

TOWARD THE GREAT OCEAN, OR THE NEW GLOBALIZATION OF RUSSIA

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Toward the Great Ocean, or the New Globalization of Russia



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The authors have prepared two versions of the report: a detailed summary and a full variant, complete with numerous charts, statistical materials and augmented with more evidences supporting the theses. The full version is considered the principal one.

This report is the full version, summary is available at <http://valdaiclub.com/>

Introduction: The World Around Russia

International relations are returning to their usual chaotic state of affairs. This return to the status quo ante is proceeding against the backdrop of an unusually high level of interdependence between all countries and nations, the globalization of economic and environmental processes, and unprecedented information openness of societies. The

development of societies, states, nations – all of humankind in fact, including Russians and Russia. The world outside is becoming more important for Russia than ever before (as it is for virtually every other country). Dependence on the external world has been steadily and irreversibly increasing. To become a strong and modern state, Russia needs to align its national development strategy more closely to the macro trends of global development than anytime before.

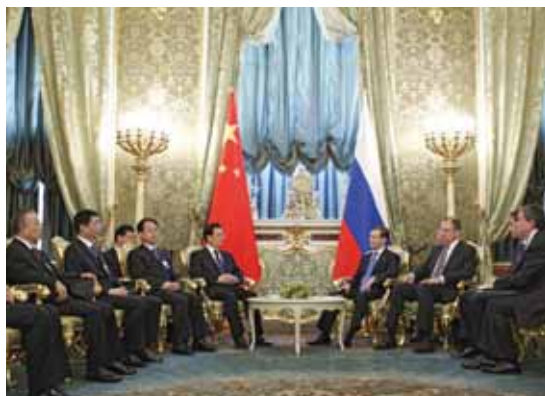
The key trend of global development is the shift, unprecedented in scale and speed, of the global economic and political center to the “new Asia,” or more precisely to East and Southeast Asia and India

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gap between the globalization of the world and de-globalizing governance is probably the biggest contradiction facing humanity today. But it is also a positive challenge, on the answer to which depends the successful

Asia is the driving force behind the economies that have joined or been connected to the “Asian economic locomotive.” After years of semi-stagnation or even decline, economic growth has been reported in many African





countries, which are now supplying raw materials and food to China and other countries. The United States, which has latched onto the Asian locomotive more successfully than most, is creating a highly integrated economic and financial cluster with China and other countries in the region.

At this new stage of global development, Russia's "territorial curse" is becoming a source not of weakness, but of potential strength

Russia has so far been unable to participate in this process, despite the fact that two-thirds of its territory is located in Asia. It is being held back by the backwardness of its infrastructure, an underdeveloped economy and the demographic situation, but even more so by its obsolete Euro-centric foreign trade and economic mentality.

The shift towards Asia has started on the level of political declarations. Vladimir Putin and Dmitry Medvedev have repeatedly talked about the need to turn towards Asia. In one of his election articles, Putin declared a desire "to catch the Chinese wind in the sails of our economy." In May 2012 Ministry for the Development of the Russian Far East was established. However, the pace of change in Russia at the level of economic strategy is still fairly slow and there is the ever-present possibility of false starts or political mistakes.

The restructuring of the global economy is continuing, but it is not proceeding in quite the way most economists predicted 20–30 years ago. The accumulation of the results of human activity and industrial emissions is leading to climate change, though the ultimate results are still unclear. Global warming is complemented

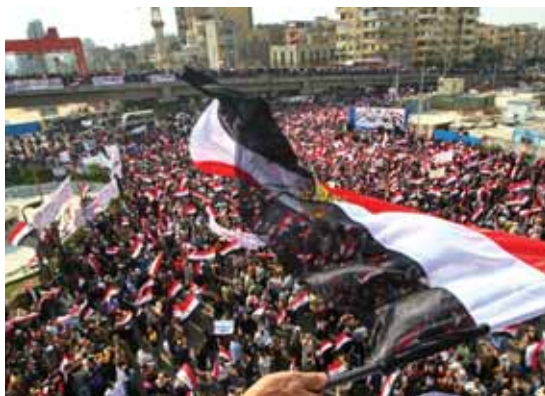
by a rapidly growing shortage of fresh water and many other raw materials. There is new geopolitical competition for the areas where these commodities, especially food, can be produced.

At this new stage of global development, Russia's "territorial curse" is becoming a source not of weakness, but of potential strength. Whereas in the past Russia needed its huge territory mainly as a buffer against potential external invaders, now, given the right economic strategy, it could become a vital source of new competitiveness.

The upheavals and uprisings of the Arab Spring and the growth of protest movements in the West clearly point to a new trend – the growth of socio-political instability.

There are many reasons for this, but the biggest one is the unprecedentedly rapid and widespread growth of social inequality and the gap between rich and poor.

In industrialized countries we can confidently predict that growing international competition will lead to a rise in leftist and rightwing nationalist sentiments and the erosion of the middle class, who are the basis for center-right



and center-left parties. The West has entered a period of socio-political turbulence, which will make it a more difficult partner.

Combined with the systemic crisis in the EU, this will make the possibility of a fast rapprochement between Russia and Europe an even more distant prospect.

traditions with the world's leading powers that could escalate into open confrontation.

In other words, direct external threats to Russia have diminished sharply. At the same time, the danger of becoming involved in escalating conflicts will grow now that the world is returning to its customary state of chaos and competition.

The new openness of the world and new markets offer Russia, a still strong power located in key geostrategic positions, additional chances to advance its national interests and the interests of its people

But it is not threats and challenges that are the main feature of the modern world for Russia, but rather the opening up of new opportunities. The new openness of the world and new markets offer Russia, a still strong power located in key geostrategic positions, additional chances to advance its national interests and the interests of its people.

The security vacuum in the Middle East is reaching catastrophic proportions. In fact, there are no common security structures in the region. Everyone mistrusts everyone else.

Much smaller in scale, though still potentially worrisome, is the security vacuum which has started to develop around China. China is not threatening anyone, but its power is growing so rapidly that its neighbors are bound to feel insecure.

Russia has preserved and is further developing a powerful nuclear deterrent, which is almost impossible to neutralize, provided its modernization continues. But most importantly, for the first time in its long history, Russia does not have any direct enemies to threaten it, or any political con-

The main question is whether Russia can make use of these opportunities. It will need an effective development strategy, guided by the authorities but requiring the support of the educated part of society (the elite). This strategy must focus on making maximum use of the country's real competitive advantages.

In terms of foreign policy and foreign trade in particular, Russia should make a resolute move to redirect its efforts toward the new Asian markets. Such a transition is long overdue. It first of all needs to review its traditional Euro-centric mentality to see the opportunities and challenges the Eastern markets offer and become aware of the shift of the global economic and political center to the Pacific region. However, relations with Europe should



The creation of its own integration group based on the Eurasian Union should become a component part of Russia's new foreign policy

remain the core of Russia's cultural and ideological focus. Its powerful economic ties with Europe should also be preserved. At the same time the creation of its own integration group based on the Eurasian Union should become a component part of Russia's new foreign policy. We call this partial reorientation Russia's new globalization.

This report does not include a comprehensive development strategy for Siberia and the Russian Far East. There have been several such strategies; they have many positive elements but also one negative: they do not and cannot work. The authors of this report believe there are two main reasons for this. First, these strategies are Russia-centric and are based on the requirements of specific industries and the development of the regions beyond the Urals as a whole. But they do not take into account the opportunities and limitations imposed by the outside world.

Second, they are state-centric and focused primarily on the type of state that ceased existing long ago (one like the Soviet Union). Such a strategy cannot be effective in modern-

day Russia, where any large state program will be undermined by corruption.

This report offers a new philosophical approach to the issue, one based on the opportunities offered by the new and rising Asia and on creating the right environment to attract Russian and foreign capital, without which the development of Siberia, using all the opportunities offered by the modern world, will be impossible, even with the best of intentions.

The most important challenge facing Russia over the next few decades will be to adapt the country to meet the requirements of the 21st century world. For the first time in human history, the world is taking on a global dimension, both politically and economically. A central role in this new globalization will be played by the increased contribution of the Asia-Pacific region in the global economy, world politics and, in the near future, world culture, to a level that is on a par with that of the Euro-Atlantic. In this new world, only global powers will be considered truly great. If Russia wants to keep its historical place as a great power, it must become a modern global power, essentially different from the Soviet Union. The chances of success are very high.

The strengthening and raising of Russia's relations with Asia-Pacific countries to a higher level are not an end goal and are not dependent on relations with any one specific country in particular. Russia's economic and



The opportunities offered by Asia give Russia the chance to become a peaceful global power, a Euro-Atlantic – Pacific power, which stands to gain far more from the impact of the new globalization than it stands to lose

political advance into the Asia-Pacific region is a prerequisite for its internal stability and international competitiveness. Only by balancing its Western and Eastern development vectors and system of foreign relations can Russia become a truly modern global power. Its natural competitive advantages in this sphere are its physical presence in the Pacific and Atlantic Oceans, its experience in Asian affairs, its strong military-strategic positions and, lastly, the huge potential of Siberia and the Russian Far East.

The strengthening of the Eastern vector, based on measures to accelerate the development of Siberia and the Russian Far East, will be impossible without improving trade, economic and political relations with the leading Asia-Pacific countries, above all China, the United States, Japan and South Korea, or

without taking into account the interests of the other active players in the region. By strengthening its involvement in the Asian, and hence also global, economy and politics, Russia will not only gain access to new opportunities, but will also have to look for answers to new challenges created by the geoeconomic and geopolitical consequences of Asia's growing role in the world.

These challenges are important for Russia for philosophical and civilizational reasons, given its traditional focus on Europe, and also for practical and potentially even military-political reasons.

In the second half of the 20th century, the Soviet Union became a global power thanks to its Communist messianism and nuclear weapons, but it ultimately ruptured. The opportunities offered by Asia give Russia the chance to become a peaceful global power, a Euro-Atlantic – Pacific power, which stands to gain far more from the impact of the new globalization than it stands to lose. It could be of great symbolic importance, comparable to the establishment of St. Petersburg by Peter the Great, if Russia were to create an Asian capital on the Pacific coast that would take over part of the government functions from Moscow.

1. Asia as a challenge and an opportunity

1.1. A successful civilization

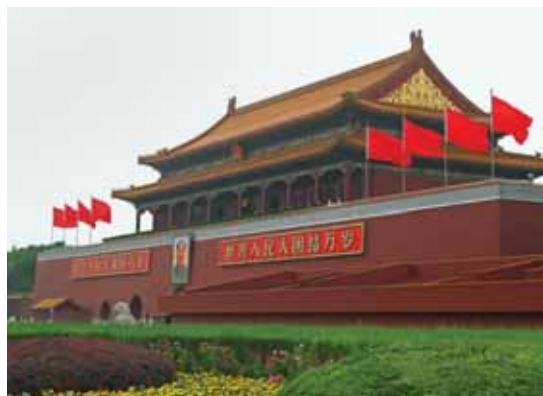
1.1.1. The Asia-Pacific region stands at the center of a new redistribution of world economic forces, the fastest in the history of humankind, as well as an accelerating redistribution of political forces. The reason behind these dynamics is the rapid economic growth of Asian countries, which have benefited the most from economic globalization and restructuring of the system of international

relations that began after the Cold War. The end of the global confrontation between the Soviet Union and the United States freed Asian countries from the necessity to adjust their foreign policy and economic strategies to comply with the rules of the game as dictated by the conflicting parties.

1.1.2. Asia's economic and, lately, political achievements were precipitated by the fact that at the beginning of the 21st century, East and Southeast Asia was the only region in the world where the quality and efficiency of state governance and the strengthening of the role of the state in general were experiencing growth. The 2008 global economic crisis forced nearly all countries to resume or strengthen direct and indirect state interference in the economy. But it was Asian countries that found themselves in the best position to do so.

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1.1.3. This was facilitated above all by the Asian mentality, in particular in China, with its focus on adherence to decisions based not on ideological designs and speculative models, but on the logic of common sense and expediency.

1.1.4. Moreover, Asian nations are known for their creative attitude to foreign experience and their high level of tolerance to foreign traditions and mentality, as well as openness, inquisitiveness and lack of firm belief in one's exclusive rightness, which cannot be said about most European nations. These qualities

It is significant that the economic and political strategies of Asian countries are focused not on competition with other countries and nations, but on improving the living standards and satisfying the requirements of their own people

are based on traditional Chinese philosophy, according to which it is impossible to know the truth, combined with a Confucian work ethic, respect for one's elders and admiration for good deeds. It is significant that the economic and political strategies of Asian countries are focused not on competition with other countries and nations, but on improving the living standards and satisfying the requirements of their own people. This mentality allows these countries to adjust classical approaches to state regulation of the economy by using the best elements while eschewing unnecessary or harmful ones.

1.1.5. As a result, the Asian path toward development, which is a relative term and which absorbed a considerable part of positive Western experience and adjusted it to the national traditions and conditions, can be seen at this stage of global development as one of the most successful strategies of strengthening a country's global economic competitiveness.

1.1.6. While the efficiency of the classical Western system of democratic governance has been dwindling, Asian countries' political resistance to modern challenges has been growing stronger. Most Asian countries have proved able to resolve socio-political problems more quickly and effectively, and to adjust their institutional conditions to the changing reality better than their Western counterparts. A relevant example is the gradual introduction of a system of internal checks and balances in China, including the inner-party level and public administration.

1.1.7. Another reason for their success is an ability to exploit the global economic and financial liberalization of the past decades, along with increasingly democratic international relations, which deprived the old powers of the ability to impose their interests on others by force. Asian countries, in particular China, used the nuclear stalemate and the impossibility of risking an all-out war in conditions of nuclear parity, which usually accompanied or prevented major change in the balance of forces, to their benefit.

1.1.8. The increased international and political independence of African and Latin American



The Asian path toward development can be seen as one of the most successful strategies of strengthening a country's global economic competitiveness

countries and the dwindling U.S. and Russian interest in them have promoted the diffusion of Chinese and other Asian capital to these regions, followed by the strengthening of China's political standing in the developing world and an increase in the number of countries whose leaders respect the opinion of Beijing.

1.1.9. However, these strategic achievements and advantages do not rule out the possibility of complex internal and regional development problems in Asian countries. These problems could partly be engendered by internal factors, such as the revival of historical contradictions, as well as the increasingly active involvement of world powers, above all the United States, in regional affairs. The United States has proclaimed the strengthening of its presence in Asia as a foreign policy priority for the coming years. This change is probably aimed at preventing China, which is the cultural and economic center of the region, from regaining its historical leadership in East and South-east Asia. This is an evidence of an obvious irreversible trend in the internationalization and globalization of regional problems. Russia can and should contribute to resolving these issues.

1.1.10. Regional integration seems to have no potential for development, which is a major

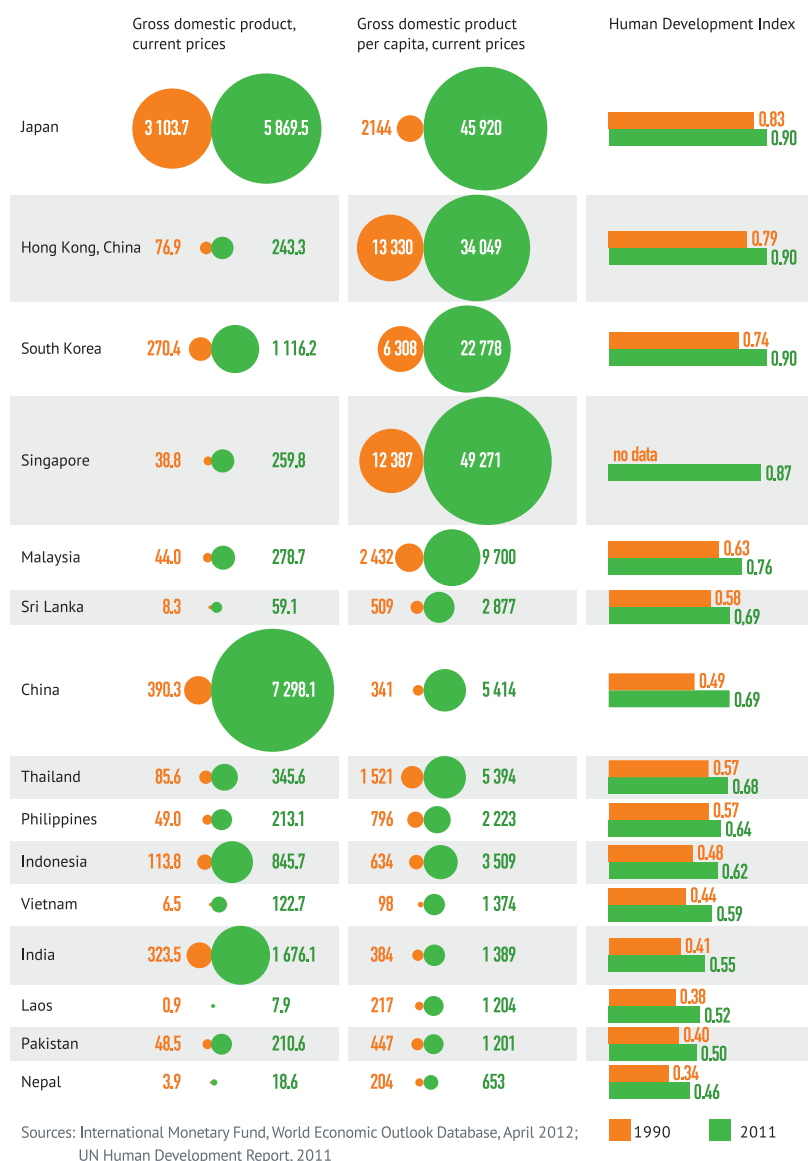
challenge on an international scale. Most experts believe that the possibilities for developing integration within the framework of such organizations as ASEAN have run out, and that any further attempts in this sphere will be hindered by differences in the

political structure of regional countries, which cannot establish joint decision-making institutions, as well as by historical conflicts, mistrust and, in some cases, territorial disputes.

1.1.11. The limits of regional integration are especially narrow in China's bilateral relations with other Asian and in particular Southeast Asian countries, which are becoming increasingly wary of Beijing. In these conditions, and considering the active involvement of outside forces in regional affairs, potential partners are not enthusiastic about China's initiatives aimed at enhancing the quality of economic interaction with its neighbors.

1.1.12. Potential internal development problems, in particular in China, include the adjustment of the current model of state governance to the challenges of information openness. The policy, which has been successful so far, of controlling Internet access and limiting the operation of several other important elements of information society, as well as support granted to local state-controlled analogues, with increasing frequency comes up against people's attempts to skirt the rules. Moreover, the institutions of information society have lately attracted the attention of states that are implementing a covert policy of deterring China on the regional and global scale.

Dynamics of socio-economic development in Asia-Pacific in 1990-2011



1.1.13. Other major problems in the leading Asian states, in particular South Korea and Japan, include a falling birth rate, the aging of the population and an inability to accept and assimilate large groups of labor immigrants due to specific qualities of the local mentality. However, this is unlikely to ever become a major problem in China, which historically assimilated large groups of immigrants

quite safely for its culture, language and customs. Moreover, the Chinese authorities have responded to the aging of the population by gradually abandoning the “one family, one child” policy of past decades.

1.1.14. China also needs to address social issues which have been the cause of thousands, if not tens of thousands of instances of



socio-political instability, according to various sources. The growth of a potentially politically active middle class, whose interests and values need to be taken into account, is a major challenge, especially in China.

