmarking against leading port players in Asia, including Hong Kong, Kao Shiong, and Japan. Similarly,

the free port of Vladivostok may wish to review developed ports in Japan and South Korea. Singapore's first development plan was crafted by Dr Winsemius, who noted that the government would have to fill the gap when it came to industries that cannot be undertaken by the private sector (UNDP Global Centre for Public Service Excellence 2015). The government will require a constant knowledge of commercial and market sentiments to keep itself abreast of dynamic changes and continual progress.

Growth means expanding the community, using land and other natural resources, whereas development is thought of as improving liveability, such as culture and heritage, education, employment, safety, and community development. Developmental paths are transitional and an interim stage towards the future, adding and creating value in businesses and industries. For instance, investing in productivity from a production angle involves picking the right industry, phasing out non-performing sectors, and investing in regional activities whilst continuing to evolve. A signal for transition is when full employment occurs and wages need to be increased to meet employers' upgrading and the labour force's up-skilling. Trading activities and regional developments must be navigated carefully for fear that when these factors are compounded, they may negate the progress that has taken place over time.

Without a skilled and diligent labour force, Singapore's development trajectory could have taken a different route and the economic achievements might have taken a longer time to attain. The city-state continues to charm job seekers globally with its alluring propositions, and this further emphasises the need for the local labour force to continually upgrade and reskill to compete with a genuine edge. The 1980s economic recession prompted a stimulation of the services sector, support of local industry, and "regionalisation" to grow investment outwards. This was made possible by a committed investment in Singapore's human capital, where the benefits will not be enjoyed by the city-state alone but will be beneficial to the greater ASEAN region. In the case of the free port of Vladivostok, there is a high possibility that future development over the next ten to 20 years will be dependent on existing sectors such as processing and export of agricultural products, oil refining for export, logistics and transportation, and tourism. The main task for government is to support these projects and help them expand to become large corporations, while remaining relevant to the regional areas through their goods and services. As evident in the experience of Singapore, the way forward may be through export-oriented strategies for employment and economic nimbleness that is brought about by boosting human capital.

Notes

1. See the main page of the official site of the administration of Primorsky Krai: http://primorsky.ru/news/main/89349/, accessed 11 April 2016.
2. See, for example, the Russian Government's decision to adopt the law on the Free Port Vladivostok: The Russian Government has decided to propose to the State Duma the Free Port Vladivostok Law Project (Правительство Российской Федерации приняло решение о внесении в Государственную Думу законопроекта а Свободном порте Владивосток), Ministry for Far Eastern Development (Минвостокразвития), 4 June 2015, http://minvostokrazvitia.ru/press-center/news_minvostok/?ELEMENT_ID=3340, accessed 25 May 2016.
3. Sollers-Vladivostok is a Japan–Korea collaboration which included brands such as Mazda, SsangYong, and Toyota.
4. The Governor signed the Agreement with the Ministry of Economic Development to create a special economic zone on 18 September 2014, The Official Site of the Administration of Primorsky Krai, http://primorsky.ru/news/common/73010/, accessed 8 April 2016.
5. "Korean Investors from 'Hyundai Electronics' are looking for market outlets in Primorsky Krai (Корейские инвесторы завода 'Хендэ Электросистемы' в Приморье ищут рынки сбыта)," PrimaMedia.ru, 21 January 2015, http://primamedia.ru/news/economics/21.01.2015/415743/koreyskie-investori-zavoda-hende-elektrosistemi-v-primore-ischut-ri.html, accessed 8 April 2016.
6. See: Presidential Address to the Federal Assembly of the Russian Federation (Послание Президента Федеральному Собранию), 4 December 2014, http://kremlin.ru/events/president/news/47173, accessed 8 April 2016.
7. The concept of "the territories of rapidly development" focuses on special economic zones that are located in different regions of the Far East. These zones are endowed with preferences which exceed the privileges of the free port of Vladivostok.
8. See, for example, The Program of The Development of Vladivostok as Centre of the International Collaboration in the Asia-Pacific Region (Программа развития Владивостока как центра международного сотрудничества в Азиатско-Тихоокеанском регионе), 23 April 1996, p. 31, http://assoc.khv.gov.ru/files/docs/2015/2528f68d6fb4eb8223f6.pdf, accessed 9 February 2016.
9. See President Vladimir Putin's Speech at the First Eastern Economic Forum (Первый Восточный экономический форум), Vladivostok, 14 September 2015, The President of Russia Internet Portal, http://kremlin.ru/events/president/news/50232, accessed 22 February 2016.