1.1.15. The growth of nationalist sentiments fueled by economic achievements, especially among young people, is another risk associated with the consistent growth of the number of urban students, who traditionally make up the most revolutionary part of society. This could potentially complicate China's relations with Japan and Vietnam, and partly with

tive achievements of the Asian model of state governance and socioeconomic development, especially against the backdrop of the crisis of traditional economic and political institutions in the West, people's falling trust for the dominant elite and the need for the painful adjustment of the current model of developed democracy to a new and highly competitive international environment.

1.2. Resources and potential for economic growth

The limits of regional integration are especially narrow in China's bilateral relations with other Asian and in particular Southeast Asian countries, which are becoming increasingly wary of Beijing

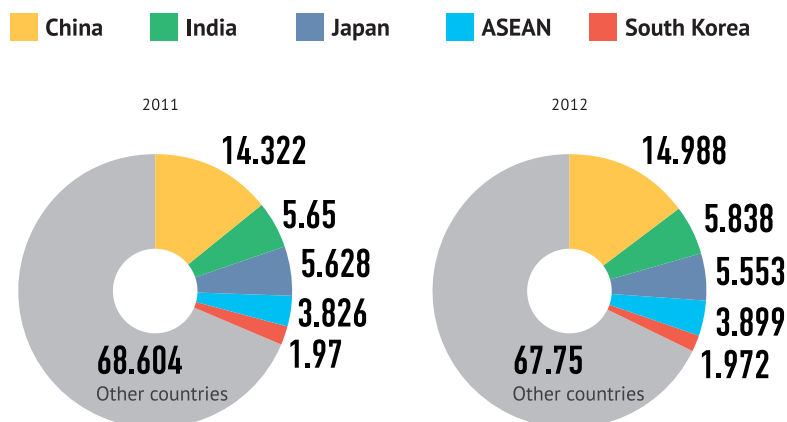
South Korea and Russia. Besides, the growing self-esteem of the Chinese, who are becoming richer, could provoke a new wave of Greater Han nationalism, which would have a negative impact on Beijing's policy of aligning the development of the eastern and western (Tibet and the Xinjiang Uyghur Autonomous Region) parts of the country.

1.1.16. Nevertheless, these the objective risks and challenges cannot offset the current objec-

1.2.1. The consistent economic growth of Asian countries has laid a solid foundation for their increased role in international affairs. These countries – mainly China, India and the ASEAN member states – have shown the most rapid growth in the world for nearly two decades. They have been the key trailblazers of the global economy. As a result of this booming growth, the wealth of their populations has been steadily growing. The region's role in the global economy and global politics is developing, and its economic expansion is gaining momentum. China ranks as the world's second largest economy in terms of its GDP on the basis of its purchasing power parity (PPP), followed by Japan and India; the Republic of Korea is 13th. Asian countries have managed to preserve high growth rates during the global economic downturn that hit in 2008, and served

Asian countries' share of global GDP (%)

Based on purchasing power parity (PPP)



Source: International Monetary Fund, World Economic Outlook Database, April 2012;
UN Human Development Report, 2011

as engines which dragged the global economy out of the recession. They will clearly continue growing, although that growth might slow somewhat, and they are expected to account for more than 50% of the global GDP by 2050, up from the current level of 33%.

Asian countries – mainly China, India and the ASEAN member states – have shown the most rapid growth in the world for nearly two decades. They have been the key trailblazers of the global economy

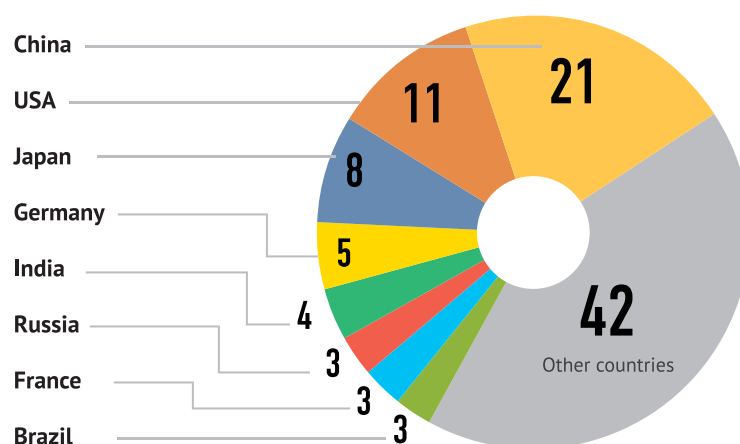
1.2.2. In 2011, Asian countries demonstrated the most rapid growth in the world, and are now actually the only engines of the global economy. In fact, Asian countries today have other resources apart from their aggregate GDP which can ensure them privileged global positions in the medium and long term, with regard to their international reserves and gross savings. China had the biggest gold and foreign currency reserves as of December 31, 2010, with \$2.876 trillion; Japan was second with \$1.063 trillion. Also among the top ten are Tai-

wan, China (5th, \$387.2 billion), South Korea (6th, \$291.6 billion), India (8th, \$287.1 billion) and Hong Kong, China (10th, \$268.7 billion).

1.2.3. Asian countries are also leaders in terms of gross savings, which actually determine an economy's investment potential. China is far ahead of others here, with \$3.064 trillion (20.7%). Other Asian countries included in the top ten are Japan (3rd, with \$1.167 trillion), India (5th, \$545 billion) and South Korea (10th, 324 billion). These four countries together account for 34.5% of global savings. For comparison, the European Union accounts for 21.4%, and the United States for 11.3%. In addition to the absolute figures, China and India are also leaders in terms of savings in relation to GDP, with 53% and 34% in 2010, respectively.

1.2.4. Eight out of the top ten economies in terms of industrial production growth in 2010 were East Asian countries. Singapore led the ranking with 29.7%, followed by Taiwan, China (3rd, 26.9%), Philippines (4th, 23.2%), Laos (6th, 17.7%), South Korea (7th)

Structure of global savings as of 2010 (%)



Source: United Nations Department of Economic and Social Affairs

and Japan (8th) with 16.6% each, China (9th, 15.7%) and Thailand (10th, 14.4%).

1.2.5. China's nominal GDP is \$7.3 trillion. Over the past 30 years, it has grown by about 30 times to be second only to the United States.

(PPP) increased more than five-fold from 1991–2010, from \$422 to \$2,425 (at the 2000 U.S. dollar exchange rate). Although in 2011 China ranked only 92nd in terms of per capita GDP (PPP), it is climbing higher with every year.

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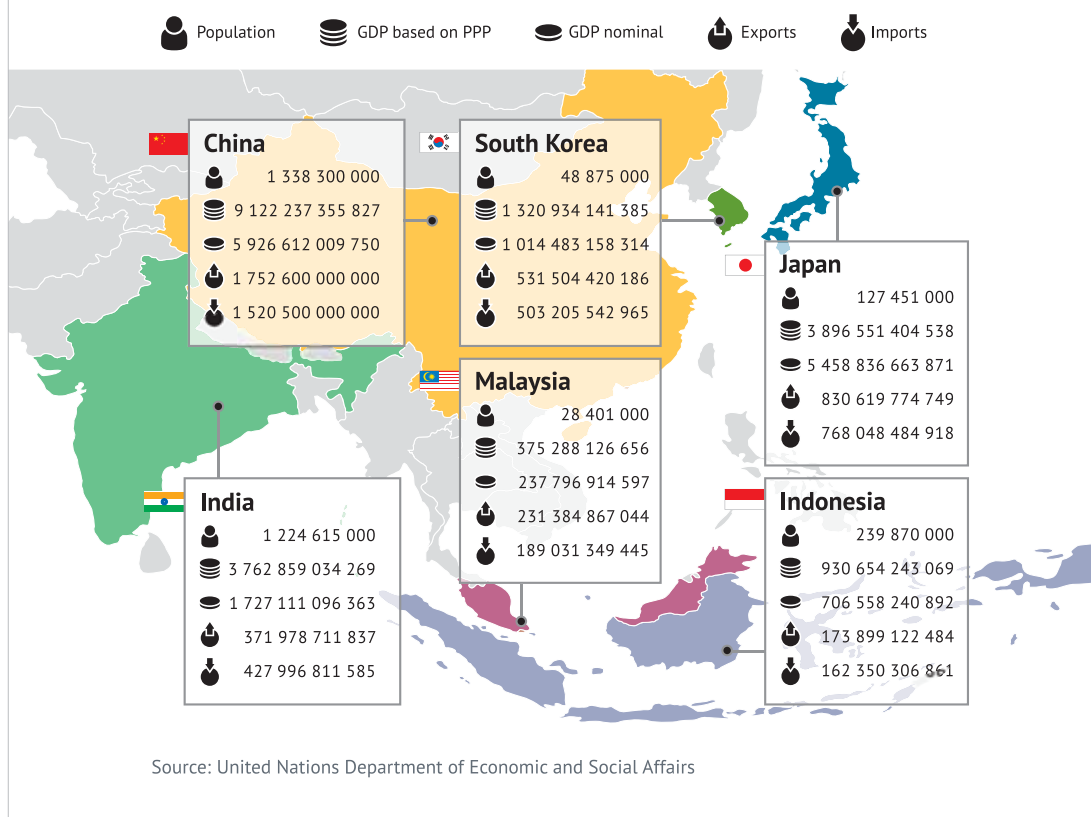
Its GDP (PPP) exceeded \$10 trillion in 2010. According to earlier forecasts, it was expected to overtake the United States by 2025–2030, but the International Monetary Fund's 2011 estimates suggest that it will happen earlier, around 2020. That country's GDP has been growing by over 10% on average or faster since 1991. No other country has shown such rapid growth. Even during 2008, when the global crisis was at its worst, China managed to keep GDP growth at 9.6%, the world's highest, and in 2010, it exceeded 10% again. Its per capita GDP

1.2.6. China's involvement in international trade is also growing dynamically. Its exports surged more than five-fold, from \$280 billion to \$1.422 trillion (at the 2000 exchange rate), and imports grew more than four-fold, from \$251 billion to \$1.060 trillion. Overall, its foreign trade grew by almost five times. While in 2003, China was the world's fifth largest exporter, in 2009 it topped

the ranking for the first time. In 2010, it also ranked second (after the United States and ahead of Germany) in terms of imports.

1.2.7. One of the factors that promoted the booming growth of major economic indicators was China's population of 1.348 billion people, the largest in the world (more than 20% of the global population). Its steady but also controlled growth, along with effective policies to boost its literacy and education levels, suggests that in the next decades

Asia-Pacific economics in 2010



Even during 2008, when the global crisis was at its worst, China managed to keep GDP growth at 9.6%, the world's highest, and in 2010, it exceeded 10% again

China is likely to maintain its position as the world's leading exporter as well as the chief market.

1.2.8. The fact that China has pushed Japan, one of the most developed economies, to the third position in the global GDP ranking, can be viewed as a turning point in the perception of Asia – a point where it began to be viewed as an engine of the global economy. Japan's situation appears gloomy as compared with its booming growth in the 1960s–1980s. It is often now seen as Asia's “weak link” as compared with its rapidly growing neighbors.

1.2.9. Japan's annual GDP growth never exceeded 3% between 1992 and 2010 (except in 2010, when it grew by 4% on post-crisis revival), with an average of slightly more than 1%. Japan has always been and remains a country most vulnerable to crises. In 1998, its GDP dropped by more than 2%, and in 2009, by 6.3%. Its per capita GDP growth is also weak: it grew 21% between 1990 and 2010, which was among the lowest increments among developed economies. The Fukushima nuclear power plant accident served as another crushing blow to the Japanese economy. Apart from the direct economic impact, it may lead to a decline in the country's energy industry and investment climate in general.

1.2.10. However, the strength of its absolute figures still does not allow the Japanese economy to be discounted, as it remains one of the world's largest and technologically advanced. It is not

expected to drop out of the five leading economies until 2050, even according to the most pessimistic forecasts. Japan's nominal GDP of \$5.9 trillion put it into the third place in the 2010 ranking, after China. It also ranked third, after the United States and China, in terms of GDP (PPP) with \$4.4 trillion. Japan's involvement in international trade is growing faster than its

a reversal of this trend in the next decade. Its vulnerability to crises as well as slowing growth, further aggravated by the Fukushima tragedy, have led to Japan lagging behind China in many areas. At the same time, it remains an active and important participant of the global economy, also due to its active investment policy abroad.

Japan's annual GDP growth never exceeded 3% between 1992 and 2010. Japan has always been and remains a country most vulnerable to crises. However, the strength of its absolute figures still does not allow the Japanese economy to be discounted, as it remains one of the world's largest and technologically advanced

1.2.12. India is a fast-growing economy, which is rapidly integrating with the global system. This makes it a highly attractive investment and trade destination. Its limitations include the uncontrolled growth of the population, with a stable proportion of illiterate people (over 40%), its surviving caste system, and a semi-democratic political system which limits the potential for accelerated development. These factors constrain the increase in per capita incomes, leading to an inevitable lag behind China.

GDP. Despite the negative impact of several crises, its exports grew by almost 160% from 1990–2010, and imports grew by 70%.

1.2.11. Japan ranks 23rd in terms of per capita GDP (PPP) with \$34,700, which is quite high for a country with a population of 127.8 million. Japan's demographics are expected to be very different from the situation in other Asian countries: it is the only Asian country which has registered an absolute decline in the population each year since 2008 (down 0.8% in 2010) and there is no reason to expect

1.2.13. India is the world's 11th largest economy, with a GDP of \$1.68 trillion; it ranks 11th in terms of GDP (PPP), with \$4.4 trillion. India's GDP grew more than five times from 1990–2008, with average annual growth of about 6%. In 2003, its annual growth accelerated to 8%. Although the 2008 crisis slowed it down to 4.9%, the country regained and exceeded its pre-crisis growth rate as soon as 2009 (6.7%). In 2010, it grew 10.6%. India has significantly increased its share of gross international trade over the past two decades. Its exports surged more than six-fold from 2000–2010, and by



more than 16 times from 1990–2010. Imports during those periods grew, respectively, by 260% and by nearly 13 times. In 2010 alone, India's exports grew 36% as compared with the 2009 level. Overall foreign trade grew more than 15-fold from 1990 to 2010.

India is a fast-growing economy, which is rapidly integrating with the global system. This makes it a highly attractive investment and trade destination

1.2.14. The nominal GDP of the ten ASEAN member countries equaled \$1.87 trillion in 2010, and per capita GDP, \$3,111. Their foreign trade reached \$2.1 billion, and its balance, \$72 billion. The ASEAN GDP doubled in 2004–2008. The impact of the 2008 crisis was insignificant, resulting in a 0.01% decrease in the 2009 GDP, while in 2010, growth was in excess of 8%. The ASEAN population is growing at 1.4% a year, currently standing at 599.6 million.

Indonesia's GDP has been showing an average growth of 5.2% since 2000. This means that it grew 340% in ten years

1.2.15. Indonesia's GDP has been showing an average growth of 5.2% since 2000; it stood at \$845 billion in 2011. This means that it grew 340% in ten years, to rank 18th in the

world. Even during the 2009 recession, the country showed a 4.6% growth, and in 2011 it reached 6.4%. Indonesia ranks 118th in terms of its per capita GDP (PPP) which was only \$4,325 in 2010, up 90% from 2000. Its foreign trade was about \$244.6 billion in 2000 and reached \$328.4 billion in 2010, of which exports accounted for \$174.9 billion and imports \$153.5 billion. Indonesia ranks 28th in terms of both its import and export volumes. Its exports are generally low-tech, mainly consisting of oil and distillates, and rubber.

1.2.16. Indonesia's population totaled 241 million (the world's fourth largest) in 2011. Although it grows by only 1.0% a year, the country ranks sixth in terms of absolute annual increment (2.5 million people).

1.2.17. Malaysia's economy is growing almost as rapidly as Indonesia's. With a population of 28.7 million and steadily slowing growth (no more than 1.6%–1.8% in 2009–2010, down from the earlier growth of 2%–3%), the country's GDP stands at \$278.7 billion, putting it into 36th place in the global ranking. At the same time, it ranks 28th in terms of GDP (PPP) with \$447.2 billion. The 9%–10% annual growth registered in the 1990s gave way to a sharp decline during the Asian financial crisis. The country began showing steady GDP growth again starting in 2002, at 5%–6% annually. The global crisis again sent Malaysia's economy





Malaysia's economy is growing almost as rapidly as Indonesia's

down 1.6% in 2009, but in 2010 it grew by a record 7.2%. Although its per capita GDP (PPP) is only \$14,700 (putting it all the way at 57th place in the global ranking), Malaysia demonstrates a consistent upward trend. Malaysia is actively involved in international trade. Its foreign trade was \$421.2 billion in 2010, including exports worth \$231.7 billion (21st), and imports \$189.5 billion (26th). The country's exports include commodities such as oil and oil products, wood and palm oil, as well as high-tech products such as electronics and chemicals.

The Republic of Korea is one of the best developed Asian economies and one of the two Asian members of the OECD. South Korea is also among the most technologically advanced economies in Asia

1.2.18. The Republic of Korea is one of the best developed Asian economies and one of the two Asian members of the OECD (the other is Japan). The country's GDP (PPP) is \$1.55 trillion (13th in the global ranking). The booming growth of the 1990s (up 7.5% a year on average) was followed by a sharp decline caused by

the Asian financial crisis and then a swift rebound. The country has been showing steady GDP growth at 4.5% a year since the 2000s. Although the South Korean economy was deeply affected by the global financial crisis, it still showed growth in 2009, but only 0.3% of GDP.

In 2010, it grew by 6.2%. Its per capita GDP (PPP) is one of the highest in Asia at \$31,700, putting it at 29th in the world. It grew by nearly 70% from 2000–2010, and by 260% from 1990–2010. South Korea is also among the most technologically advanced economies in Asia. Its best developed industries include high-tech electronics, and the automotive and ship-building industries. The country plays an active role in global trade. Its foreign trade amounts to \$1.063 trillion, a growth of over nine times from the 1990 level. It is also among the 15 global export and import leaders, with \$547 billion of exports and \$516.3 billion of imports. South Korea's population has been stable for the past two decades, with an average annual increase of 0.9% in the 1990s, and 0.3% in the 2000s. Its current population stands at 48.9 million.

1.2.19. Asian economies have been showing both a quantitative increase and qualitative improvement over the past few years. The leading emerging countries have notably diversified their economies, thereby laying the foundation for still more stable and effective development. Their domestic markets



China and India are leaders in terms of the growth of investment in education, science, fundamental research and innovation. They are also implementing a massive upgrade of their production facilities and equipment and other material resources

and internal consumption are also on the rise, easing their dependence from global economic trends, especially economic turbulence in developed countries.

1.2.20. China and India are leaders in terms of the growth of investment in education, science, fundamental research and innovation. They are also implementing a massive upgrade of their production facilities and equipment and other material resources. As a result, these countries, while keeping up the “primitive” consumer goods manufacturing segment, are also increasing their global share in the production of high-tech and high-value-added goods.

1.2.21. While India specializes primarily in software and pharmaceuticals, China emphasizes high-tech machinery and equipment. Singapore is recognized as the world leader in innovation. It is even ahead of the United States and other large economies in terms of innovative changes in its economy and society.