10. Dr Winsemius hails from the Netherlands (small country) and has innovative ideas ranging from container shipping, engineering, financial services, retail development, technical education, and tourism. He was the key development architect for Singapore's industrialisation from low-wage production-based economy to high-wage export-oriented industrialisation.
11. Mr Tang is an engineer of Chinese descent who became interested in the development of emerging nations. Dr Winsemius and Mr Tang had met in New York while working with the UN's Economic Commission for Asia and the Far East (ECAFE) (UNDP Global Centre for Public Service Excellence 2015).
12. Success in Singapore was not replicated in other countries which Dr Winsemius had earlier advised. The approach which he had used hinges on "Wakefield principles": (1) Advisers help people help themselves; (2) Help and advice rendered with avoidance of publicity; (3) Acknowledge clearly that an international organisation had assisted in ways which the country has requested. The late Mr Lee Kuan Yew (Prime Minister and Senior Minister of Singapore) was grateful and felt indebted to the time and energy which Dr Winsemius had devoted to Singapore. Please see http://ourstory.asia1.com.sg/dream/lifeline/win4.html, accessed 25 May 2016.
13. Public housing in Singapore was spearheaded by Mr Lim Kim San in the 1960s to address the critical shortage of housing.
14. Singapore was founded by Sir Stamford Raffles in 1819.
15. Acknowledging the British heritage attracted global oil companies such as Shell and Exxon (at the recommendation of Dr Winsemius) to set up operations in Singapore. The site where Exxon operated a refinery is now a resort island, Sentosa. It was also Dr Winsemius' recommendation for Philips to establish a production plant in Singapore in an attempt to shift and upgrade from industrial capacity to higher technological methods.
16. The city-state became an international centre for air traffic, with an airport that allows the biggest planes to land and a sea port as the only regional harbour with container facilities.
17. Singapore is geographically located in a favourable time zone and filled a strategic gap in the global financial markets. That is, when European financial markets in Zurich and London close, New York would open; but after New York closes, there would be a gap of six hours before Europe opens again—Singapore fills this gap.
18. Please see Appendix for the author's attempt at a detailed summary of the five phases of development from various sources.
19. This is in stark contrast to autarky towards an import-substitution strategy (ISS) that was first pursued when Singapore was still part of Malaysia in anticipation of a common Malayan market. The benefits of ISS were discussed by Alexander (1967) and Bruton (1970, 1989) but potential defi-

ciencies were warned of by Baer and Samuelson (1977), with Bruton (1998) highlighting ISS's inadequacies in Asia. It was the separation from Malaysia in 1965 which set Singapore off on an export strategy projectile. As leaders and secretary of the UN team, Dr Winsemius and Mr Tang did not believe in a common Malayan market because of the mismatched market size and diverse dominant ethnic groups in both countries.

20. The late Mr Ong Teng Cheong (Singapore's President 1993–1999 and a Colombo Scholar) who was a trained architect and studied urban planning, was one of many who benefited from this international stint and offered his services to Singapore's benefit with the development of the Mass Rapid Transit (MRT).
21. One of the early leaders was the late Dr Goh Keng Swee, who holds a doctorate in economics and undertook ministerial portfolios in Defence, Finance, and the Interior from 1959 to 1984. Dr Goh's signature contribution was the development and transformation of Jurong (on the western zone of the city-state) into an industrial oasis (Tan 2015). This reflected his stance on foreign investment for employment and economic growth.
22. Adapted from UNDP Global Centre for Public Service Excellence (2015) and from the author's observation.
23. Japan had policy failures in life-long employment, public transport, and the protected agricultural sector.
24. In the past five years, Indonesia, Philippines and Vietnam have been growing at 6 per cent per annum; Malaysia and Thailand have been growing at 4–6 per cent per annum (OECD 2014).
25. Three areas have been highlighted as impediment to integration: (1) Non-tariff barriers remain in abundance; (2) Barriers are considerable in services; (3) Open Skies Agreement remains in discussion.
26. FTAs allow countries to save on foreign exchange, capitalise on comparative advantage, and achieve optimal resource allocation. FTA comes into effect when countries negotiate the removal of trade restrictions on goods and services; and complements multilateral and regional initiatives.
27. Subjected to respective domestic employment rules and regulations, the eight professions are accountants, architects, dentists, doctors, engineers, nurses, surveyors, and personnel in the tourism sector (representing 1.5 per cent of the total ASEAN labour force).
28. Corporation of Development of the Far East is a management company which is 100 per cent owned by the Russian government, and was established mainly to manage the territory's rapid pace of development and the free port of Vladivostok. http://government.ru/en/department/239/events/, accessed 25 May 2016.