1.2.22. In 2006, China was the global leader in terms of its share of high-tech exports: its share of the global market was 16.9%, while the United States controlled 16.8%, the EU 15% and Japan 8%. It is worth noting that China made a historic leap in 2003, overtaking Japan and closing on America and Europe, and achieved global leadership in 2006. Smaller Asian economies account for a large share of the global high-tech exports. Singapore accounted for 7.8% and Hong Kong, China for 6.8% in 2006, while India's share was 1%. By 2009, China accounted for as much as 21% of the global high-tech exports (including Hong Kong), followed by the United States with 13.6%. Germany accounted for 7.0%, Japan 4.2% and Singapore 4.1%. The following ASEAN countries were leaders in terms of the share of high-tech products in their exports in 2010: Philippines with 67.8%, Singapore with 49.9% and Malaysia with 44.5%. In China, high-tech goods accounted for 27.5% of exports and in India for 7.2%.

1.3. Global policy in Asia

1.3.1. As noted above, the Asian countries, above all China, have taken advantage of their economic achievements and substantially increased their political influence in the world. This growth has both a global and a strictly regional dimension, and is leading to a tangible decline in the influence of major

Western countries in the Asia-Pacific region, most notably the United States, and is raising Western fears about China's aspirations for regional dominance. China, in turn, is suspicious of and irritated by the increasingly obvious attempts to restrict its growing influence. The maintaining of controlled tensions in the South China Sea is the best illustration of this. But China, too, often engages in super-power rhetoric, although not in high places. The result is a growing rivalry in relations between China and the United States while the Asia-Pacific region is becoming the main global seat of conflict, comparable in nature, though not in form or depth, with the Euro-Atlantic region during the Cold War. Given

perception is due less to China's power or aspirations than to the relative weakness of its neighbors. This vacuum is leading to an increased sensitivity of smaller unresolved issues in the South China Sea and other parts of the region. There is a clear desire on the part of external forces, above all the United States, but with the consent of some regional powers, to use both economic and military tools to fill the vacuum "against China." Add to that that if there is going to be an arms race in the area of missile defense, it will probably unfold in the Pacific region rather than in Europe, and in particular around China. There is the danger of a militarization of regional policy and of a regional arms race.

Up to now strains between China and the United States have been kept in check by the enormous economic inter-dependence between the two countries, which neither side has shown any interest in breaking up

the present circumstances and the West's need for an "ideological opponent", Chinese-U.S. relationships are beginning to develop into a confrontation of alternative political and economic models.

1.3.2. China's sharp rise in power is creating a security vacuum around it –neighboring countries are beginning to feel China is threatening them, even if no such threat exists, either in fact or in intention. This

1.3.3. For the time being, the U.S. is not going to retarget its conventional forces capacity against China. While in the early 2000s the U.S. military presence in the Pacific region remained stable, in the middle of the last decade it even began to decline, the most drastic reduction occurring when Barack Obama came to power: from 68,000 troops in 2008 to

45,000 in 2009 (Source: U.S. Department of Defense).

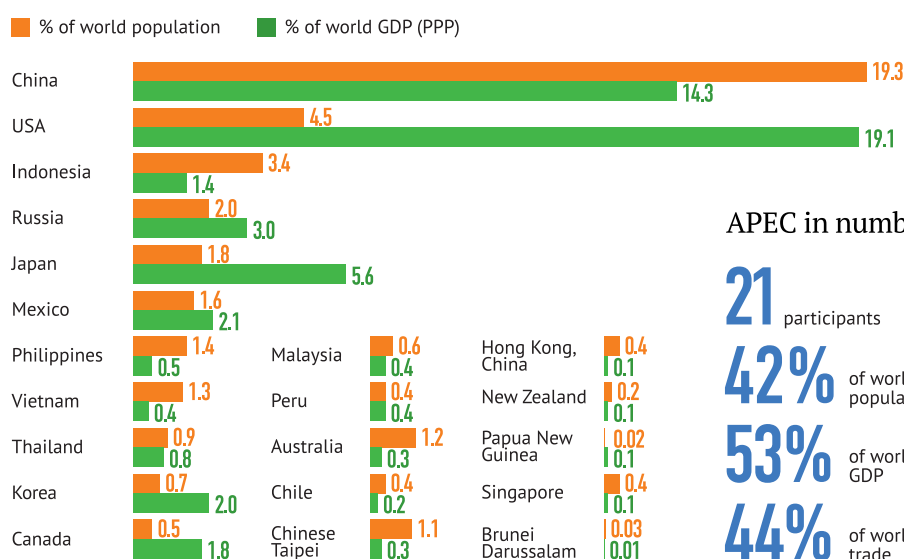
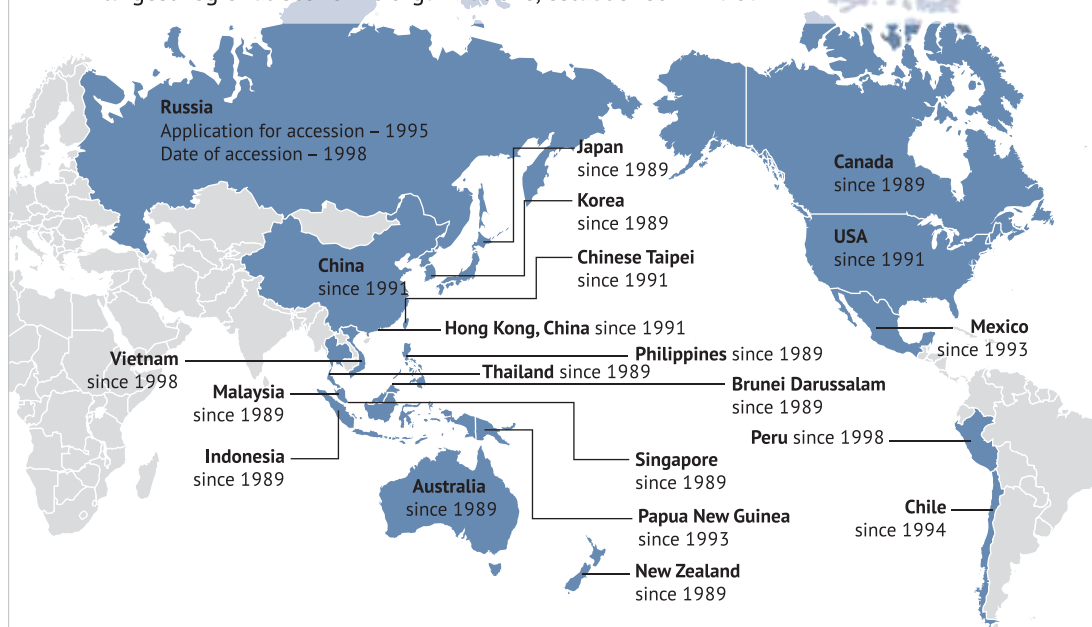
1.3.4. Although the upward trend in military service personnel resumed in 2009–2010, their numbers have increased to just 53,000 – still quite a low figure. Structurally, the U.S. armed forces in the Pacific are broken down as follows: 20,000 Marines, 18,000 Navy and 13,000 Air Force, with the remaining 2,000 assigned to the U.S. Army.



APEC – economic forum of the Asia-Pacific region



Asia-Pacific Economic Cooperation (APEC) is one of the largest regional economic organizations, established in 1989



APEC in numbers

21 participants
 42% of world population
 53% of world GDP
 44% of world trade

Goals of the economic forum of the Asia-Pacific region

- 1 Reduction of custom duties, removal of barriers to trade between countries in the region
- 2 Building efficient economies with increased export activities
- 3 Achieving a system of free and open trade and investment in the region by 2020

Source: International Monetary Fund, World Economic Outlook Database, April 2012



In Europe, the U.S. contingent of troops is larger, numbering 81,000 men.

1.3.5. Up to now strains between China and the United States have been kept in check by the enormous economic inter-dependence between the two countries, which neither side has shown any interest in breaking up. In the 10 years from 2001 to 2010, trade between the U.S. and China grew by almost 300% and is now a major bilateral segment of international commerce, with a total volume of \$456 billion. U.S. exports to China have risen by 350% in the past decade, and Chinese exports to the U.S. by 250%.

Electronics, power generating machinery, as well as machine tools and equipment, are now China's main export items. Incidentally, the same kinds of goods dominate U.S. exports to China.

1.3.7. At first glance, investment relations between China and the U.S. look quite modest. Although China is currently the biggest importer of direct foreign investment in the world, the aggregate volume totaling over \$100 billion in 2010, the United States accounts for only a small portion of this investment – something like 1.5% – and both this share and the absolute amount of investment are falling each year.

Given that China, and in part the U.S., are tired of the “mutual assured destruction” situation in monetary, financial and economic areas, the struggle for leadership may take on a more vigorous form

1.3.6. The bad news for the United States is that its balance of trade with China is falling further into the negative with each passing year and now stands at an astronomical \$273 billion. At the same time, the structure of trade between the two countries no longer resembles one between a developed and a developing country, as it used to. Chinese exports nowadays are no longer made up of mostly consumer goods – the largest group of goods in this category (toys and sports equipment) rank only 4th in the overall picture.

1.3.8. The latter may be due both to China being unsuited for speculative capital, which distinguishes it from Russia, for example, and to the desire of the U.S. authorities to keep a check on China's already enormous significance in the American economy. China in turn is the main foreign investor in the U.S. economy, both in terms of private and public investment.

Accumulated direct foreign investment from China in the U.S. had reached \$791 billion by the beginning of 2010, while the corresponding figure for U.S. investment in China is only around \$50 billion.

1.3.9. So far, in the view of most experts, the development vector for Chinese-U.S. relations remains an open one, and their evolution depends on a range of factors related to internal political developments within China



and the United States, as well as international developments. Russia also has a role to play in influencing the development of this situation. Given that China, and in part the U.S., are tired of the “mutual assured destruction” situation in monetary, financial and economic areas, the struggle for leadership may take on a more vigorous form.

China is suspicious of and irritated by the increasingly obvious attempts to restrict its growing influence. The result is a growing rivalry in relations between China and the United States while the Asia-Pacific region is becoming the main global seat of conflict

1.4. Russia and its relations with Asia

1.4.1. Against this backdrop of international politics, the largely artificial dichotomy between the conventional Western and Asian models and the need to choose one is becoming an increasingly important challenge for Russia’s internal development and foreign policy. Given the unconditional imperative to preserve Russia’s European cultural identity and Russia’s inability to fully adopt the Asian socio-political model, the lure to more actively embrace the successful Asian experience is likely to create difficulties for Russia as it tries to formulate a national development model for the future.

1.4.2. In practical terms, the variety of scenarios for the development of U.S.-China relations characterized by a growing bilateral rivalry may require Russia to change the geographic priorities of its national security strategy, including the development and deployment of its armed forces. So far, the Asian region has not come up against threats comparable to

former threats from the West or current threats from the South. Or at least, it isn’t considered a source of serious concern by the Russian elite and public opinion. The poorly articulated fear of China is still strong in Russia, but is subsiding. Much of this fear has to do with legacy from distant past, and even more with the “yellow threat” perceived by the Soviet gerontocracy. Most importantly, it has to do with Russia’s

assumed weakness in Asia, which is due, among other things, to the lack of a coherent and positive Russian strategy in Asia, particularly in Siberia and the Russian Far East. This region has not seen any of the megaprojects promoted by the Russian government, such as the Olympic Games, the North Stream and South Stream pipelines and the development of the Northern Caucasus, to name a few.

1.4.3. That being said, eastern Russia is no longer considered an enormous rearguard in Russia’s confrontation with the West. Russia will have to look for answers to challenges of a purely practical nature. These challenges may include the onset of a limited arms race between China and the U.S., or the deployment by Washington of a missile defense



system against China. Escalation of the North Korean problem, distrust and territorial disputes between China and Vietnam, and a developing China and weakening Japan are also possible.

Russia is currently playing the role of a key background factor in the military-strategic situation in Asia. However, Russia cannot yet act as a fully-fledged balancing force between China and the West in the Asia-Pacific region

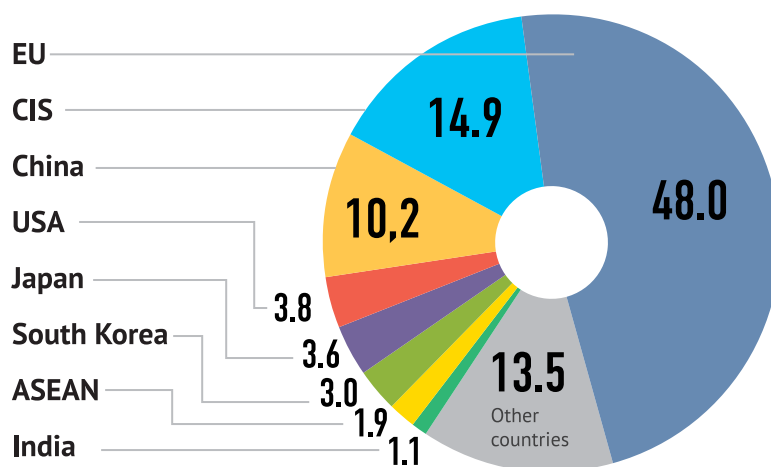
1.4.4. The relative weakness of Japan and its waning ability to effectively defend its interests in the face of North Korea's intent to move forward with its nuclear program, a stronger China, and the possible militarization of politics in East Asia may urge Japan to move from "breakout" capacity (the ability to rapidly produce nuclear weapons if necessary) to actual possession of nuclear weapons within the next five to ten years. Preventing some of these threats may become a subject of cooperation between Russia, China, the United States and Japan. Japan's position in the region is pushing it toward rapprochement with Russia. Russia's decision to end talks over the South Kuril Islands is also conducive to such rapprochement in the medium term, although it has understandably frustrated Tokyo, which is accustomed to building its policy around an eventual "repossession" of the islands. Rapprochement is further encouraged by the

unresolved North Korean nuclear problem, which is a cause for concern in both countries.

1.4.5. Russia is currently playing the role of a key background factor in the military-strategic situation in Asia. Nuclear parity between Russia and the United States precludes a major war, including in Asia, and continually provides a strategic cover for economic advances in China. However, Russia cannot yet act as a fully-fledged balancing force between China and the United States (the West) in the Asia-Pacific region, leaving these two countries to face each other, which is not conducive to security and stability in the region. In the future, Russia's ability to act as an effective player in the Pacific will depend not only on its military-strategic capabilities, but on its ability to implement a set of measures designed to level out the western and eastern vectors of its foreign policy and the level of its involvement in international affairs.

1.4.6. Russia, which possesses all the necessary qualities to become a fully-fledged Asia-Pacific power, has so far failed to develop a comprehensive strategy needed to achieve this objective. Despite stepping up its politics in this region, the Asia-Pacific region remains a tactical and semi-peripheral area for Russia. This is largely due to the fact that despite qualitative changes in the global balance of power, the country is still living in the Euro-centric or Euro-Atlantic" system of the 20th, if not the 19th century. It remains a European

World countries' share of Russia's volume of trade in 2010



Source: Federal Customs Service of Russia

Today, the European Union accounts for more than 53% of Russia's foreign trade and the vast majority of investments in and from Russia

power with large possessions in Asia and is confronted with all the limitations associated with this geopolitical philosophy in its Asia-Pacific policy. Russia suffers not only from its economically obsolete Eurocentric policy, but also its deep-seated perception of its Trans-Urals territories as a burden or a problem. Meanwhile, due to fundamental economic and political changes in the world, this Russian region is losing its stigma as a hinterland and is becoming a frontier for development rather than confrontation.

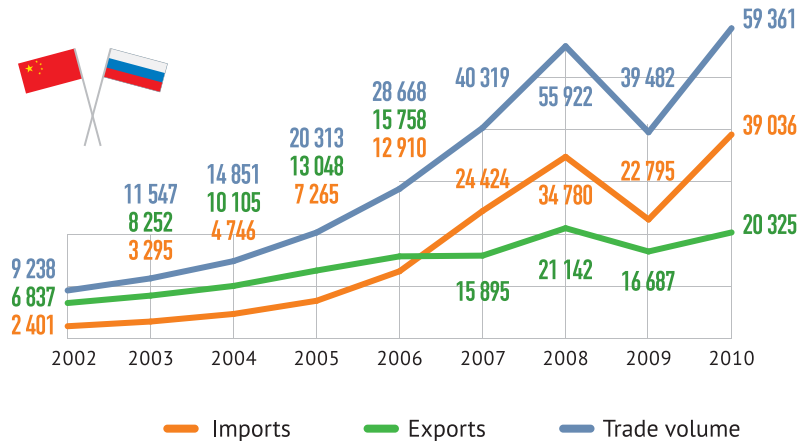
1.4.7. Poor quality of trade and economic relations between Russia and leading regional economies is the result of a backwoods mentality and politics. Russia has essentially failed to take advantage of the potential created by the economic development of Asia and the transformation of the region into the world's

economic center of gravity in the 21st century. The volume of trade and economic relations between Russia and Asian countries clearly does not match the scale of the Russian economy and the economies of the region, or Asia's place in the global economy in general. Today, the European Union

accounts for more than 53% of Russia's foreign trade and the vast majority of investments in and from Russia. However, the place and the role of the EU in the global economy is gradually declining, and will inevitably continue to decline in the foreseeable future due to structural features of European economies and social systems. Despite Russia's significantly intensified trade with Asian countries over the past few years (primarily through imports), all APEC countries, including the United States, Canada and Australia, account for only 23.3% of Russia's foreign trade, up from 20.7% in 2009. All Asian countries, including in the Middle and Near East, and South Asia (India and Pakistan) accounted for 29% of Russia's exports and 41% of imports in 2010.

1.4.8. The content and dynamics of existing trade and economic relations of Russia with

Dynamics of trade and economic relations between Russia and China in 2002-2010



the countries of Asia are skewed by multiple imbalances, most of which are not in Russia's favor, and are unable to function as incentives for quality economic growth and modernization of the Russian economy. The current structure of Russia's economic relations with the Asian region creates a threat that Russia

term this may cause a dangerous situation, in terms of macroeconomic stability, and may weaken Russia's economic position in Asia. In fact, Russia is not taking advantage of growth opportunities available in Asia, whereas Asian countries are using Russia's internal market and its financial reserves.

China accounts for only about 23% of Russia's trade with Asia, but its role in Russia's foreign trade is gradually increasing

will develop a one-sided dependence on China in important sectors of the economy, and later in politics.

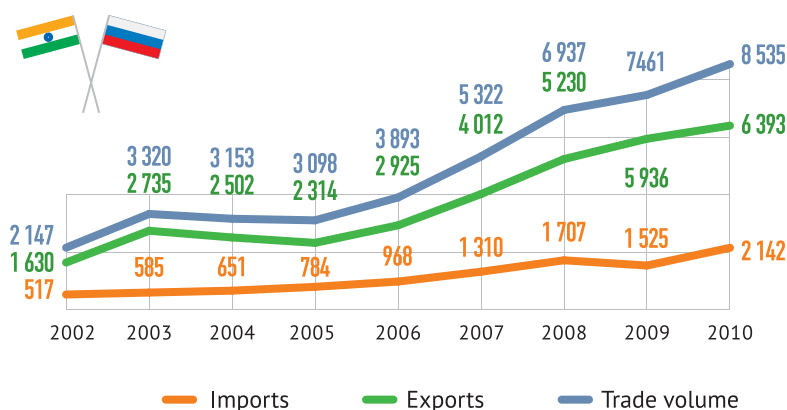
1.4.9. Prior to 2009, Russia's trade with Asian countries was growing primarily due to imports. Imports spiked when Russia began importing industrial products that required a high degree of processing. So far, this trend has been offset by a surplus in Russia's trade with the European Union, but in the long

1.4.10. China accounts for only about 23% of Russia's trade with Asia, but its role in Russia's foreign trade is gradually increasing. China was Russia's third largest trading partner after Germany and the Netherlands in 2008, and it moved up to first place in 2010. Russia's economic relations with Japan and Korea

remain at steady average levels. Russia's relations with India and ASEAN countries are the most neglected area of Russia's foreign trade policy, despite numerous opportunities created by the economic success of these countries and their growing demand for innovative products that can be manufactured in Russia.