29. During the first ten years of operation from 2016, the tax rate is capped at 7.6 per cent. See: https://en.wikipedia.org/wiki/Free_port_of_Vladivostok, accessed 25 May 2016.
30. Please refer to the selection criteria of residents of the free port, http://www.erdc.ru/docs/kritery.pdf, accessed 10 April 2016.
31. The Agency for Development of the Homan Capital on the Far East, Measures for Support, http://www.hcfe.ru/support-measures/, accessed 13 April 2016.
32. Information obtained via communicating with local experts during fieldwork in Vladivostok, 14–16 May 2015.
33. Information obtained via communicating with local experts during fieldwork in Vladivostok, 15 May 2015.
34. Information obtained via communicating with local experts during fieldwork in Vladivostok, 14 May 2015.
35. The schemes would have to comply with the selection criteria of residents of the Free Port; that is: (1) A new project which did not exist before application; (2) Invest in new project with at least 5 million rubles in the first three years; (3) Minerals extraction and related mining activities are not allowed. See: 'Criteria for Selection of the Residents of the Free Port Vladivostok (Критерии отбора резидентов свободного порта), Corporation of Development of the Far East, http://www.erdc.ru/docs/kritery.pdf, accessed 10 April 2016.
36. "Consortium of the Russian Direct Investment Funds, Changi Airports International and 'Basic Element' is announced as a winner of a bid to purchase Vladivostok International Airport's shares (Консорциум РФПИ, Changi Airports International и 'Базового Элемента' объявлет победителем конкурса на приобретение акций Международного Аэропорта Владивостока)," The Russian Direct Investment Fund (Российский Фонд Прямых Инвестиций), 24 February 2015, http://rdif.ru/fullNews/1260/, accessed 11 April 2016.
37. "10 Steps of Development: How to Turn the Far East into Successful Region (10 шагов для развития: как превратить Дальний Восток в преуспевающий регион)," TASS (Russian News Agency) http://www.tass.ru/ekonomika/2658945, accessed 7 April 2016.
38. The Law "About Free Port of Vladivostok" (signed 13 July 2015) http://base.consultant.ru/cons/cgi/online.cgi?req=doc;base=LAW;n=182596;fld=134;dst=100009,0;rnd=0.07043709917740703, accessed 4 May 2016.
39. Information obtained via communicating with Vladivostok expert from fieldwork at Vladivostok on 15 May 2015.

Appendix

A summary of the five phases of Singapore's development [Author's compilation from various sources, which includes Tan, S.S. (2015), UNDP Global Centre for Public Service Excellence (2015)]:

(1) Set up low-value industries (shirts, pyjamas), and women's contribution in sewing
(2) Separation from Malaysia, Public Housing, Shell, and Esso establishing refineries
(3) Develop and stabilise a lucrative investment climate, trained and skilled manpower for high-end manufacturing, promotion of education for technical jobs, Philips production plant
(4) Development into an international financial centre, and removal of sterling as the trading currency in 1972
(5) Transformation into an international traffic and cargo centre, build a large airport with long runways and no landing rights (free market for all airlines), a prelude to boosting the tourism (short stays, transit hub) and subsequently the Meetings, Incentives, Convention and Exhibition (MICE) sectors, busy container port (Dr Winsemius' foresight with his prior knowledge in the shipping industry; and lessons from the unsuccessful development policies in Netherlands have helped eliminate potential risks for Singapore).

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CHAPTER 11

Political and Legal Environment of Energy Investment in Russian Far East

Shengyu Yuan and Shaoxue Jia

1 Introduction

While China has an active role in energy exploration in the Russian Fast East, studies on this issue have placed a greater emphasis on the level of macro-strategy and pay less attention to energy investment policies and laws. China's limited foreign investment experience and knowledge deficiency of Russian laws and strategies have worsened the situation. Sino-Russian cooperation, specifically in energy, has embraced a historic opportunity to deepen its relationship with the implementation of China's One Belt and One Road (OBOR) Initiative and the accelerated transition of Russia's diplomatic strategy after the Ukraine Crisis. Russia's energy investment regulations demonstrate its energy strategy. The current investment environment has had a significant impact on Sino-Russian energy cooperation. Confronted with intricate policies and a complex legal environment in Russia, more supporting research into theory and practice is demanded for the purpose of effectively avoiding investment risks in Russia. Based on these reasons, it is of great importance to provide

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a systemic study into the energy investment environment of Russia and the Far East in order to comprehend its intrinsic value and function. There is an urgent need to analyse Russia's energy policies and legislation, as well as underlying domestic political and economic contexts, to provide an analysis of how these policies and laws will impact upon China's OBOR Initiative. By attempting to analyse Russia's energy investment regulations and laws, this chapter hopes to provide suggestions that will not only benefit potential investors but also promote the implementation of OBOR.

This chapter is an attempt to fill this scholarly lacuna and to present some practical suggestions for Chinese investors who are interested in Russia's Far East. The data sources used include public official reports and professional journals. The chapter is divided into three sections. Section one discusses Russia's legislation and investment regulations, especially market access regulations related to China's energy investments in Russia. Section two analyses the main trends in Russia's energy investment regulations, points out the interaction between these regulations and its energy strategy, and considers the impact of these regulations on China's energy investments in the Far East. Section three argues that developing Sino-Russian energy cooperation fits with both parties' strategic interests. It further argues that China should actively reinforce its energy investments in the Far East and form practical strategies such as the establishment of an international institution, implementation of an investment strategy, and prevention of legal risk.

2 Policy and Legal Basis for China's Investment in the Far East of Russia

Since the 1990s, Russia's energy investment environment has transitioned from privatisation to oligopoly to renationalisation, from government monopoly to opening the markets, and from disorderly competition to strict national regulations. Released on 4 July 1991, the *Foreign Investment Law of the Russian Federation* addressed the fundamental principles for foreign investors, offering tax preferences and improved financial supervision.[1] On 9 July 1999 the government issued the *Foreign Investment Law of the Russian Federation*, which gradually eliminated the disparity between domestic and international investors, and permitted diversified investment, which guaranteed basic rights for foreign investors.[2] In the sphere of energy, a series of associated laws were enacted, and these have been continuously amended. The most important include

the above-mentioned *Foreign Investment Law of the Russian Federation*; *The Law of the Russian Federation of the Production Sharing Agreement* (30 December 1995);[3] *the Federal Law on the Continental Shelf of the Russian Federation* (30 November 1995);[4] *the Mineral Resources Law of the Russian Federation* (21 February 1992);[5] the *Procedures for Foreign Investments in the Business Entities of Strategic Importance for Russian National Defense and State Security* (29 April 2008);[6] the *Law of Natural Gas Export of the Russian Federation* (18 July 2006);[7] *the Labor Code of the Russian Federation* (31 December 2001);[8] the *Railway Law of the Russian Federation*; the *Law of Electric Power of the Russian Federation*; the *Law of Limited Liability Company of the Russian Federation* (8 February 1998);[9] the *Russian Federal Law on Joint Stock Companies* (26 December 1992);[10] the *Tax Code of the Russian Federation* (31 July 1998);[11] the *Land Code of the Russian Federation* (25 October 2001);[12] the *Law of the Russian Federation on Legal Status of Foreign Citizens* (25 July 2002);[13] the *Law of the Russian Federation on International Commercial Arbitration* (7 July 1993);[14] the *Law of the Russian Federation on Environment Protection* (10 January 2002);[15] the *Russian Federal Law on the Ecological Evaluation*, *Rent Law of the Russian Federation*; and the *Law on Energy Conservation of the Russian Federation*.[16]

The Russian legal system, which is oriented to federal law, involves regulating access in multiple aspects for energy resource exploration, exploitation, marketing, and application. Russia's tremendous reserves of oil and gas, and its production and export capability, serve as an important tool for rejuvenating the economy, and place Russia as a key player in the global energy resource structure. The oil and gas reserves can serve a key purpose in realising national objectives. Introduced in November 2009, *Russian Energy Strategies prior to the year of 2030* is aimed at maximising resource utilisation, guaranteeing stable economic development, providing a better quality of life, and improving Russia's status on the international stage.[17] In recent years, more attention and support has been given to Far East energy exploitation. The Russian government has made various measures, including the *Strategy of Socio-economic Development of Far East and Baikal Region Until 2025*, issued in 2010, which intensified exploitation in East Siberia and the Far East;[18] in 2011, the Far East and Baikal Region Development Fund was established for financing purposes;[19] and in May 2012, the Ministry for Development of the Russian Far East (*Minvostokrazvitiya*), serving as the first administrative practice in Russia, was established in Khabarovsk.[20] As a federal executive agency,

the ministry plays an active role in implementing national as well as federal plans. It introduced *Conceptions on the Russian Foreign Policy (2013)*, which clarified Russian interests by highlighting cooperation in Asia-Pacific. On the one hand, it was assumed to stimulate economic growth in Siberia and the Far East through engagement in the Asia-Pacific integration process, and on the other hand, a framework for common security and cooperation that is expected to form in Asia-Pacific, with transparency and equality as its principles.[21] The *Law of the Russian Federation on Regions of Leading Social and Economic Development* of September 2014 emphasised that in the first three years following its enactment, the federal region of the Far East would be the designated area that would lead regional development.[22] By continuingly reinforcing its energy strategic goal, Russia aims to realise its strategic goals through energy regulation. Energy cooperation in the Asia-Pacific region is an important element of Russia's energy diplomacy.

3 Developing Trends of Russian Energy Regulations

In accordance with the demand to establish a market economy, the related laws and regulations are improving, but because of the crucial status of the energy market both politically and economically, legal norms related to energy still reflect government will. A variety of methods have been adopted to control foreign investments in energy exploration, such as a licence system, tax revenue, investment ratio, environment assessments, and export quotas.