1.4.11. Despite the fact that Russian-Chinese trade has grown by 9.5 times since 1990 to reach \$59 billion in 2010, China's share

Dynamics of trade and economic relations between Russia and India in 2002-2010



Source: Russian Federal State Statistics Service

in Russia's foreign trade has been growing steadily (from 4.8% in 1990 to 9.5% in 2010), while Russia's share in China's foreign trade declined over the same period by almost 1.5 times, from 3.5% to 1.9%. The bilateral trade balance, which was positive up until 2006, turned negative, and the deficit is growing at a

trial exports to China declined dramatically from around 30% in 1997 to less than 1.5% in 2010. A significant portion of trading takes place in a gray area.

1.4.13. Low levels of mutual investment, which largely determines the degree of economic interdependence between partners, is a cause of even greater concern. According to experts, the volume of mutual investments between China and Russia is less than \$3 billion, which is significantly below the level of mutual investment between Russia and small countries of the European Union. Trade and economic relations are managed mostly by state-owned companies, whereas private, medium-sized businesses in particular are poorly represented. The instances of mutual listing of Russian and Chinese companies on respective exchanges are few and far between.

India's share in Russia's foreign trade ranges from between 1% to 1.5%, and Russia's share in India's trade is similarly around 1.5% – 2%

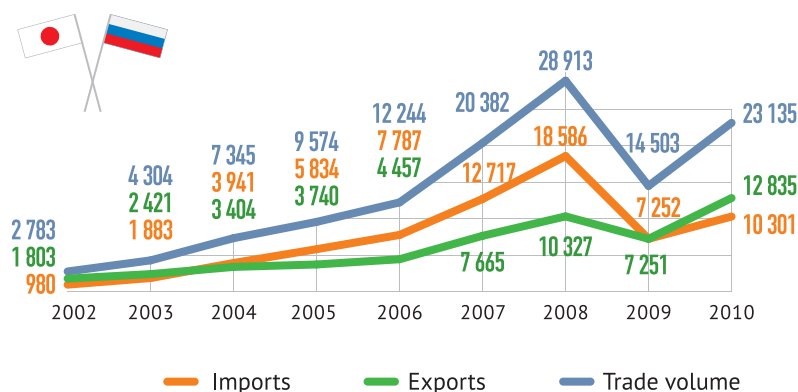
fast clip: In 2007, it totaled to \$9 billion, and in 2010 it was already \$19 billion.

1.4.12. Russia's exports to China and other APEC economies include mostly mineral products (crude oil and petroleum products), lumber and, in much smaller quantities, chemical products, metals and metal products. Goods imported from China include machinery, equipment and vehicles; textiles and textile products; footwear, metals and metal products, and chemical products. Russian indus-

trial exports to China declined dramatically from around 30% in 1997 to less than 1.5% in 2010. A significant portion of trading takes place in a gray area.

1.4.14. By the same token, Russia inadequately takes advantage of opportunities offered by India's active integration in the global economy. So far, Russia's exports to India have accounted for 75% of bilateral trade, which

Dynamics of trade and economic relations between Russia and Japan in 2002-2010



Source: Russian Federal State Statistics Service

reached \$6.39 billion in 2010. Imports from India are just \$2.1 billion. India's share in Russia's foreign trade ranges from between 1% to 1.5%, and Russia's share in India's trade is similarly around 1.5% – 2%.

but their mutual trade remained at the 2008 levels, at \$23 billion: Japanese imports were up at \$10 billion, Russia's exports were \$13 billion.

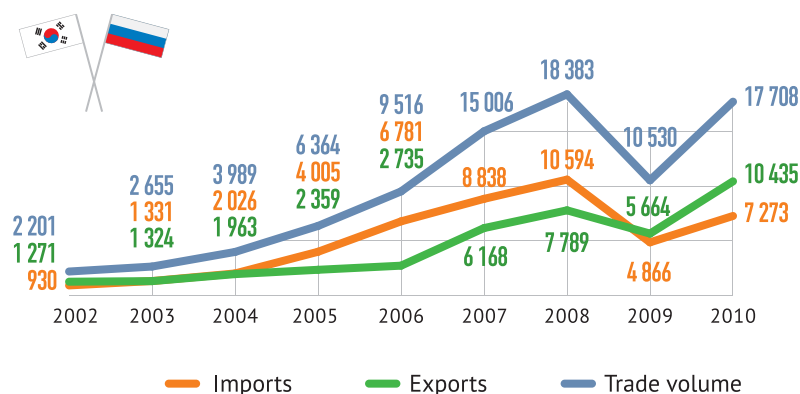
In 2009 Russia became – for the first time since 2004 – a net exporter in bilateral trade with Japan

1.4.15. Russia's share in Japan's foreign trade is relatively small. It was about 1% before the crisis, while Japan's share in Russia's foreign trade was about 3%. Japan remains one of the world leaders in terms of foreign trade. Trade between Russia and Japan increased 10-fold from \$2.8 to \$29 billion between 2002 and 2008. In 2009, their mutual trade shrank sharply to \$14.5 billion in the wake of the crisis, mostly due to the fall in Japanese exports to Russia (from \$18.5 billion to \$7.2 billion), a very significant decline, making Russia become – for the first time since 2004 – a net exporter in bilateral trade. By 2010, the effects of the crisis had somewhat dissipated,

1.4.16. Russian exports to Japan include four major commodity groups that account for 90% of the total value of exports: mineral raw materials and fuel, primary processing products (metals and metal products), seafood and lumber. Imports from Japan are dominated by mechanical engineering products (over 90% of the total value), such as vehicles, road construction equipment, electrical appliances and means of communication.

1.4.17. Although Korea is one of Russia's main trade partners in the Asian region, its share in the Russian foreign trade ranges between 2% and 2.5%, and Russia's share in Korean trade is even lower at 1.5%–2%. Eighty percent of Russian exports to Korea include mineral fuels, crude oil and petroleum products. Metals and metal products, chemical products, lumber and pulp also feature prominently in Russian exports. Machinery, equipment and

Dynamics of trade and economic relations between Russia and South Korea in 2002-2010



vehicles are in the fifth place. In contrast, imports from South Korea primarily include machinery, equipment and vehicles (their share in Russian imports of Korean goods is

still accounts for just 1.8% of exports and 2.2% of imports among ASEAN countries. The share of ASEAN trade with Russia was also low at 1.9% in 2010.

Imports from South Korea primarily include machinery, equipment and vehicles (their share in Russian imports of Korean goods is 81.9%)

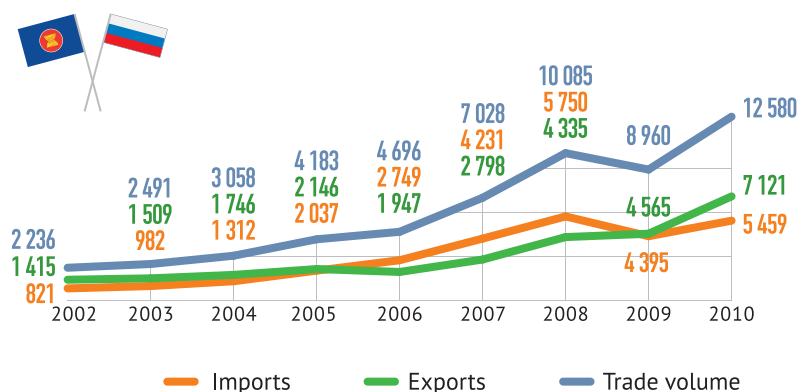
81.9%). They are followed, with a huge lag, by chemical products, metals and metal products, textile products and footwear.

1.4.18. The total volume of trade turnover between Russia and ASEAN countries amounted to \$12.3 billion in 2010, of which Russian exports accounted for \$6.8 billion and Russian imports \$5.5 billion. At the same time, exports were up by 77% as compared to 2009, and imports grew by 29%. Trade between Russia and ASEAN countries has increased by almost 10 times over the course of the past decade. However, despite this positive trend, Russia

1.4.19. In general, Russian imports from ASEAN countries include the following staple items: electrical and electronic appliances, animal and vegetable fats; vehicles (excluding rail), clothing, footwear, fish, crustaceans and mollusks. Russian exports to ASEAN countries consist primarily of the following items: iron and steel, mineral fuels, fertilizers, nuclear reactors and boilers, aluminium, rubber, paper and paperboard, and lumber.

1.4.20. Russia's trade structure with Asian countries increasingly resembles that of Russia's trade structure with developed European and North American nations. Russian exports to Asian countries are dominated by minerals, oil and metals (oil, mineral fuels and mining industry products come first followed by iron and steel and then lumber and wood items). Russia's share of non-commodity exports to Asian countries has been declining recently,

Dynamics of trade and economic relations between Russia and ASEAN in 2002-2010



Source: Russian Federal State Statistics Service

which may reflect a general trend in the development of the Russian economy.

1.4.21. Russia's imports from the region, including developing countries, are dominated by industrial products and highly processed

ness. Investors from China still prefer to establish entities using 100% Chinese capital and minimal authorized capital. Russian investment in the Asian region goes primarily to the manufacturing industry, in pursuit of cheap labor and subsequently cheap imports to Russia.

Russia's trade structure with Asian countries increasingly resembles that of Russia's trade structure with developed European and North American nations

products. First among them are machinery and vehicles, followed by industrial equipment and electrical and electronic appliances. Notably, there was recently a significant increase in the share of highly processed products imported into Russia from Asian countries, including emerging economies.

1.4.22. Russia's investment cooperation with Asia does not look good. The volume of mutual investments is negligible, and most of Asian investment in Russia falls into mining, logging and sawing, fishing and the construction busi-

1.4.23. The total volume of foreign investment in Russia in 2010 stood at \$115 billion, of which Chinese investment accounted for 12%, Japanese 3.7%, South Korean 1.6%, Indian 0.5%, and ASEAN countries' 0.48%. The total sum of foreign investment from Russia in 2010 amounted

to \$96 billion. There is not a single Asian country where Russia has invested more than 1% of its total investments: China received 0.48%, India 0.15%, ASEAN 0.13%, South Korea 0.05% Japan 0.47%. In comparison, Austria alone accounted for as much as 14.3% of Russian investments in 2010.

1.4.24. The overall passivity of Russian business and government in Asia is the biggest problem. In fact, Russian companies can only sell the necessities to the Chinese. Exports are mostly run by small regional companies



that don't have any serious capabilities. Most importantly, the Russian state does not support exporters that are engaged in exports of anything other than raw materials. The Soviet system of state support for exports collapsed, and nothing has been done recently to replace it. There's almost no information in Russia about export niches in China that are not related to raw materials. Almost no extra marketing, lobbying or financial and economic

tion, as is already the case with most Asian countries, as well as countries, primarily the United States, that are building active relationships with Asian economies.

APR economies are not interested in an increased Russian influence and economic presence in this region to the point where they would be willing to "drag" Russia into Asia

(lending and state insurance of exports and investments) efforts are being made to promote Russian goods and investments in China.

1.4.25. Russia is an extremely passive participant in ongoing integration and cooperation processes in Asia. Russia is essentially just a formal participant in APEC, despite the fact that it will host the 2012 Summit in Vladivostok. Clearly, Russia lacks a vision for and an understanding of its interests in the Asian region, along with the tools to promote these interests, and emerging opportunities for Russia's domestic growth. Joining the Asian and Asia-Pacific integration and cooperation processes could be a powerful stimulus for Russia's economic development and moderniza-

1.4.26. The key reasons for Russia's underutilization of the new Asian markets include a lack of understanding by the Russian political and economic elite of the potential of these markets. Russia has a Euro-centric mentality and economic thinking, so it is mostly the Russian Far Eastern economic agents, which are often weak and even criminal, that are working on the Asian market.

1.4.27. The desire to bring to these markets the manufactured goods that are being forced out from these markets is also a weakness. As things stand, the industrial boom in Asia is killing industrial production around the world. With its high labor costs, Russia will never be able to compete with China's or India's manufacturing industry or cheap labor in the ASEAN countries, except perhaps in a limited number of industries. Clearly, Russia's ability to simply hop onto the train of economic growth, along with its international political importance in the region, is limited. We should not dwell on the past, but seek and create new niches. APR economies are not interested in an increased Russian influence and economic presence in this region to the point where they would be willing to "drag" Russia into Asia, which is evidenced by the above figures that depict trade and economic relations with the Asia-Pacific nations.

1.5 Russia's Asian regions: Challenges for and the potential of Siberia and the Far East

1.5.1. The underdevelopment of Russian regions lying east of the Ural Mountains has so far been a major obstacle to the country's full-fledged "new globalization." Siberia, the Trans-Baikal area and the Far East have always played an important role in the country's development. Yet this role has never been fully appreciated. To a large extent, Russia owes its status as a global power to Siberia: the country has objective geopolitical interests and the right to pursue its policy in the world arena – it is more than just a vast European country struggling to expand its "window to Europe" and to be invited to join, first, the European countries and then the Euro-Atlantic community.

The overall passivity of Russian business and government in Asia is the biggest problem

1.5.2. The first Russian settlers, called Siberian starozhily (most of whom were Old Believers), appeared in Siberia in the 17th and 18th centuries and formed over time a specific social and cultural community. Life in an atmosphere of much more freedom, far from European Russia which practiced serfdom at the time, combined with the harsh climate helped temper the Siberian character. Part of this character includes enterprise and self-reliance, rather than pinning all hopes on government support.

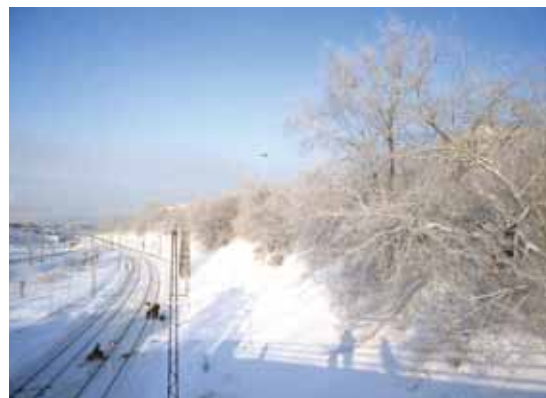
Such qualities as endurance, a capacity to work tirelessly, despite hardships, and self-reliance, inseparable from personal integrity and lavish generosity, are at the heart of the Siberian character, which has practically become proverbial in Russia. Thanks to these traits Siberians are credited with contributing a lot to building the contemporary Russian nation. Numerous fortresses built by Siberian trail-blazers laid the foundation for future cities, which served as strongholds during the development of this area, thus being largely responsible for the urban-centric Siberian civilization.

1.5.3. The second wave of Russian settlers in Siberia was triggered by the construction of the Trans-Siberian Railroad in the 1890s and later by the agrarian reform of the early 20th century, which aimed to "plant" settlers in the areas in the east of the country. These programs

are closely associated with two prominent Russian statesmen: Sergei Vitte and Pyotr Stolypin. The railroad builders' slogan "Forward – Toward the Great Ocean!" became a symbol of hard work and dedication to heroic accomplishments during a time when

no task seemed insurmountable. The resettlement policy increased the population of Siberia and facilitated its contact with the rest of the country. This laid the foundation for family and corporate ties between Siberians and European Russia. Stolypin's reforms proved to be one of the brightest moments in both Russian history and the development of Siberia.

1.5.4. The large-scale industrialization of the 1930s, which was embodied in the symbols of



Novokuznetsk in Western Siberia and Komsomolsk-on-Amur in the Far East, provided a powerful impulse for the transformation of an agrarian Russia into an industrial nation. The country needed a strong home front in the event of a war in the west. The Siberian divisions saved Moscow in November and December 1941.

1.5.5. The discovery and development of rich oil and gas fields in Western Siberia and diamond deposits in Yakutia after World War II allowed the Soviet Union to stand up for its values during the Cold War with the United States and the West, and also to support national-liberation and anti-colonial movements across the world, while at the same time improving, at least

The large-scale industrialization of the 1930s, which was embodied in the symbols of Novokuznetsk in Western Siberia and Komsomolsk-on-Amur in the Far East, provided a powerful impulse for the transformation of an agrarian Russia into an industrial nation

modestly, the country's living standards. The construction of the world's biggest hydroelectric power plants in Eastern Siberia (including the Krasnoyarsk, Sayano-Shushenskaya, Bratsk and Ust-Ilim power plants) led to the emergence of new powerful national territorial and production complexes in the region. The Soviet Union's last major infrastructure project was the construction of the Baikal-Amur Mainline in the 1970s and 1980s.

1.5.6. The large-scale industrialization of the region in Soviet times was matched by a new ideology, which dominated the development of Siberia and its cities. This ideology could be described as new communist romanticism. Since the 1960s Akademgorodok in Novosibirsk has practically developed as the ideal city project. Several generations of people who are now over 40 were captivated by the romantic images of Siberia.

1.5.7. However, romanticism in Siberia was invariably intertwined with tragedy. In Tsarist Russia, it was Siberia where political opponents served their prison sentences or lived in exile. An entire generation of Russia's military and intellectual elite had ended up in exile after the failed Decembrist uprising in 1825. During Communist rule, the system of labor camps overseen by Gulag and Dalstroj turned Siberia and the Far East into an area where hundreds of thousands of people were subjected to hard labor and died, making it a symbol of the nation's tragedy. Such places as Vanino Port, the lesser Baikal-Amur Mainline, the transit prison in Vladivostok, as well as Magadan and Kolyma have become symbols of the horrifying cruelty of the Soviet era.

1.5.8. In the 20th century, despite the original dominance of the agrarian sector in the local economy, the focus in the development of Siberia, the Trans-Baikal area and the Far East was shifted to big cities: the old ones, which emerged around the Cossack fortresses built



The Trans-Siberian Railway

The Trans-Siberian Railway, the world's longest, links Moscow with industrial cities in Eastern Siberia and Russia's Far East



The railway passes through



Regions covered by the railway



railway account for over 80% of Russia's industrial potential



produce over 65% of the nation's coal



and refine almost 20% of Russian crude oil



They produce 25% of commercial timber

Railway specifications

Actual length: **9,288.2** kilometers

Tariff length for calculating ticket prices: **9,298** km

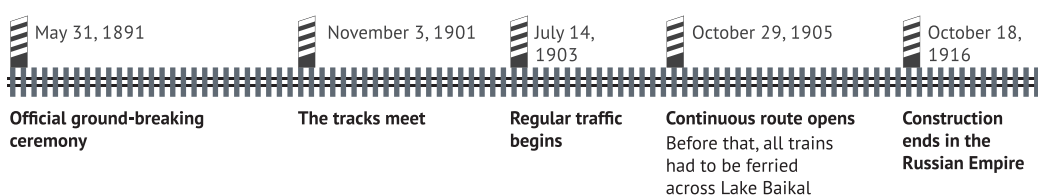
Starting point: **Moscow's Yaroslavl Station**

Final destination: **Vladivostok**

Capacity:



Construction timeline





by the first settlers – Tyumen, Tobolsk, Omsk, Tomsk, Barnaul, Biisk, Krasnoyarsk, Yeniseisk, Minusinsk, Irkutsk, Chita and Yakutsk; the cities in the Far East which were built by the first settlers in the area in the second half of the 19th century – Khabarovsk and Vladivostok; and later, Soviet industrial centers – Novosibirsk, Novokuznetsk, Norilsk, Bratsk, Sayanogorsk, Komsomolsk-on-Amur, Tynda, Surgut, Nizhnevartovsk and a host of other cities built in the oil and gas bearing areas in the north of the Tyumen Region.