3.1 Deepening Legal Adjustment

Russia has set strict supervisory procedures based on antitrust laws, such as the *Russian Federal Law on Protection of Competition* (26 July 2006), which explicitly stipulated under what situations transactions need prior approval of the antitrust institution.[23] According to *The Mineral Resources Law of the Russian Federation* of 21 February 1992, joint ventures would be qualified for exploitation on the continental shelf only if two conditions are met: that foreign shareholdings shall not surpass 50%, and that they have five years or more experience in energy exploitation. It should be noted that the law has been amended more than 40 times since 1992, and continues to follow a deepening route in dealing with licences, such

as qualification examination, operation standards, and legal liability.[24] Ecological protection in line with sustainable and healthy development of the energy industry is becoming more strictly required. The *Russian Federal Law on the Ecological Evaluation* (23 November 1995) has undergone 30 revisions. The law for environmental protection holds that production involving ecological objects needs to be evaluated and permitted by licence to ensure compliance with its requirements.[25]

Russia's supervision of energy investments is aimed at setting up a roadmap for multilevel and diversified development, and this should be a matter of great concern for Chinese investors. In 2006, the Russian government announced a withdrawal of permission for the Sakhalin No. 2 project on the basis that it had destroyed the surrounding ecological environment. This example demonstrates that environment protection has been incorporated into Russian governmental consideration regarding international energy cooperation (Xu 2006).

3.2 Intensive Regulation of Central Government

In the early 1990s, magistrates who used to be appointed by the president are now chosen through democratic elections, whereby central power is weakened while local authorities are able to grow. Moreover, the separation treaty between federal government and its sub-level governments expands local powers, threatening national unity (Liu and Song 1999: 65).

Referring to energy management, because of separate administrations that allow more freedom for local governments, the energy industry appears disordered with no integrated layout, leaving it at the mercy of respective local authorities. The relationship between central and local governments has greatly changed since Putin's presidency. Russia is consisted of eight federal districts, in which the chief executives of federal government shall not simultaneously serve as members of the Federation Council, and the president is entitled to remove local leaders under specific conditions. Gradually the federation is gaining larger authority and scope in energy management, and as a result the power of local governments is beginning to shrink.

The major responsibilities of local governments with regard to local energy exploitation now lie in ecological protection, and in making preferential policies for local investment and taxation. Taking sustainable development into consideration, principles that are applied advocate rational utilisation and protection of the environment. In addition, President

Putin's government has intensified direct supervision of energy enterprises. In August 2004, President Putin signed a President Order that privatised more than 1000 state-owned strategic enterprises in the energy and natural gas industry. In September 2004, the Russian government promoted a merger between Gazprom and the state-controlled Rosneft Oil, effectively forming a monopoly in the energy industry (Du and Wang 2014: 31).

Many high officials in the government occupy leading positions in energy enterprises, and directly participate in the regulation of the strategic industries. Moreover, the Putin government reinforces the supervision of strategic resources and through legislation limits the involvement of foreign investment in strategic projects. The 2006 Federal Natural Gas Exportation Law stipulates that all of natural gas export shall be carried out by state-owned enterprises, which establishes a monopoly for state-owned Gazprom.[26] In general, the reinforcement of energy regulation by the Russian central government will undoubtedly and deeply affect cooperation between Chinese energy enterprises and their Russian partners regarding energy development in the Far East.

3.3 Distinct Orientation of National Strategy

Not satisfied with the energy order led by the United States, Russia proposed to replace it with a new one, which shall play a larger role in agenda-setting and rule-making. Based on the principles mentioned above, energy strategy plans have been created and issued one after another, offering an overall picture for energy prospects and objectives. These include the *Energy Strategy Outline of the Russian Federation prior to the year 2020*; the *Energy Strategy Outline of the Russian Federation prior to the year 2030*;[27] and the *Energy Strategy Outline of the Russian Federation prior to the year 2035*.[28] The documents all emphasise that Russia shall not accept energy loss in return for economic growth, and that energy development is supposed to be innovative as opposed to solely focusing on exploitation and consumption.

Russian energy strategies offer guidance for the process of regulating the scope and objectives of legislation. Russia aims to realise its goals by improving the legal framework. For example, laws restrict foreign investors' access to 42 fields that are considered strategically important, because of their oil and gas reserves, and limit foreign investment to a specified percentage (Chen 2012: 11). To serve the country's Arctic strategy and to speed up exploration of the Arctic continental shelf, a new preferential policy relating to energy tax was introduced in 2012, permitting foreign as

well as domestic private petroleum companies to engage in the continental shelf project. Russia also eliminated the export tariff and value-added tax for the importing of equipment. It is evident that these policies and regulations are strategically driven, and may be unpredictable and unstable in a legal sense. In 2002, China National Petroleum Corporation's failure to acquire and merge with Slavneft Oil Group demonstrated that Russia keeps a wary eye on strategy-oriented energy investment. In this affair, Russia revised Russia Federal Privatisation Law in order to limit the participation of foreign state-owned enterprises in energy investment. The effect of this was that China National Petroleum Corporation voluntarily announced its withdrawal from the competition for the acquisition of Slavneft (Jia 2016: 45).

Taken as a whole, the investment environment in Russia is gradually improving. Foreign capital is able to operate relatively freely, investment is flexible, and the related legal system has been positively shaped. However, Russia's special interest in energy determines that its energy regulations are different from overall foreign investment regulations.

4 Prospect of China–Russia Energy Cooperation in Russia's Far East Region

Russia is rich in natural resources, with reserves of 44 billion tonnes of oil and 127 trillion cubic metres of gas, within which Ural and Siberia account for 60% of the oil and 40% of the gas. It is estimated that oil and gas in the Far East make up 6% and 7% of the total.[29] In the meantime, the dependence of China on foreign oil and gas increased to 58.1% and 31.6% respectively in 2013, making China the third biggest country for gas consumption.[30] According to statistics offered by China Customs, Russia exported 33.1 million tonnes in 2014, a 36% increase compared to 2013, which surpassed OPEC members, such as Saudi Arabia.[31] Statistics show that Chinese trade with Russia in oil and gas rose substantially over the previous year.

Although mutual cooperation in the Far East is expected, scholars have also noticed that certain problems are arising. According to A.V. Ostrovsky, a well-known Russian economist and China expert, some institutional issues such as a weak legal foundation and poor investment environment may impede cooperation between the Far East and other countries in the Asia-Pacific area. Energy and transportation cooperation will create a conducive environment that will maximise Russia's demand in Asia, but the cooperation level is still much lower economically than politically (Ostrovsky 2014).

Russian Far East expert D.V. Suslov (2013) believes that because the legal system is not perfect, border regions have had no access to any preferential policies, and local administrative agencies are rarely taken into account in international investment cooperation, which obstructs cooperation between China and Russia. In addition to supply and demand complementarities, both sides basically hold the same view on major international issues and are in agreement over the settlement of border disputes, which has provided a solid foundation for further cooperation. While both opportunity and challenges have progressed hand in hand, deepening the scale and quality of the cooperation is critical for the long term. The *Sino-Russian Joint Statement on the Comprehensive Strategic and Cooperative Partnership at a new stage*, of May 2014,[32] upgraded cooperation and reiterated the objective that bilateral trade volume will increase to $100 billion in 2015 and $200 billion by 2020. China and Russia are focusing on establishing a full-scale energy partnership while giving prominence to overall cooperation when it comes to oil policy.

The signing of the *Memorandum on Sino-Russia East Line Natural Gas Cooperation Project and Sino-Russia Contract on Sale of East Line Natural Gas* turns a new page for Sino-Russian energy cooperation in the Far East,[33] and promotes the development of energy relations between the two parties. Currently, legislation on energy cooperation in the Far East is mainly composed of general rules that lack detailed and practicable safeguarding measures. Sino-Russian energy cooperation is therefore impeded, and it has emerged that there is no efficient platform for Sino-Russian energy cooperation. This is an urgent need, and the following suggestions are proposed:

First, Building a Top-down System of Energy Cooperation. It is difficult to construct a special arrangement for Sino-Russian energy cooperation through domestic legislation since Russia's energy investment legislation is generally applied to all foreign investments. Therefore, a bilateral cooperation mechanism should be established in order to fulfil the actual needs of Sino-Russian energy development. Russia and China have signed a series of cooperative agreements, such as the *Agreement between the Government of People's Republic of China and the Government of the Russian Federation on the Economic and Trade Relations* (1992); the *Agreement between the Government of People's Republic of China and the Government of the Russian Federation for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income* (1994);[34] the *Agreement between the Government of People's Republic of China and the Government of the Russian Federation on the Government*

Debts (1998);[35] *Sino-Russian Agreement on Short-term Work Assignment of Chinese Nationals in the Russian Federation and Russian Nationals in the People's Republic of China* (2000);[36] the *Agreement between the Government of People's Republic of China and the Government of the Russian Federation on the Joint Development Cooperation concerning Forest Resources* (2000);[37] and the *Agreement between the Government of People's Republic of China and the Government of the Russian Federation on the Promotion and Reciprocal Protection of Investments* (2006).[38] It should be said that these agreements play a supportive role in bolstering cooperation between the two parties, demonstrating the parties' shared view on promoting cooperation. However, these agreements serve mainly as guideposts and provide general principles, and thus lack operability and precise targets.

This problem is especially salient in the two most recent outlines for Sino-Russian cooperation in the Far East. First, the *Outline of Cooperation Plans between the Northeast China Regions and the Russian Far East and Eastern Siberia Region (2009–2018)* (2009, hereafter the *Outline of Cooperation Plans*),[39] and the *List of Main Cooperation Projects between the Russian Far East and Eastern Siberia Region and the Northeast China Regions* (2009).[40] Since the enactment of the *Outline of Cooperation Plans*, the implementation of related projects has been slow and the actual effect on cooperation has not been obvious, because of many restraining factors. First of all, it is clear that both parties should promote infrastructure construction, establish a market structure for facilitating investment in the area, and build a multilateral transportation network to facilitate the free movement of persons and goods. To a large extent, this depends on Russia's determination to open its market, and to improve the investment environment and the protection of investor rights in the Far East. In total, 116 projects related to China have been incorporated into China's *National Outline of Transforming Old Industrial Bases in Northeast Area*, whereas only a few of the 89 projects concerning Russia have been listed in the *Russian Federal Specialized Outline of Economic and Social Development in Far East and Trans-Baykal Areas before 2013* and the *Outline of Modernization of Transportation Infrastructures*. Russia is afraid that cooperation with China with regard to transportation in the Tumen River area will provide China with access to the Japanese Sea, so that Vladivostok and Nakhodka will lose their competitiveness. Therefore, Russia lacks enthusiasm for the implementation of the *Outline of Cooperation Plans* (Chen 2012a, b: 39). Thus, it is not surprising that no detailed regulations have been formulated in Russia during the seven years since the signature of this outline.