In Soviet times Russia's part of Northeast Asia practically developed as a closed economy, which hardly maintained any foreign economic relations to speak of

1.5.9. As a result, Siberia and the Far East witnessed the emergence of an urban civilization known for its skilled labor and its high level of education and culture. Tomsk University was referred to as the “Siberian Athens” even before the 1917 Revolution, while Novosibirsk’s Akademgorodok was a leading research and innovation center in the Soviet Union. The region’s skilled labor and established social and economic infrastructure are among the factors that could contribute to the success of Russia’s investment strategy and the country’s integration into the Asian-Pacific region via Siberia.

1.5.9.1. Another factor that could secure the success of Russia’s integration into the new Asia is that peoples living to the east of Lake

Baikal and some Asian peoples in other countries have the same ethnic origin, which means they have much in common in terms of language, mentality and culture. Therefore the intellectuals of these ethnic groups in Russia could help establish cultural and economic ties with Asian countries where, unlike Russians, they are not perceived as “strangers.” Currently some of these intellectuals are involved in drafting a Northeast Asia concept, which presents Russia not only as part of Europe that stretches as far as the Pacific Ocean but also as

part of Northeast Asia. In the days when Asia was synonymous with backwardness, there was little prestige involved in belonging to it. Now the situation is obviously changing and Russia may become interested in emphasizing both its European and its Asian roots.

1.5.10. In Soviet times Russia’s part of Northeast Asia practically developed as a closed economy, which hardly maintained any foreign economic relations to speak of. In its stand-off with the West, the country was guided by a “self-sufficient home front” concept that dominated the official ideology and economic planning. This was largely influenced by the country’s experience during World War II when the Siberian hinterland played a key role in providing industrial and agricultural support to frontline operations, given that a considerable part of the Soviet Union’s European part was Nazi-occupied at the time. The Cold War that followed immediately afterward was also responsible for the shaping of the ideology of a “self-sufficient home front” that would help the country survive in the event of a new war. As a result a great



deal of factories and plants, which duplicated nuclear power plants and other factories operating in the country's European part, appeared in Siberia. In the 1960s, confrontation with China disrupted cross-border economic and social ties, leading to the virtual closure of the

tor here is census results, which help identify the regions and cities that have good development prospects (and consequently, are likely to encourage internal migration and attract new residents), as well as "sensitive" locations. Prisoners were forced to settle in some towns

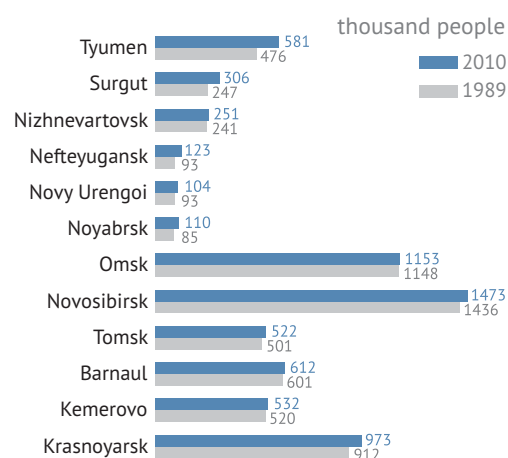
Siberia and the Far East witnessed the emergence of an urban civilization known for its skilled labor and its high level of education and culture

and even regions that were barely suitable for living. It's no wonder that even in the late Soviet period people continued to move from these areas. The comparison of the last Soviet census of 1989 and Russia's recent 2010 census reveals certain patterns.

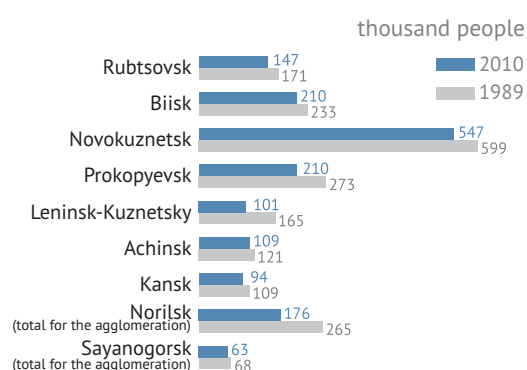
border. After the armed conflict on Damansky Island in 1969, the stretch of the Trans-Siberian Railroad to the east of Lake Baikal changed its home front status, as it ended up on the front line. The expectation of invasion and war not only prompted authorities to move numerous industrial projects from this area, but also seriously affected the mentality of local residents, shaping a haunting image of the enemy. The ripples from those events can be felt even today, including in modern mainstream culture.

1.5.11. The first years in post-Soviet Russia had multiple impacts on Siberia. On the one hand, the stereotypes of the region's decline and depopulation are quite widespread. However, this is not all true. Some sectors, above all, resource-oriented industries and metallurgy (particularly non-ferrous metallurgy) have been given a powerful impulse that has propelled them into the global market, whereas mechanical engineering, manufacturing and many sectors of the military-industrial complex have been hit hard by the crisis. A key social indica-

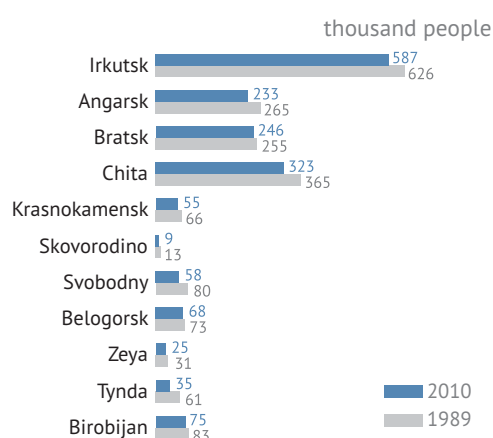
1.5.12. The comparison of the two censuses showed that population growth was higher – and consequently, economic development more sustainable and living standards higher – in the regional administrative centers in Western Siberia and the Krasnoyarsk Territory, as well as in the oil-rich cities in the Tyumen Region, than in more depressed regions:



1.5.13. The main problem facing Western Siberia and the Krasnoyarsk Territory (including Khakassia, which was formerly integrated into the territory) is the decay of the “second echelon” industrial centers that depend on the military-industrial complex, mechanical engineering, coal industry, and, strange as it may seem at first glance, metallurgy, for their survival. This also reveals a trend toward intra-regional centralization, with regional/territorial administrative centers draining the population away from smaller cities and towns:

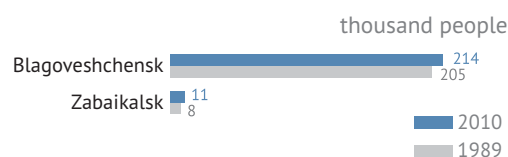


1.5.14. The situation is different across the Irkutsk Region and further east: in the Trans-Baikal and Amur River areas the population of regional/territorial administrative centers and other industrial cities is gradually declining. This means that the region has lost much of its economic attractiveness and the quality of life there is deteriorating. Surprisingly, however only at first glance, this is also true of the seemingly successful Irkutsk Region:

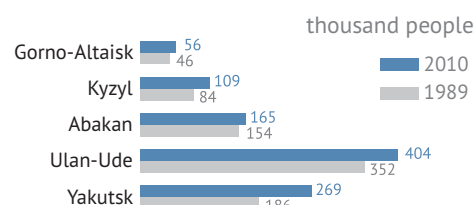


1.5.15. The only exception are the cities located on the border with China where the population

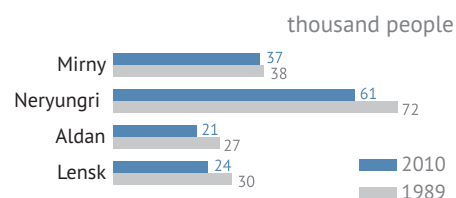
is growing. Trade in the border area and direct contact with Chinese partners are buoying the local economy and are having a positive impact on the quality of life:



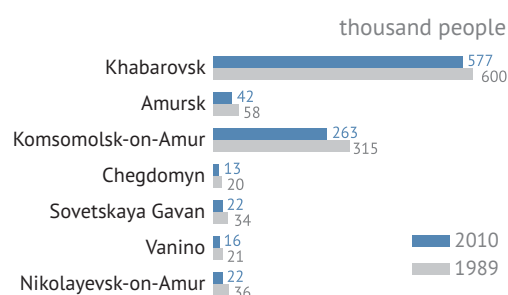
1.5.16. Population growth has been registered in the capitals of all of Siberia's republics that are members of the Russian Federation – even in those that are not implementing large-scale industrial projects. One factor behind population growth there is intra-regional and ethnic centralization:

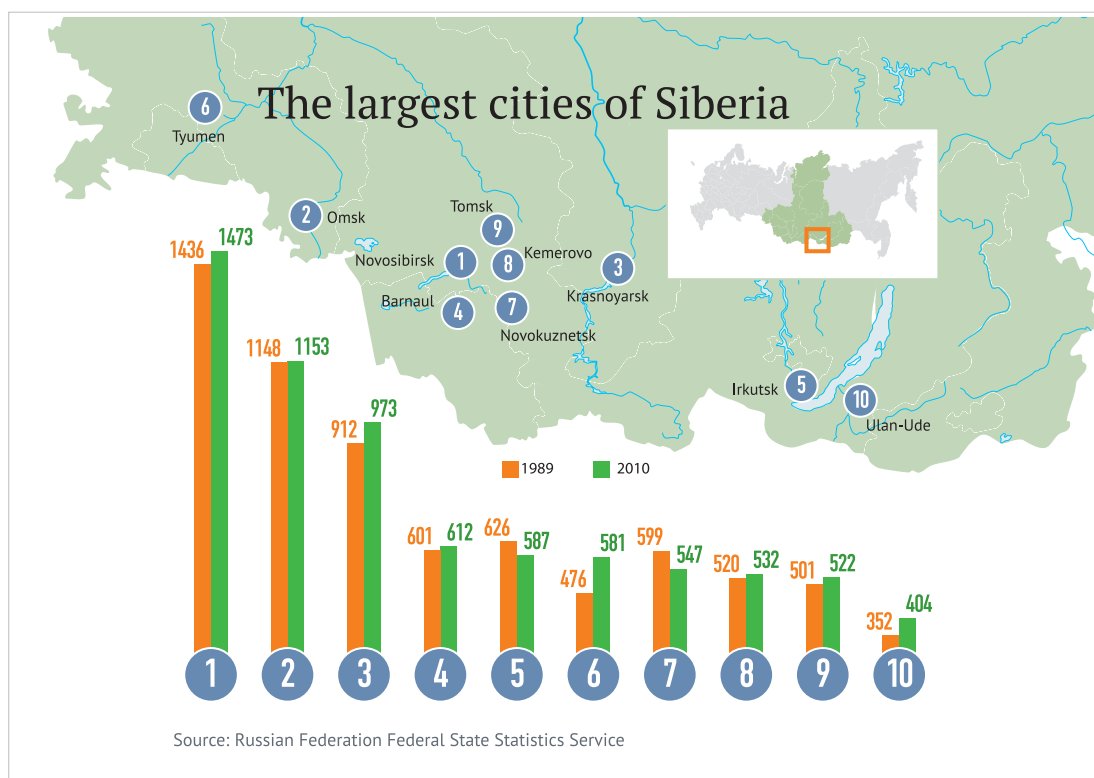


1.5.17. At the same time the population of other industrial cities in Yakutia has been gradually declining:

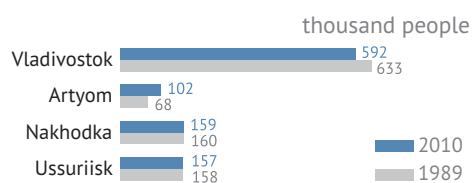


1.5.18. The Khabarovsk Territory is seeing the same negative trend as the area west of Lake Baikal: the population of its central parts, industrial cities and ports is waning:

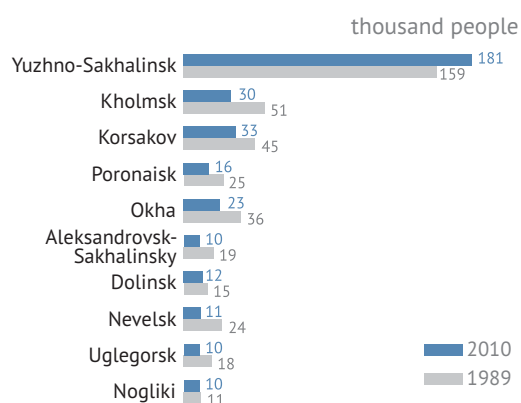




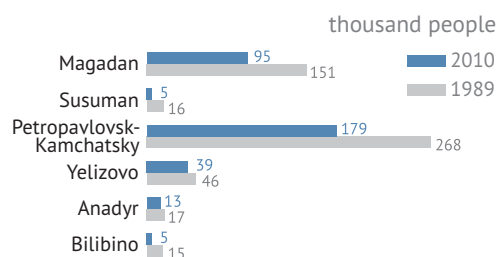
1.5.19. The situation in the Primorye Territory looks much better. The decline in the population of Vladivostok is balanced by the almost double growth of the population of its satellite town, Artyom. The size of the population in Nakhodka and Ussuriisk remains unchanged, and although it does not demonstrate significant growth, it is not diminishing thanks to the area's openness to economic relations with China and Japan, which provides a source of income for many citizens and improves their living standards:

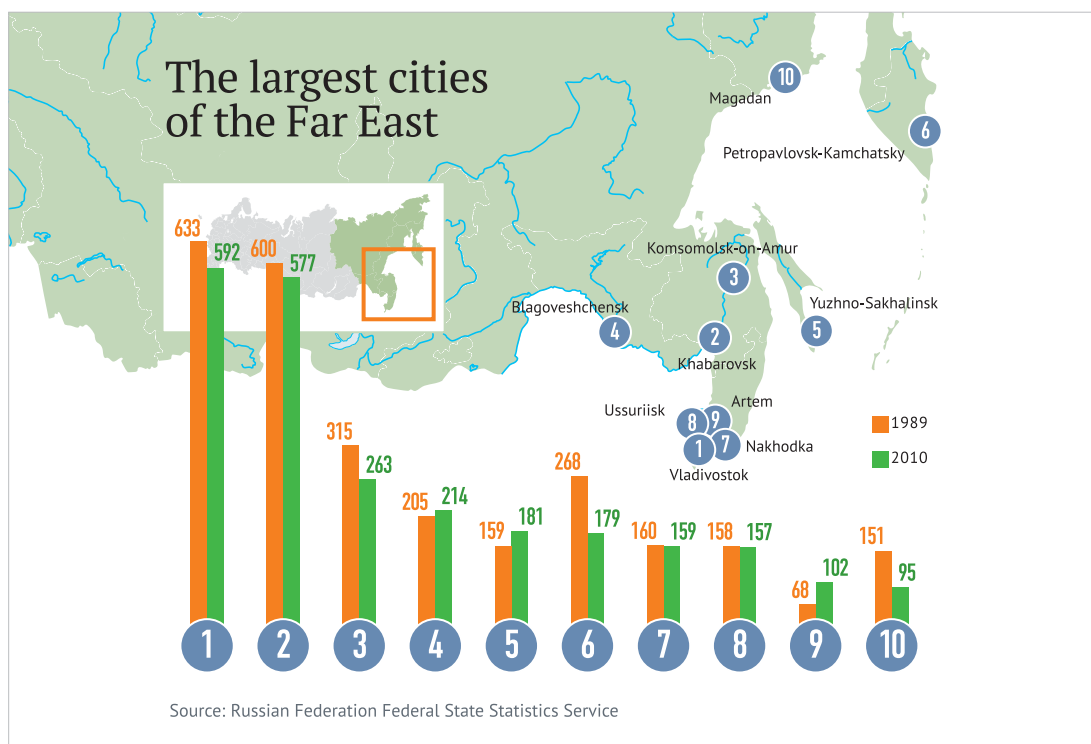


1.5.20. The intra-regional centralization typical of Western Siberia has spread as far as Sakhalin Island: the population is growing in its regional administrative center and is decreasing in other cities:

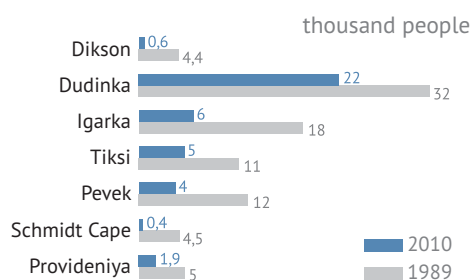


1.5.21. The situation on the fringes of the country's northeast is much bleaker. Here the lack of economic and social prospects, combined with harsh living conditions, has sent population numbers plummeting:





1.5.22. Ports located in the eastern part of the Northern Sea Route and river ports connected with them face a real threat of depopulation (the only exception is Dudinka, a port handling Norilsk Nickel's ice-breaker fleet, although its population is also noticeably declining):



1.5.23. This is the analysis of the current demographic situation in Siberia and the Far East, which reveals growth factors and highlights issues that require serious social and economic solutions.

1.5.24. An analysis of population curves typical of sub-regions in Siberia and the Far East

shows that they can be split into two groups. Despite existing problems, practically the whole of Western Siberia and the Krasnoyarsk Territory have managed to integrate into Russia's new economy. This does not mean that they do not need government support, but this should not be emergency support, as what they need now are generally accepted export protection measures, diversification of production and development of territorial and production complexes (above all, in the "second echelon" cities) and infrastructure. By contrast, areas lying between Lake Baikal and the Pacific seaboard, except cities maintaining economic relations with China and Japan, fall into a different group, which requires a comprehensive and effective strategy to overcome the economic downturn and stop social degradation, and the government should move quickly to adopt such a strategy.

1.5.25. It is something of a commonplace to say that Russia's attention to its oil and gas sector is blown out of proportion. The critics' key argument is that this attention is a drag on the development of the manufacturing sector, which makes the Russian economy lop-sided



and dependent on fuel prices. This could not be more true. However, the oil and gas projects that are carried out in areas west of Lake Baikal and in the Far East, particularly in areas that were not developed in Soviet times, act as the main growth engine there, and it would not be right to downplay their role in achieving national goals.

road to Nizhny Bestiyakh, a city located on the bank of the Lena River just opposite Yakutsk, helped establish regular infrastructure links with this area that will allow the South Yakut territorial and production complex to become a driving force behind the area's development.