Compared with the rapid development of Russia's Far East, the current system of energy policies and legal framework is lagging behind. To solve this problem, specific normalised mechanisms need to be developed to promote cooperation in energy investments. These could include the drafting of and abiding by a series of bilateral agreements such as the *Sino-Russia Agreements for the Promotion of Energy Investment*, the *Sino-Russia Mutual-Beneficial Duty Terms*, and the *Sino-Russia Mutual-Beneficial Terms on Labor Visas*, which might be possible in the near future. Actions also need to be taken to establish a standing committee that oversees cooperation in energy development in the Far East together with an institution for dispute resolution. With all these efforts, the establishment of efficient and mutually beneficial access to energy investment will finally become possible. China's President Xi Jinping proposed to establish an energy club during the Shanghai Cooperation Organization (SCO) Summit that took place in Bishkek in 2013.[41] During 2014's Duschanbe SCO Summit, Xi made a proposal to promote the coordination of energy policies and of supply and demand. Xi also suggested that cooperation regarding transnational oil and gas pipe security among member states should be enhanced and that the Sino-Russian energy cooperation should be promoted within the framework of the SCO.[42] All these efforts indicate China's expectation of and endeavours to build a top-down system for energy cooperation. Additionally, it is possible that China and Russia can develop energy cooperation within the framework of the BRICS states (Brazil, Russia, India, China, and South Africa). However, many divergences still exist with regard to the specific areas and issues. Different geographical locations, energy resources, and economic development are the main obstacles to the formation of an energy-integrated organisation. There is a long way to go before the interests of all parties converge.

***Second, Adopting a Flexible Investment Strategy*.** Russia's energy legislation is aimed at maintaining its energy strategic interests. China has to understand that Russia regards energy as a key strategic resource. With the gradual cancelling of Product Sharing Agreements, Russia values its energy interests even more highly. The Yukos affair has demonstrated that when disputes occur between the Russian government and oil companies, international arbitration and remedial measures are ineffective.[43] The Russian government will always stand behind significant energy investment transactions. Avoiding risks in advance is more important than settling disputes afterwards. Although the law cannot resolve everything, it is an efficient instrument for national governance which plays an important

role in practice. In fact, behind each significant energy investment transaction there is always the prevailing Russia government will, reminding us that risk prevention before energy investment is crucial as opposed to resolving disputes after they have occurred.

For the foreseeable future, Russian government policy, which effectively controls foreign companies' involvement in energy development activities, will not change. On the one hand, Russia actively encourages foreign investment, but on the other it strictly controls resource utilisation. These aspects are not mutually exclusive and binding.

Chinese investors should actively carry out capital investment based on the capital strength of the investment institution, capital composition of the target company, its position in the industrial chain, and negotiation ability. Through the establishment of a legal trading platform, the investors can merge the target shares or assets to establish a joint venture, or can gradually penetrate the energy fields of the target country via offshore capital holdings. Specifically, this could begin with the purchase of the subsidiary company's shares in Russia or by establishing a project joint venture, then gradually expanding the fields of cooperating partners. Following this, companies can actively cooperate with large oil companies with good credit, robust strength, and transparent management in order to gain experience before long-term development in the Far East. An offshore company in a third country can be established to gain indirect control over the company inside Russia, thereby realising the goal of reinvestment in Russian energy.

During the active promotion of the OBOR strategy, China needs to formulate cooperative measures, facilitate effective cooperation in fields such as bilateral financial investments, goods transportation, and talent flow, and attract Russian enterprises to take part in China's oil production and transportation projects, laying out the policy and legal foundations for technological interaction in energy exploration, transportation, energy-saving, nuclear energy, and gas reserves. Meanwhile, China needs to stick to the strategy of "going global," enhancing policy support for large enterprises, such as PetroChina, to strengthen their competitiveness in energy development and infrastructure development in the Far East. Preferential tax policies should also be implemented to encourage Chinese private enterprises to take part in Far Eastern energy development and also to encourage the adoption of high-tech and product innovation. While adopting varied investment measures, communication should be enhanced through the establishment of local departments. Only by furthering cultural exchanges

in the Far East and establishing a partnership based on equality and mutual benefit can Russia and China maximise the function and effectiveness of their investment tools.