The Eastern Gas Program and the creation of the third industrial cluster in the area could radically change the economic situation in the Far East

1.5.26. It would not be an exaggeration to say that the most important of the infrastructure projects that are really changing life for the better in this area is the Eastern Gas Program, which has been coordinated by Gazprom since 2007. The gas fields in the north of the Irkutsk Region and in southern Yakutia (Kovykta, Chikan, Chayanda and other gas fields) that are either being developed or will be ready for development in the next three or four years, as well as the projects to build gas-processing plants near the Chayanda gas field, will help to create a third cluster of territorial and production complexes in this area in the middle term, in addition to the Trans-Siberian Railroad and the Baikal-Amur Mainline clusters. This is likely to lead to an expansion of the developed area further north. Gazprom's operations in southern Yakutia still leave room for other industrial projects. The recent construction of a rail-

1.5.27. In the future, the west-to-east part of the Eastern Gas Program located in Yakutia will intersect with the supplies of Sakhalin gas going west. In the fall of 2011 the construction of the Sakhalin-Komsomolsk-Khabarovsk-Vladivostok gas pipeline was completed. The Sakhalin-3 project aimed at development of the Kirin gas field, which is considered to be the biggest one in the island's offshore area, is expected to be completed soon by Gazprom. Unlike Sakhalin-2, with its focus on gas exports, this project aims to create an energy base for the industrial development of maritime regions. The Sakhalin-1 project, whose Russian operator is Rosneft, has made good progress and also facilitates the development of the area's infrastructure (the recently commissioned De Castries oil terminal is a further proof of this). The first city to find itself at the intersection of supplies from Yakutia and Sakhalin will be Komsomolsk-on-Amur, thanks to the Baikal-Amur Mainline, as well as its proximity to the ocean ports. This will open up real opportunities for the fast-track economic development of the city, which is likely to emerge as another growth engine in the area, in addition to the South Yakut territorial and production complex.



Perception of the Far East as an outpost, and of Siberia as a home front, continue to dominate both public opinion and the opinion of a section of the Russian political elite. This perception paves the way for an autarkic development policy

1.5.28. The Eastern Gas Program and the creation of the third industrial cluster in the area could radically change the economic situation in the Far East. But is there demand for this development? Work to lay the foundation for the area's future growth comes back to the issue

of choosing between two development patterns for the area east of Lake Baikal: isolationist development and development open to foreign economic relations.

1.5.29. Admittedly, despite globalization and the openness of the global economy today, the said Soviet-era perception of the Far East as an outpost, and of Siberia

as a home front, continue to dominate both public opinion and the opinion of a section of the Russian political elite. This perception paves the way for an autarkic development policy with respect to the area and, most importantly, for a policy of strategic distrust of Rus-



sia's partners in the Asian-Pacific Region. These trends can still be traced in federal targeted development programs for Siberia and the Far East, which are regularly adopted in Moscow. They are not implemented for the most part, though. These programs tend to inherit some of the Soviet-era systemic faults, including their focus on government support, isolationism and a disregard of the development opportunities that are being offered by the area's dynamically developing Asian neighbors.

The logical alternative to degradation of the region is a policy of opening up the area, its fast-track development and gradual integration into a system of international economic relations

1.5.30. The implications of this policy are disturbing. Russia's recent census (its returns are mentioned above) has highlighted the most serious problem, by dryly recording the ongoing migration of many thousands the Far East residents to other regions of the country and even to China, where there are more Russians than there are Chinese in Russia. Local residents have failed to benefit by the regional policy and numerous federal targeted programs in the twenty years of post-Soviet development, and they are leaving the region as a result. Since it is in large part the most professionally motivated and skilled specialists who are leaving, this depopulation is leading to social degradation in the area and, should the current policy

remain unchanged, it will have a devastating effect on the area, rendering any development programs here impracticable.

1.5.31. The logical alternative to degradation of the region is a policy of opening up the area, its fast-track development and gradual integration into a system of international economic relations. The most obvious line of integration is to increase exports of raw materials from Siberia and the Far East. However, this line of develop-

ment will, first, secure Russia's dependence on raw materials production and second, it has a limited potential. On the one hand, China, the key potential buyer, is insisting that Russia should reduce its fuel prices in exchange for China's political declarations. On the other hand, China's energy policy is still aimed at increasing the domestic production of coal and gas and diversifying the country's fuel imports as much as possible. However,

there are so many countries willing to export gas to China that Russia's share of China's gas imports is unlikely to be significant. Therefore exports of liquefied natural gas to Japan and Korea appear to have brighter prospects, the more so as the construction of an LNG plant in Vladivostok is near completion.

1.5.32. The export of fuel to Asian markets is good for Russia, but it is unlikely to form the heart of the country's Asia strategy. This strategy could be based on new competitive advantages that Russia is receiving thanks to Asia's dynamic economic development. Local industries in East Asian countries are unable to meet



the growing domestic demand for food and consumer goods for many reasons, including the improvement of living standards allowing the vegetarian civilizations of the East to switch over to protein-rich food, along with ecological and natural resources-related problems, such as deforestation, soil erosion, the exhaustion of surface and underground waters and extremely adverse climate changes in the majority of these countries.

1.5.33. So far, the potential of the Asian market as the priority destination for Russian

fuel exports is considerably limited by the low purchasing power of Russia's potential partners and often by the persistent attempts of some countries, above all China, to swap a manifold reduction in prices for political declarations. Therefore Russia's strategy should focus not just on increasing raw materials supplies abroad, but on the well-considered development – to be facilitated by foreign investment – of high-technology clusters in this area, as well as mining and manufacturing facilities that would supply their products to Asian and Pacific markets.

2. From a European power to a globalized power

2.1. Asia-Pacific strategy

2.1.1. The absence of a proactive development policy for Siberia and the Russian Far East, insufficient information, inadequate – though growing – activity in Asia and the ongoing depopulation of this Russian region have created a sense that Russia is vulnerable both internationally and domestically. All these factors significantly undermine Russia's global geopolitical standing. There is a widespread belief that Russia's only option, in light of its weakness in the Far East of the country, lies in closer ties with the West. However, the West is

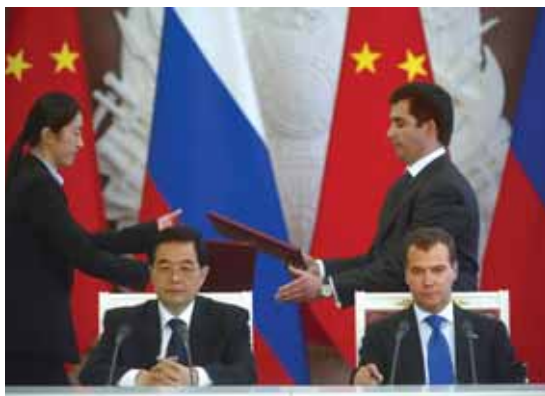
unwilling and unable to offer Russia anything. There is also a growing fear that this part of the country and subsequently the whole Russia will ultimately become a raw materials appendage almost entirely subservient to China.

2.1.2. Russia should redouble its efforts in Asia because of the limited opportunities for closer ties with Europe. This situation is unlikely to change soon, primarily because of the systemic crisis in the European Union. The EU will likely be unable to respond even to clearly beneficial proposals in the next few years, such as the creation of a common economic, energy

and human space with Russia and other Eurocentric countries. The proposed organization, described in a Valdai Club report as an Alliance of Europe [See Vladimir Putin's article, *A new integration project for Eurasia: The future in the making* // <http://www.izvestia.ru/news/502761>, and Valdai Discussion Club analyti-

The absence of a proactive development policy for Siberia and the Russian Far East, insufficient information, inadequate activity in Asia have created a sense that Russia is vulnerable both internationally and domestically





cal report, *Towards an Alliance of Europe* // <http://valdaiclub.com/publication/22128.html>. Vladimir Putin expressed similar ideas in his article published by *Suddeutsche Zeitung* in December 2010 and his policy article published by *Moskovskiye Novosti*], could become the third pillar of the future world order alongside the United States and China.

2.1.3. Such Russian proposals should be kept on the table, and hopefully Europeans, who are now trying to find a way out of their crisis, will eventually consider them. On the other hand, Russia cannot and should not

ernization for Russia, will stagnate (even though it will remain Russia's key socioeconomic partner), while the situation to the south of Russia will continue to deteriorate. In this situation, the East can and should become, both strategically and tactically, the key direction of Russia's policy and the main foreign resource of its development in the near future.

2.1.5. Russia must pursue a more active policy in Asia in order to further its economic development and adapt to the 21st century world, which is taking shape before our

very eyes. The most promising markets are located in Asia. In terms of security, the underdevelopment of the Trans-Baikal area and the Russian Far East and the flight of the population from them will inevitably – irrespective of international players' intentions – create a sense that the region is vulnerable and

even a security vacuum. This will also indirectly encourage competition for its resources, thereby weakening Russia's international standing and, potentially, its freedom of action and real sovereignty.

2.1.6. Russia's unwillingness to fully engage in effort to resolve pressing issues of regional policy and security will deepen the disappointment of its Asia-Pacific partners and possibly encourage them to create new international negotiating structures and mechanisms that could bypass Russia. So far, Russia's partners like China are prepared to promote equal strategic partnership with Russia and regard

Russia must pursue a more active policy in Asia in order to further its economic development and adapt to the 21st century world

change its socio-cultural focus on Europe. The proposed activation of Russia's Asia-Pacific policy and partial redirection of its economic ties to the east are not an alternative to its European focus, but a reasonable adjustment to current and future world developments.

2.1.4. The Greater Middle East and North Africa are even less promising regions economically and politically. Russia cannot avoid being drawn in by the consequences of the Arab Spring, which offer only passing foreign policy benefits. The West, which has been the main source of growth and mod-



it as a reliable and responsible player. But this will not last forever if Russia's foreign and economic policy continues to minimize Asia Pacific.

2.1.7. At the same time, a deliberate policy of standing on the sidelines of multinational discussions of the key international issue –

The resources enabling Russia to become a Pacific power are predominantly internal. Russia's Asian strategy should be based on the accelerated development of Siberia and the Far East

the future of U.S.-Chinese relations – would make Russia's partners in the West and the East suspect it of seeking a conflict between the U.S. and China. In the long run, this scenario would be extremely unfavorable for Russia and could force it to choose between these rival powers.

2.1.8. Russia's turn towards Asia, including through a new push for the development of Siberia and the Far East, is also vital for its internal progress. After a decade of revolutions and a decade spent on regaining internal control and international standing, Russia is facing a period of stagnation, which will ultimately halt its economic growth and provoke public discontent. A way to avoid this, apart from a policy of developing modern social institutions [*For the optimal scenario of Russia's development see the Valdai Club's*

report, Russia should not miss its chance: Development scenarios //<http://valdaiclub.com/publication/35120.html>], is to offer society, and especially young people, a development megaproject. Skolkovo and Sochi are clearly not big enough to merit this definition. The Eurasian Union is a much better idea, but it is not attractive in society and especially

among young people. It is aimed at regaining some of the vanishing past on a new level, rather than creating something entirely new. In short, the Eurasian Union concept lacks the necessary sense of challenge.

2.1.9. For these reasons, we believe that the time has come for Russia to reorient its policy towards Asia. This policy should have a geostrategic and an economic dimension, a program for the new development of Russia beyond the Urals and Project Siberia. To give political symbolism to these dimensions, Russia should transfer some government functions to several cities in Siberia and especially the Far East. This would greatly stimulate movement of the active part of the population to the region and reverse the depopulation trend in the region.

2.1.10. The resources enabling Russia to become a Pacific power as well as the causes of the problems it faces in that region are predominantly internal. Like the Asian countries, whose economic development helped them strengthen their global political standing, Russia's Asian strategy should be based on the accelerated development of Siberia and the

Far East. Of course, Russia should not blindly emulate the development scenarios of the 19th and the mid–20th centuries. Its new strategy should be based on and take into account the opportunities offered by the explosive development of East and Southeast Asia in the past 25–30 years, which will surely continue into the future.

2.1.11. Russia's proposed radical reorientation towards the new Asia, though it will take decades to complete, should include the following interrelated aspects:

- **A dramatic boost in Russia's foreign policy activity in the region, the development of a comprehensive Asian strategy, efforts to create the Eurasian Union and propose ideas for a common economic, energy and human space in Europe.**

On the foreign policy front, efforts should be focused initially on the creation of new foreign policy formats in the Pacific region

- **The elaboration and implementation of a new development strategy for Siberia and the Russian Far East (Project Siberia).**
- **To ensure the success of this vitally important change and this crucial project, the Russian capital, or some of its functions, should be moved to a city/cities in Siberia and the Russian Far East.**

2.1.12. Russia's new Asian policy should incorporate European, American and Eurasian components but must not be a means of serving them, as was the case in the past. Each new initiative should be aimed at developing a system of interaction in which Russia is a vitally important partner. This goal can be achieved only through the concentration of internal, diplomatic and foreign economic resources and the advance of major initiatives elaborated by experts.

2.1.13. On the foreign policy front, efforts should be focused initially on the creation of new foreign policy formats in the Pacific region. The scale and level of China's economic power limit its opportunities to integrate into existing systems of interaction and the international legal space. Therefore, new regional structures should be created to resolve two interconnected issues – the potential growth of U.S.-Chinese confrontation and the formation of a security vacuum around China, whose neighbors, fearing China's growing power start creating counterbalances, including in the military-political sphere irrespective of China's real policy or intentions. At the same time, Russia must not only participate in a dialogue on military-strategic issues, but also in discussions of trade, economic, political and sub-regional issues. Russia's new strategy of engagement in Asia-Pacific affairs should focus on a comprehensive approach to all regional aspects. However, given Russia's weak position in Asia, it could start by taking a more active stance in foreign policy issues.



2.1.14. In this respect, it would be expedient to consider proposing, under the auspices of Russia's APEC presidency, the creation of a standing agency for interstate consultations (a Helsinki process for Asia) and, in a narrower format, a system of China-Russia-United States relations. This would strengthen the level of mutual notification of decisions taken, in particular, in the military-political sphere, and promote the sides' transparency in the sphere of national security. In the future, Russia could advance the idea of a special international structure – a Pacific Security and Development Pact.

2.1.15. It would be also expedient to create a system of relations that could promote stronger security and sovereignty of the ASEAN member countries and other mid-sized and small nations in the region, in particular because ASEAN countries are potentially important partners for Russia. The member countries of the Association of Southeast Asian Nations, which has likely exhausted its potential as an integrated international player, are concerned over falling victim to the potential U.S.-Chinese geostrategic rivalry. In this situation, Russia could act as an independent third player whose involvement would be welcomed by all ASEAN countries. Such rapprochement could be based on the strengthening of mutual trade and investment; conditions for this could be created by an agreement on a Russia-ASEAN free-trade area. Experts say that there are the necessary economic prerequisites for implementing such an agreement. Military-political cooperation could also grow gradually.

2.1.16. Information policy and better knowledge of each other should be a priority of Russian-Chinese relations and cooperation within the China-Russia-United States format in which other regional countries should be widely involved. This provides for developing programs to enhance the level and quality of knowledge about the economy, culture and society, to dramatically increase the intensity of cooperation between the universities of Russia and Asian countries, and to implement large-scale student and faculty exchange programs between Russia and China and Russia and other Asia-Pacific countries.

2.2. Russia, China and their neighbors

2.2.1. One of the priorities of Russia's new Asian – and, in fact, global – strategy should be expanding relations and cooperation with China in the regions where they are neighbors. The idea of the Eurasian Union advanced by Russia, Kazakhstan and Belarus is evidence that integration is a key national project for Russia for the next decade at the least. This has created two challenges, which should be addressed in close collaboration with China and several other regional countries.

2.2.2. First, Russia and China should seriously consider coordinating their policy in Central Asia, including within the framework of the Shanghai Cooperation Organization (SCO). So far, Russia has not interfered with China's projects in Central Asia and vice versa, even though they are latent rivals, as evidenced by China's efforts to limit the SCO's activities in



the sphere of security, where Russia clearly has the upper hand. The creation of the Eurasian Union will make Russia the focus of the region's economic development. In unfavorable circumstances, the Central Asian dimension of the Eurasian Union could hamper the Russian-Chinese strategic partnership, which is currently almost cloudless.

2.2.3. Second, the instability to the south of Russia has been growing, with Afghanistan as the main threat due to the possibility of the Taliban (or other Islamic radicals) returning to power after 2014. Were this to happen, instability would ultimately spread to the post-Soviet Central Asian republics, possibly recreating the problems of the 1990s, such as

involves reinforcing Russia's southern border, but this measure seems inappropriate in the context of the Eurasian Union. The second scenario involves reinforcing the southern border of the former Soviet Union. However, this brings with it the danger of direct confrontation with the Taliban without any buffer zone, and besides, the experience of protecting the Tajik border in the 1990s showed that this approach is ineffective and exacts a high social cost. The third scenario involves reinforcing Kazakhstan's southern border, which would promote integration and integrity of the Eurasian Union. This seems to be the best possible scenario. Another argument in its favor is that sources of drug trafficking will remain beyond Russia's borders, in Tajikistan.

Russia and China should seriously consider coordinating their policy in Central Asia, including within the framework of the Shanghai Cooperation Organization

Islamic unrest and instability in the Fergana Valley, southern Kyrgyzstan and across Tajikistan, and creating a military and terrorism threat to Russia and Chinese regions bordering Afghanistan.

2.2.4. The southern threat has returned to the agenda the question of strengthening Russia's borderland in its broad definition. There are three possible scenarios. The first scenario

2.2.5. The biggest problem is the potential responsibility of Russia and China for Kyrgyzstan, which has traditionally been a member of Russian-led integration associations and is a logical Central Asian candidate for the Eurasian Union. If Kyrgyzstan remains on the other side of the border, it will remain outside the Eurasian Union, as it would not be logical

to reinforce the border within the Eurasian Union. Another issue concerns the nostalgic desire to incorporate as many post-Soviet Central Asian countries as possible in the Eurasian Union. Precluding the incorporation of a country located south of Kazakhstan would contradict that logic.

2.2.6. On the other hand, nostalgia must not get in the way of rational decision-making.



Shanghai Cooperation Organization

The Shanghai Cooperation Organization (SCO) is a regional intergovernmental security alliance



Basic documents

2001

Shanghai Convention on the Struggle against Terrorism, Separatism and Extremism

2002

SCO Charter

2002

Regional Anti-Terrorist Structure (RATS) Founding Agreement

Goals and Objectives

- Strengthening of mutual trust and good-neighboring policies between member states
- Promotion of effective cooperation in politics, trade, economics, science, technology, and culture, as well as education, energy, transport, tourism and environmental protection
- Jointly ensuring peace, security and stability in the region
- Advancement to a new democratic, fair and rational global political and economic order

Structure of the SCO

- Council of Heads of State
- Council of Heads of Government
- Council of Foreign Ministers
- Meetings of Heads of Ministries and Departments
- Council of National Coordinators
- Regional Anti-Terrorist Structure
- Secretariat
- Interbank Consortium



This means that Russia will have to study its past, in particular the ambition of the Russian Tsars to conquer Central Asia to spite Britain and the Bolsheviks' desire to reincorporate it according to the logic of messianic Communism. Central Asia and Russia were part of the same empire for barely 100 years, a period during which Central Asia was a heavily subsidized region that had not benefited Russia but only became more expensive and problematic.

The southern threat has returned to the agenda the question of strengthening Russia's borderland in its broad definition

2.2.7. Moreover, the infrastructure and economy of Central Asia have greatly deteriorated in the 20 years since the collapse of the Soviet Union. Incorporating Central Asia into the Eurasian Union would channel Russia's already limited resources to that nearly hopeless region, which would be a heavy financial burden on Russia in light of the global economic crisis. It would also make integration unpopular in Russian society. Therefore, reinforcing Kazakhstan's southern border could be an acceptable solution.

2.2.8. Socio-economic degradation in Central Asia has created the challenge of immigration to Russia. Although Russia needs labor immigrants, the social consequences of that policy have disrupted the equilibrium of Russian society. Further integration should not lead

to more imbalances. The key public argument against the Eurasian Union is the Russian fear of immigration. Overcoming this fear should become a common interstate task, with a focus on teaching Russian in Central Asia so immigrant workers at least speak the language.

2.2.9. Reinforcing Kazakhstan's southern border does not mean that Russia will leave other post-Soviet republics, in particular Kyrgyzstan, to their own devices. It will maintain security guarantees and cooperation, but in a less rigid format. In this context, Russian-Chinese cooperation in maintaining stability in the post-Soviet Central Asian countries is becoming vital. Russia and China should try to mitigate their rivalry, coordinating the use of Russia's military-political assets and China's economic capabilities in the region. The Chinese partners should be encouraged to enhance the security aspect of the SCO, whose potential has not been fully exploited and is also inadequate in the face of current and future requirements and challenges.

2.2.10. To maintain stability in broader Central Asia, including Pakistan and Afghanistan, Russia (with the CSTO and the Eurasian Union) and China (with the SCO) should adopt a policy of engaging with as many other partners as it can, primarily the United States (with NATO) and India. It would be advisable to more closely involve the United States and other Asia-Pacific countries in Russian-Chinese cooperation on the basis of joint solutions to regional stability issues and global



challenges. To prevent the militarization of relations in such spheres as the provision of resources, we need to coordinate measures to mitigate the consequences of climate change and growing food and water shortages, and launch strategies and projects that should benefit all sides.

The creation of the Customs Union will also strengthen the competitive advantages of Kazakhstan relative to Siberia and the Russian Far East

2.2.11. Also, the creation of the Customs Union and plans for promoting integration between its members and ultimately turning it into the Eurasian Union could have a broad and diverse effect on the economic development of Siberia and the Russian Far East. On the one hand, dismantling the customs border between Russia and Belarus has greatly strengthened the competitive advantage of the ground transit route from East Asia to Europe across Russia, because cargo shipped from China, Japan and South Korea to the European Union countries via the Trans-Siberian Railway cross only one customs border in the CIS, which has simplified and expedited the process.

2.2.12. On the other hand, according to this logic, the creation of the Customs Union will also strengthen the competitive advantages of Kazakhstan relative to Siberia and the Russian Far East. The end of the customs border

between Russia and Kazakhstan would make the routes across Kazakhstan more attractive to China. Some of the Chinese cargo could be diverted from the Trans-Siberian Railway to the railroad running from Xinjiang Province in western China to European Russia via Kazakhstan, which is a shorter and quicker route. Hence, Russia should take measures to rapidly enhance the commercial attractiveness of the Trans-Siberian Railway for transit cargo from Asia.

2.2.13. Likewise, Kazakhstan will compete with Russia's natural gas transportation projects with China. Active use of the Kazakhstan-China pipeline would decrease China's interest in building the Western (Altai) and Eastern pipelines from Russia to China. Moreover, this could encourage the Chinese to take a tougher stance on Russian gas prices, which would completely block or once again postpone Russian-Chinese projects.

2.2.14. Therefore, it is vitally important to ensure that Siberia and the Russian Far East become full-scale economic participants of the Eurasian Union. Furthermore, all decisions of Russia's federal authorities regarding integration with Kazakhstan should be taken with due regard for the development strategy of Siberia and the Russian Far East. It would be also expedient if one of the Russian members of the Eurasian Commission hailed from Siberia. It is extremely important to ensure that the new integration project does not hinder the development of Russia's regions.



2.3. Siberia and the Far East as a region for cooperation and new economic growth

2.3.1. The main potential for Russia becoming an Asia-Pacific power lies within its own boundaries and could be exploited through

China and other Asian countries would gain access to Russia's non-primary resources and agricultural products, of which there is a relative scarcity in Asia. Wherever needed, Central Asian countries, China, India and North Korea could supply the workforces, which are in short supply.

A new upsurge in Siberia and the Far East will only be possible with a massive injection of foreign and Russian investment and a wide-ranging system of safeguards

the proposed Project Siberia, whose main constituents should be the development of the infrastructure, including major schemes such as the construction of the Vostochny spaceport in the Amur Region, the deep processing of raw materials, an agriculture industry geared toward catering for the Asian markets, and the production and deep processing of raw materials, timber and other water-intensive industries. This will require a deliberate national policy to attract as much Russian and foreign investment as possible into the area and provide investors with maximum privileges and guarantees. A new upsurge in Siberia and the Far East will only be possible with a massive injection of foreign and Russian investment, especially foreign investment, given the relative scarcity of Russian funds, and a wide-ranging system of safeguards. Government investment should be targeted above all at the development of the infrastructure. As a result,

2.3.2. Given the established pattern of the regional economy in the Asia-Pacific Region (APR), we can identify several key branches in which Russia's regions east of the Urals and in the Far East enjoy a competitive advantage. One such advantage is the availability of extensive water resources. Such resources open

up possibilities for the rapid development of water-intensive industries in the region such as agriculture (including grain, fodder and meat production), timber processing, pulp and paper, etc. to export their products to the APR markets.

2.3.3. The populations in the East Asian countries need ever increasing amounts of food. Demand for grain, fodder and meat is constantly rising, driven by improved living standards and the switchover from a diet traditionally based on rice and vegetables to one based on protein (from 1990 to 2007, per capita meat consumption in East Asian countries went up by 125%). Demand is also growing for other water-intensive products: for example, paper consumption per capita in China has increased by 450% in the past 20 years. Previously self-sufficient countries in the Asia Pacific are being forced to gradually



move over to importing goods whose manufacture calls for extensive land, forest and water resources.

2.3.4. With its vast reserves of land fit for agricultural use (9% of the world's total arable land) and large supplies of fresh water (20% of the world's resources), Russia has a huge competitive advantage in these industries. Moreover, a considerable proportion of these resources is not currently being used. Russia therefore has a tremendous reserve for expanding both its arable land area (by at least 10 million hectares) and for raising grain

2.3.6. The Altai Territory currently plays a major role in Russia's crop growing sector, with its considerable chernozem soil areas and one tenth of all the arable land in Russia (7 million hectares out of a total of 77 million). Large-scale agricultural production in the Altai steppes was launched in a campaign to develop virgin lands in the 1950s. The Minusinsk Basin in the south of the Krasnoyarsk Territory and Khakassia is another potentially significant region which is already being used for grain production. It likewise boasts chernozem soils and the necessary climatic environment for growing wheat.

Russia has a tremendous reserve for expanding both its arable land area and for raising grain crop productivity

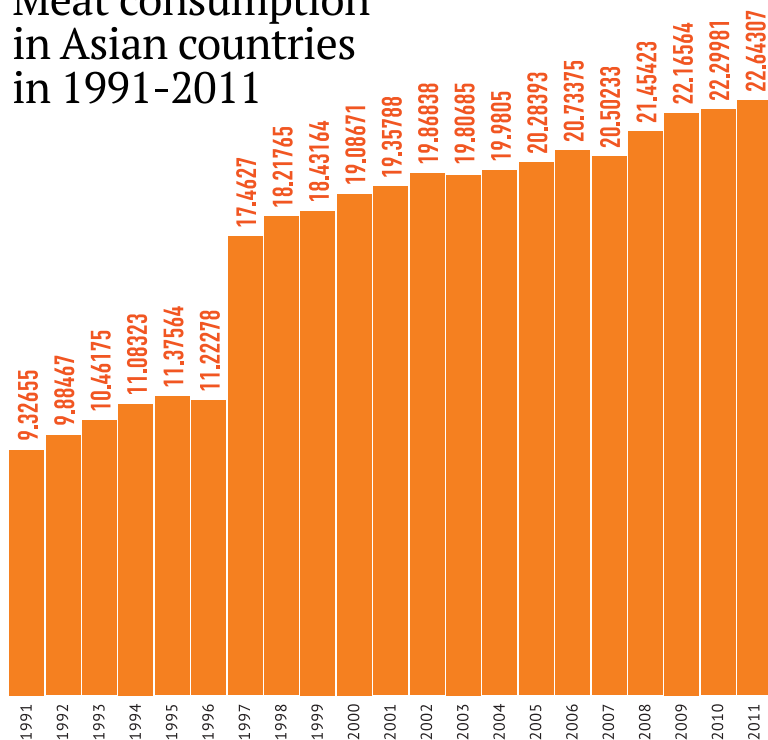
crop productivity (by at least 150%). No other country in the world has such growth capacity. Ongoing climate change in turn is allowing Russia to increase gross harvests through expanding existing production of major crops, putting new land into use and introducing more heat-tolerant and productive crop varieties.

2.3.5. It would be no exaggeration to say that Russia's regions east of the Urals and in the Far East are the last "virgin lands," one of the few regions left in the world fit for arable farming that are still a long way off being fully exploited agriculturally. Developing these virgin spaces should become a key strategic objective.

2.3.7. Four more areas with a potential for further development as far as soil and climatic conditions are concerned can be added to these developed regions. Located East of Lake Baikal and in the Far East they

are: first, the Daurian Steppes in the south of the Chita Region and Buryatia, with fertile southern chernozem and chestnut soils still largely uncultivated. Second, the southern part of the Amur Region – lowlands in the Amur-Zeya interstream area, some of which are already being used for farming. The Amur Region is sometimes called the breadbasket of the Far East. Its favorable soil conditions (brown podzolic soils west of the Zeya River and chernozem-like ones to the east) make a further significant expansion of the arable land possible. The administration of the Amur Region is planning to start this expansion as early as 2012. Third, the Amur lowlands in the Jewish Autonomous Region – efficient farming here requires a large-scale land reclama-

Meat consumption in Asian countries in 1991-2011



Source: UN Food and Agriculture organization

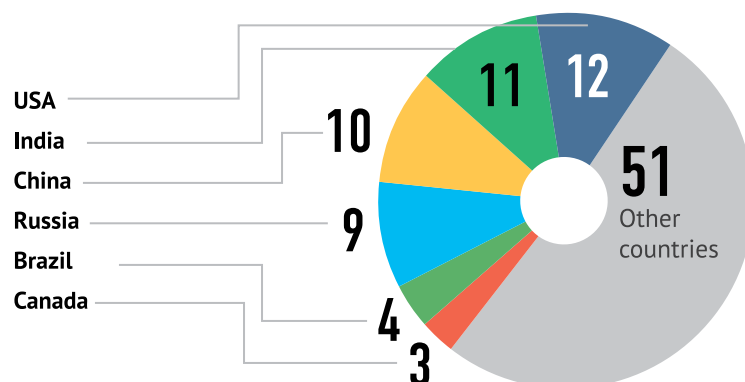
tion program to increase agricultural production. And fourth, Central Yakutia – between the Lena and Vilyui rivers – where soil conditions could potentially promote agricultural production and where one of the driest and best air-ventilated taiga patches is found on pale yellow taiga permafrost soils. Even in Soviet times the region was noted for its large-scale production of vegetables, while global warming may make large-scale grain production here profitable too. Lastly, we can add to these four new virgin areas an old and traditional farming district in the Far East – the Prikhankayskaya Lowland in the southwest of the Primorye Territory, which specializes in soya production. Output here could be stepped up as well.

2.3.8. The opening up of these new virgin lands will make Russia's Far East a commercially viable producer of wheat and fodder for the APR. China and other East and Southeast Asian countries could become its main external consumers. The main agricultural prov-

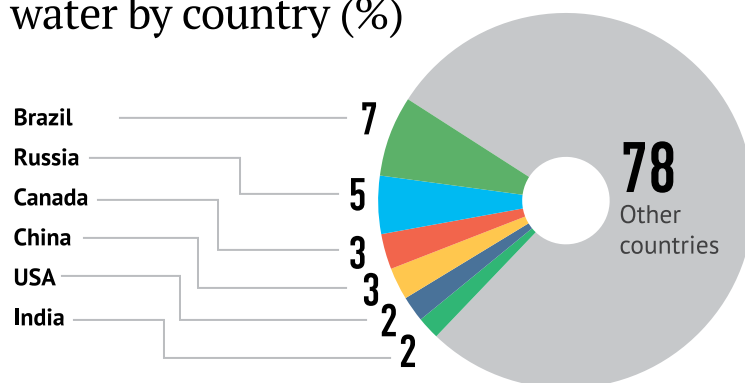
inces in Central China – on the Great Chinese Plain between the Changjiang and Huang He rivers – specialize in rice rather than wheat, owing to their climatic conditions. Grain production here has peaked and is now declining. Wheat is grown mainly in one region – the Sungari Lowlands (the Songliao Plain) in the northeast of the country: the central parts of Heilongjiang, Jilin and Liaoning provinces – along the Sungari and Liaohe rivers. But for China's billion-plus population the capacity of this one region is clearly not enough, and the development of virgin lands east of Lake Baikal and in the Russian Far East could expect to have a stable market in China.

2.3.9. However, for Russia to gain a foothold in the international grain market of the APR, it is not enough to simply expand its arable land and establish poultry meat and pork industries. The transport and port infrastructure has to be built. To date, Russia's grain hopper terminals are located only in ports in the European part of the country (the largest

Distribution of arable land by country (%)



Distribution of fresh water by country (%)



Source: UN Food and Agriculture organization

is in Novorossiysk). This means that Mediterranean and Middle East countries – Egypt, Turkey, Syria and others – are the main consumers of Russian wheat exports. Russia has only a minimal presence on the APR market, with wheat deliveries to East Asian countries completely monopolized by American and Canadian suppliers. In this context, construction of a grain terminal in the Far East acquires nationwide strategic significance. Work on building it has begun in the port of Vostochny in Primorye and is scheduled to be completed in 2014. The government must also review its rail tariff rates for grain transporta-

tion, which make exports unprofitable. Yet back in tsarist times Altai wheat was supplied to Europe.

2.3.10. Increasing exports from Russia to China and other countries of water-intensive farming products – grain, fodder and meat – looks promising in the overall agricultural picture. It will allow China to save its scarce water resources and Russia to fill a niche in a growing market driven by effective demand. This will require not only Chinese, but also Western and other foreign investments to be attracted into this industry.



2.3.11. Enhancing the mutual attractiveness between Russia and China in terms of trade in food products (through exhibitions of agricultural products, joint workshops for agricultural managers, or large-scale advertising campaigns for each other's products) is a promising and necessary step. China, since 2003 a leading global importer of food, offers

it is inevitable that the global food crisis will provoke a second green revolution, this initiative opens up a wide range of possibilities. The United States and Canada, among the most developed nations in the world, are the biggest food suppliers to the global market. But increasing their share of food exports has been exhausted, whereas Russia's capacity is huge.

Increasing exports from Russia to China and other countries of water-intensive farming products – grain, fodder and meat – looks promising in the overall agricultural picture

a significant market for Russian exporters. So far, Russia's contribution to the volume of food purchased by China has been small, although China is interested in increasing it. Japanese producers with their advanced technologies are also interested in Russian fodder and territory to produce meat.

2.3.12. In Russia, there is still a widespread view that farming is a low-grade "dirty" business in which only the least developed countries engage, and only because they have no other choice. Such a perception, however, does not reflect the real role of agriculture in the modern world, especially in developed countries. In the West, farming is considered to be not just a vital part of countries' economies and a respectable middle class occupation, but also the central element of a new technological initiative involving biotechnology. Since

2.3.13. "Green" (agricultural) biotechnology will be one of the mainstays for global food security in the future, and this market is already becoming competitive, although so far without Russia's participation. Meanwhile, Russia has great potential in this respect. Despite the defeat suffered by the genetics in Soviet

times, Russia has enough scientific potential to establish a biotechnological cluster in Eastern Siberia, because it can freely draw on the achievements of the period of Soviet neo-romanticism in the sixties, such as the research institutes founded in large Siberian cities. The impetus for the development of this cluster should come from a comprehensive program to develop Siberian land, one requiring large-scale research in agriculture and selective breeding, as well as certain steps by the government to lift an unwritten taboo on gene modification research and the adoption of its findings in practice.

2.3.14. Modern biotechnology is not restricted to crop growing. It can be used in the pharmaceuticals industry, food and animal feed production, forestry, the manufacture of water, soil and air cleaning equipment, and even



in the energy sector (biofuels). The relevant processes are finding their way into Siberia even without comprehensive government support: Buryatia is already running a nursery to grow genetically modified tree species, while the Novosibirsk Region and the Altai Territory boast large centers for the manufacture of enzymes and bio additives. A large-scale government program for an agriculture, biotechnology and related industries complex

Northeast, which share a common border, could become the main beneficiaries of this collaboration.

2.3.16. In dealing with climate change, Russia's import of Chinese "green energy" technology and the attraction of Chinese investment to upgrade Russia's energy industry and reduce its carbon intensity could play an important role. Projects to import clean electricity from

Russia are now a realistic possibility for China, South Korea and especially Japan, now facing acute power shortages as a result of the Fukushima accident. This applies to hydropower in particular. Southern Siberia's giant hydroelectric power plants are currently generating up to 10 million kW of surplus energy, which could be exported. The

main stumbling block is the lack of well-developed transportation facilities. New-generation power transmission lines are needed, including ones that use cryogenic conductivity technology. Joint construction of these lines, combined with future expansion of capacity of Russian power plants, will allow China to ease the energy problems in its northern areas, and Russia to profit from the export of clean energy, which it has in abundance.

2.3.17. As well as agriculture, the timber processing and pulp and paper industry is another major consumer of water. Russia leads the world both in forest resources (over 23% of the world's total) and in forested areas (25% of the global figure). An important point to note here is that it is currently exporting either raw

In the West, farming is considered to be not just a vital part of countries' economies, but also the central element of a new technological initiative involving biotechnology

combining support for agricultural producers, research institutes and hi-tech companies can help to integrate disparate production units into a single cluster, thereby making them more efficient.

2.3.15. Russian-Chinese scientific and technology cooperation is important for creating such a cluster. In China, the level of development of biotechnology, including in farming, although rising quite rapidly, still falls short of the best global standards. Such cooperation could benefit both countries. The use of a common database for agricultural production and some projects for international agricultural cooperation within the BRICS framework, both recent BRICS innovations, could play a big role. Russia's Far East and China's



timber or low-quality processed products (for example, newsprint). Russia's abundant wood resources should enable its timber processing and pulp and paper industry to substantially expand its output of quality processed products (for example, high-quality paper) to meet the needs of the Asian market. These products ought to replace timber exports, which are inefficient both economically and environmentally.

Southern Siberia's giant hydroelectric power plants are currently generating up to 10 million kW of surplus energy, which could be exported

2.3.18. The forestry and timber processing sector of Siberia and the Far East needs a new investment strategy. The continued practice of semi-legal exports of Russian timber benefits neither Russia nor China because it involves added risks and over-consumption of water for processing timber in China. The only winners here are the shady middlemen. Chinese and other investments into the Russian forestry sector hold out good promise. They can be used for log felling, processing of finished goods and reforestation in exchange for giving China preferential access to products of the Russian timber processing and pulp and paper industry.