Third, Being Proficient in Russian Law. Based on the argument in Section 2, we can conclude that Russia's domestic energy legislation is very restrictive with regard to market access for foreign investment, and emphasises to an extraordinary level ownership protection for its domestic energy resources. There exists significant legal risk for foreign investment in Russia. Based on the prerequisite of a timely and accurate grasp of the current Russian system and its norms, and accepting that Russian energy policies and the related legal framework change frequently, Chinese investors should pay attention to changes in investment regulations in order to avoid any risks. In preparation for specific investment projects, focus should be given to Russian bidding norms, the national energy strategy of the investment destination area, the ability of law enforcement agencies to control foreign investor funds, assets, and recruitment and employment policy changes. Besides all this, approval conditions for the transfer of equity, the reorganisation of companies, duration of validity, and withdrawing and cancelling procedures related to the mineral resource licence need to be fully understood. Obtaining and renewing various types of energy approval documents in a range of cooperation activities with Russia is full of legal risks. In 2007, the British oil and joint venture company Tyumen BP (TNK-BP) was informed by the Russian government that its mining licence for East Siberia's Kovykta gas field was to be withdrawn because production did not reach the target value. After complex negotiations, the dispute finally ended in 2012, with TNK-BP being completely acquired by the Russian Rosneft.[44] This is why Chinese investors should turn to professional Russian lawyers for legal advice on the feasibility of their projects and establish a system for legal due diligence investigation and legal assessment submissions. In the meantime, investors should ensure the involvement of legal professionals in their negotiations, project contract reviews, and all other legal procedures. To ensure the safety of foreign investment and the standardisation of overseas business activities, China should establish a transnational legal risk control mechanism to prevent the loss of state-owned assets abroad. In view of the fact that Russia has repeatedly cut off oil and gas supplies to its export countries to achieve strategic balance (Smith 2016: 5), Chinese investors should equip themselves with overseas investment insurance and financing assurances, making advance evaluations of the risks so that they are prepared for the range of political risks in the host country.

Finally, it is should be added that research by Chinese scholars into policy and legal issues facing Russian energy is far from sufficient, and conclusions are scattered. Published monographs and papers centre more on issues of national energy strategies, diplomacy, and legal issues in Russia, such as the constitution of the Russian Federation, civil law, criminal law, the law of criminal procedure, administrative law, and the law of administrative procedure. Additionally, comparative studies from empirical perspectives hardly refer to energy investment regulation. Policies and laws related to Russian energy have undergone considerable changes in recent years, placing the onus on Chinese scholars to be more diligent in following up these dynamic developments, and conducting interdisciplinary studies that pay more attention to counter-measure research. It is also crucial to actively create high-level think tanks related to Russian energy investment and accelerate the cultivation of those who are proficient in the policy and legal environment. At present, the China National Institute for SCO, International Exchange, and Judicial Cooperation, in which the authors work, has been actively engaged in the creation of think tanks, stressing regional analysis of districts, municipalities, and frontier areas in Russia.

5 Conclusion

The Far East area of Asia is important strategically for Russia in the maintenance of its sustainable development in the twenty-first century, as well as an important avenue by which Russia can return to the global political and economic arena. Currently, Russia has been engaged in an effort to shift its focus to the Far East regarding domestic energy exploitation and exports, while regulating trade distribution of the energy industry through a gradual transition to a Asia-Pacific-oriented strategy. Concurrently, China has also stepped up rejuvenation plans for its northeast economy and has vigorously advanced its OBOR strategy. In 2009, the China State Council published *Suggestions on Further Implementing the Reconstruction Strategy of Old Industrial Bases in Northeast Area*, in order to make a new round of strategic arrangements for the reconstruction of the Northeast Area.[45] China's consolidation of energy cooperation in the Fast East is of great political and economic significance.

During the implementation of China's OBOR Initiative, both parties should take the necessary corresponding measures, including promoting the facilitation of financial investment, transportation of goods, and movement of persons, attracting Russian enterprises to participate in China's

domestic oil production and transportation projects, and providing policy and legal safeguard measures for interaction between the two parties regarding energy development, transportation, conservation, nuclear energy, and oil and gas reserve technologies. In the foreseeable future, Russia will still control foreign enterprises' involvement in energy investment. There will not be many changes to its main legal and market access rules. China should increase its policy support for overseas investment by big enterprises, for SINOPEC, China National Petroleum Corporation, and China National Offshore Oil Corporation, for example, in order to promote their competitiveness in energy and infrastructure development. China should also encourage and support high tech and product innovation, and institute measures to encourage Chinese private enterprises to participate in energy development in the Far East, including more favourable tax treatment. In line with principles of equality, mutual trust, and benefit, the Sino-Russian relationship is supposed to achieve a win–win situation by establishing cooperative mechanisms that emphasise interdependence, mutual trust, stability, and convenience.

Notes

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