2.3.19. It stands to reason that if Siberia and the Far East are to be integrated into the international economy of the Asia-Pacific region,

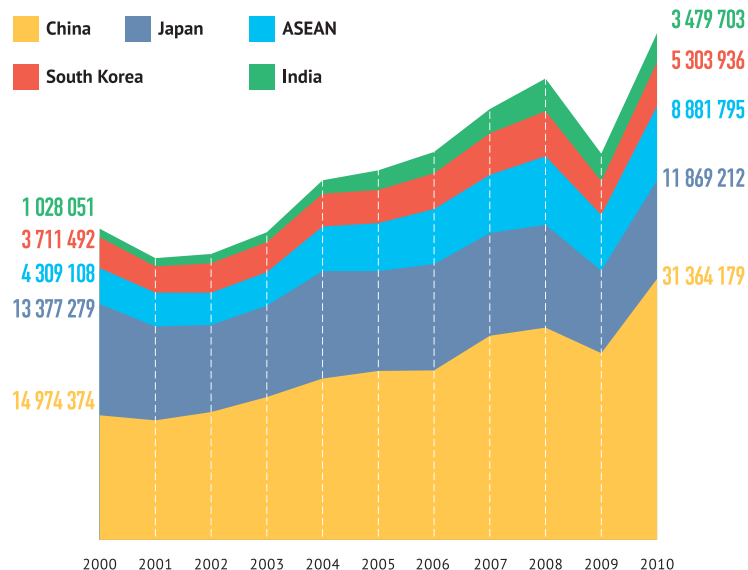
they need above all to optimize their transport infrastructure. So far, the Trans-Siberian Railway has been the only transport corridor linking European Russia and China through two exit points: via Zabaikalsk and Naushki (by transit across Mongolia). There is no direct federal highway going as far as the Chinese border and there are only two motorways (the M52 and M54) that go to Mongolia, with possible extensions onto China. This very weak

transport infrastructure is significantly inhibiting the growth of trade between the two countries. Russia cannot increase its agricultural and industrial exports to China without investing in the construction of railways and roads to connect the two countries.

2.3.20. According to our estimates, Russia has sufficient production capacity, if it upgrades its production facilities, to implement its own large-scale infrastructure projects in Siberia and the Far East and manufacture transport vehicles (for example, refrigerated trucks and specialized freight cars) required to export products to Asia. It is only modern high-precision equipment (for tunneling work, for example) that will need to be purchased abroad.

2.3.21. Given the low population density of some parts of Eastern Siberia and the possible lack of a Russian workforce to work on low-skilled jobs (such as road construction), the workforce could be drawn from abroad – for example, from Central Asia, India and China. Resettlers from Central Russia could also be brought in. But the potential is not that high. There is a

Dynamics of the forest products imports in Asian countries in 2001-2010



Source: FAO Yearbook on Forest products, 2010

The Trans-Siberian Railway has been the only transport corridor linking European Russia and China. There is no direct federal highway going as far as the Chinese border

clear shortage of human capital here. Admittedly, Russia does have a pool of highly-qualified professionals (engineers, geologists, surveyors and managers) in most trades but they would have to come mostly from the European part. Since Russia has little experience in building transport infrastructure under harsh natural conditions, it could recruit highly-skilled specialists with similar expertise from abroad (for example, from Canada or Scandinavia).

2.3.22. A key investment priority should be the establishment of large logistics centers in Russia. The construction of these centers is currently in the planning stage and only

being implemented on Chinese territories. Equally important is the expansion of port centers, especially those in Vladivostok, Khabarovsk, Nakhodka and other Far Eastern cities. In 2010, at a meeting of the Asian section of the Valdai Discussion Club, Russian participants came up with the slogan “Three Bridges

and One Road,” in reference to the construction of three bridges across the Amur River toward Blagoveshchensk, Leninskoye/Birobidzhan and Khabarovsk as well as the highway from China’s Xinjiang to Russia’s Altai. These major transport projects symbolize Russia’s commitment to its policy of opening up the region, as outlined in the joint program. The rate at which these projects are implemented (if at all) will be the yardstick by which to judge the prospects for the necessary integration of Siberia and the Far East into the international economy of the APR as a whole – both in terms of production and transit. Construction of the infrastructure is

equally important for a sharp rise in trade with the Pacific countries.

2.3.23. The construction of the energy infrastructure is of paramount importance. In Siberia and the Far East, only 6.6% of households are connected to mains gas supplies (in rural areas this figure is about 3%), compared with an average of 63.2% for Russia as a whole. The Eastern Gas Program to develop gas fields should be supplemented with the necessary infrastructure to bring the gas to end users. At the same time, the transportation of the electricity generated at the big Siberian hydro-electric power plants has to be improved. Due

Novosibirsk is 70% (higher even than in Moscow), the situation in the smaller towns is not so good. The Internet is needed to promote the growth of business activity in the region, improve education and science and (of crucial importance) keep farmers better informed about the weather and price levels.

2.3.24. The participation of other countries in Project Siberia (the United States, Japan, South Korea, and ASEAN and European countries) should lay to rest fears that expanding Russian-Chinese economic relations would make Russia one-sidedly dependent on China. The principle that “U.S., Chinese, Japanese,

Korean and other investments must go into the production of Russian goods and resources for the Asian market” can contribute substantially to the peaceful development of the APR. Closer relations between Russia and the European Union within a proposed Union of Europe and the

ultimate ending of the European split by, for example, concluding a new Treaty of European Security could also contribute to this process. Once such a union is established, Europe will stretch across Russia to the Pacific. Investment east of the Urals, particularly east of Lake Baikal and in the Far East, should get special protection and special privileges. It may even be possible to revisit the idea of “special economic zones” for the more important types of investment. Otherwise Russian corruption and a poor investment environment could block development. The performance of local authorities and governors should, like in China, be assessed primarily by the volume

The Eastern Gas Program to develop gas fields should be supplemented with the necessary infrastructure to bring the gas to end users

to a lack of infrastructure, the energy-abundant Amur Region currently sells electricity to China at lower prices than to Khabarovsk and Vladivostok. The development of telecommunications is the next priority after transport and energy. As part of the national Education project, all schools and colleges in Siberia are now connected to the Internet. Web cameras installed at polling stations before the presidential election of 2012 increased the coverage area and improved the quality of the Internet – its present penetration in the Siberian Federal District stands at 44%, with 48% in the Far Eastern District. This work should continue. Although Internet penetration in



of capital they bring in. Rather than making direct investments, which are prone to corruption, the government should concentrate on insuring and guaranteeing investments.

2.3.25. Lastly, both from an economic and political point of view, the export and transport infrastructure should be constructed with an eye toward the development of relations not only with China, but with the whole of the Asia Pacific region. Developing West-East, and not just North-South, transport corridors should become one of the project's main objectives. What should be avoided is getting fixated on oil and gas pipelines exclusively for China. These pipelines should go to the

2.3.27. In this context (and given global warming) the modernization of the Northern Sea Route for international commercial use becomes strategically important for Russia. The chief competitive advantage of this route lies in the speed of delivering goods. For example, a dry cargo vessel takes on average 29 days to sail from Yokohama to Rotterdam past the Cape of Good Hope, 22 days through the Suez Canal and only 15 days along the Northern Sea Route. Secondly, Somali pirates in the Gulf of Aden have made the Suez route highly risky and costly in terms of insurance. The safety of navigation in this area is likely to deteriorate as the Middle East is further destabilized by the Arab Spring. The increasing activity of Nigerian pirates in the Gulf of Guinea also increases the risks on the route around Africa. The Northern Sea Route is free from these hazards and offers the safest route from East Asia to Europe.

The principle that “U.S., Chinese, Japanese, Korean and other investments must go into the production of Russian goods and resources for the Asian market” can contribute substantially to the peaceful development of the APR

ports of the Far East and from there on to the markets in the Pacific and Indian oceans. The Soviet mistake of building all its gas pipelines to the West should not be repeated.

2.3.26. Cooperation between Russia and other regional countries in the Arctic, currently the object of a pseudo competition for undiscovered natural resources, can add a new dimension to the rapid and open development of Siberia and the Far East.

2.3.28. However, to make it commercially viable, its infrastructure needs to be drastically overhauled, taking advantage, of course, of the ongoing reduction of ice cover in the Arctic Ocean. The Norilsk Nickel ice-breaker fleet is actively used on the western part of the route up to the Yenisei River, and this part is in good working order. The eastern leg, however, has been completely neglected. Previous discussions of population census results pointed to the likely depopulation of ports along the Northern Sea Route – Tiksi, Pevek and others. Port facilities, too, require major upgrading, if not complete rebuilding.





2.3.29. Another problem facing the Northern Sea Route is the decline in meteorological shipping services. After the Soviet Union collapsed its network of weather stations, which covered the whole of the Russian Arctic, was destroyed, and shipping on many sections of the route, especially in the east, found itself without proper meteorological support. Another problem is that very low pay and harsh living conditions have forced many professionals to give up jobs at Arctic weather stations, with not enough new college gradu-

ates to fill the gap. The result is that local residents without the necessary professional training are being recruited haphazardly to man the stations.

The modernization of the Northern Sea Route for international commercial use becomes strategically important for Russia. To make the Northern Sea Route fully operational, the Arctic border restrictions need to be lifted

2.3.30. Finally, there is also an international dimension to the issue of the Northern Sea Route. Practically the entire Arctic coastline of Russia is a border area closed to outsiders, especially foreigners, which puts severe constraints on commercial activities. To make the Northern Sea Route fully operational, the Arctic border restrictions need to be lifted, which will require a change in mentality and behavior from local administrations which often find

it difficult to work in an open international environment. It is also necessary to lay to rest fears still felt by many and fueled by Cold War attitudes about the “enemy from the North.” This enemy used to be seen everywhere, and for many the guessing game is still on.

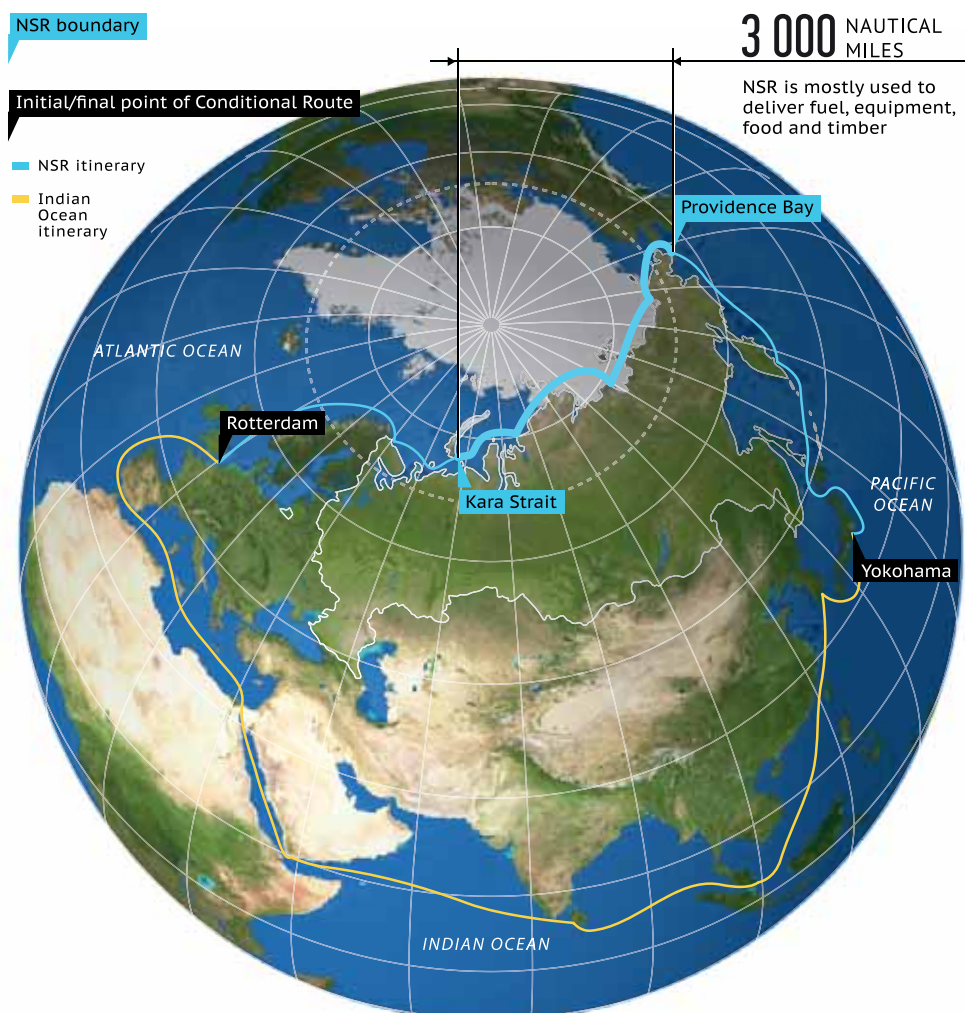
2.3.31. The launch of Project Siberia is crucial for the internal political development of Russia. Talented and highly qualified young people will be able to find decent well-paid jobs without having to move to Moscow or abroad in search of a better life. Siberia will also attract gifted young people from Central Russia, where they currently have few opportunities for upward social mobility and growth. In a few years’ time, some of these young people – backed up by capital and business management experience – could follow in the steps of Prokhorov and Khloponin and return to positions of power in the federal center. In

this way, Project Siberia could become a valuable training ground for workers in the new Russia. Thus, Russia will finally get the full-blown “national undertaking” it so desperately needs.

2.3.32. It is clear that the potential of the new Asia must also be used to promote the innovative development of the Russian economy by setting up research and production complexes with leaders. Particularly interesting in this regard is Singapore, with its outstanding research and production capacity and its Anglo-Saxon system of law, ideally suited to protecting ownership rights, including intellec-

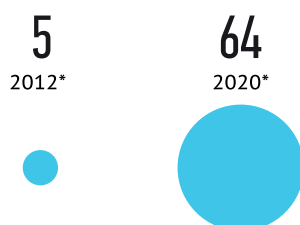
Northern Sea Route

The NSR is the main shipping route in the Arctic that skirts Russia's northern coast and links European and Far Eastern ports



NSR development plans

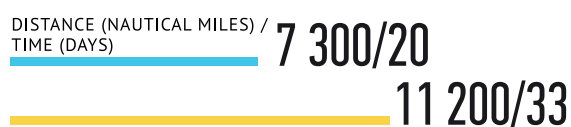
TRAFFIC VOLUME, MILLION TONS



* Preliminary forecast

Main advantages

- 1 Reduced freight costs due to shorter distance and travel time:



- 2 Lack of sea piracy threat

Main disadvantages

- 1 Icebreaker guidance required
- 2 Crews have to be trained for operations in the Arctic
- 3 Short navigation period: 2-4 months per year



tual property rights and patents. It is common knowledge that many Asian countries, China in particular, often simply copy the latest products, and then ditch the investors afterwards.

2.4. Threecapitals: Moscow, St. Petersburg, New Vladivostok

2.4.1. It will not be easy to launch the Siberia Project and reorient Russia toward the east for many reasons, such as the Russian mentality, European consciousness, and Mos-

in the development of the former GDR and its effective integration with western German regions. The most recent example is, of course, Kazakhstan, which relocated its capital from Alma-Ata to Tselinograd (now Astana), a move that proved highly effective, lending forward momentum to the development of the country's steppe regions. Otherwise, Kazakhstan might have proved unable to hold onto its northern regions.

2.4.3. The Siberia Project would also receive priority government support if part of the capital's functions were transferred to one or more cities of Siberia and the Russian Far East. However, moving one government agency (such as the Federation Council) would be a mere formality and would not help to significantly accelerate the region's development, but rather would only increase government spending.

The Siberia Project would receive priority government support if part of the capital's functions were transferred to one or more cities of Siberia and the Russian Far East

cow-centered political system. International experience shows that one of the key ways to accelerate the development of priority regions in a country is to move the country's capital there, or at least to transfer part of the capital's functions. A typical example here is Brazil's experience in the 1950s, when part of Rio de Janeiro's functions was transferred to a newly built capital located deeper inland. Brasilia became a model in urban development textbooks, and helped achieve balance in the country's development.

2.4.2. The transfer of the German capital from Bonn to Berlin was a powerful factor

2.4.4. In this regard, an ideal solution would be to transfer a larger part of government – all the social, economic and financial agencies – to the east while leaving defense and security agencies in Moscow. This would prompt a natural rejuvenation of the government. Not all civil servants would agree to go. While the country's decades-old security system would remain unchanged, the center of economic development would shift to the east. This approach would promote the region's development as a key government priority. In addition, the new Pacific coast capital (or capitals), rather than Moscow, would host all of the Asia-Pacific summits and meetings.



2.4.5. From a geographical perspective, the Pacific coast, especially in the vicinity of Vladivostok, seems an ideal location for a new Russian capital, allowing Russia to take full advantage of its capital being its “ocean showcase.” The large-scale construction currently underway for APEC Summit is a good down payment. Russia could announce plans to build a new capital in the region of Vladivostok at the forum, thus emphasizing its commitment to developing its eastern territories.

From a geographical perspective, the Pacific coast, especially in the vicinity of Vladivostok, seems an ideal location for a new Russian capital

2.4.6. The transfer of the Russian capital to the Pacific coast would also be an important factor in boosting local residents’ regional pride and identity. The Far Eastern residents developed a strong sense of regional identity and involvement during the era of the Russian Empire and later during the short existence of the Far Eastern Republic. That feeling and pride was greatly reinforced in the Soviet era, only to give way to depression, indifference and escapism later due to the general decline and depopulation of the region. Moving the capital to the Primorye Territory would reverse this situation.

2.4.7. It should be emphasized here that moving part of the capital’s functions to the Far East need not lead to the neglect of Euro-

pean Russia’s development. We believe that three capitals would be an ideal arrangement to ensure Russia’s balanced development: a political and military-diplomatic center in Moscow, a cultural and judicial center in St. Petersburg and an economic Pacific capital in the Far East. At this stage, Moscow is simply bleeding the rest of the country of human resources thus weakening the country and inhibiting development. The recent Moscow expansion project, although probably logical in terms of urban development, seems dubious from the political and economic perspective. It would inevitably lead to the even greater centralization of the country and continue to suck up regional resources.

2.4.8. However, transferring part of the capital’s functions to the vicinity of Vladivostok would have a number of limitations, the most serious of them being the conventional 20th-century-style understanding of military-strategic factors. In the event of a military conflict in the region, the seizure of the Khanka Lowlands between Ussuriysk and Spassk and cutting of the Trans-Siberian Railway could quickly isolate Vladivostok and cut it off from the rest of the country. This is reminiscent of Leningrad’s situation in the 1920s–1930s. The border was close to the city, which was one of the reasons for the Soviet-Finish war. But the 20th century is already the distant past, and Russia is a nuclear power; giving more authority to Vladivostok would clearly convey Russia’s unyielding commitment to peace and cooperation with China and its determination to develop and protect its Far East.

2.4.9. Another limitation stems from recent economic development trends in eastern Russia. The growing technology and production clusters in the northern Irkutsk Region and southern Yakutia, expected to propel the development of the Russian Far East in the medium term, as well as the Eastern Gas Program, would demand access to the Pacific north of Vladivostok, somewhere between Nikolayevsk-on-Amur and Soviet Harbor. It would be more convenient economically. Huge investments are already being directed there. A terminal for Sakhalin oil began operating

new capital should be located on the Pacific coast rather than inland. Neither of the cities located along the Trans-Siberian Railway, from Yekaterinburg to Omsk to Novosibirsk to Krasnoyarsk to Irkutsk, is close enough to the coast. In fact, they are almost as far from the Pacific coast as from Moscow. Traditional early 20th century geopolitics are not longer relevant here.

2.4.11. There are other quite exotic proposals for a new Russian capital. One of them is Yakutsk, the country's diamond resource base.

Another is Barnaul, an agrarian and recreational center. Then there is Tobolsk, the first Siberian capital, which still has a historic fortress, or kremlin, if the Russian capital absolutely must have one. But these proposals only add spice to discussion. What Russia vitally needs is a capital closer to the Pacific Ocean.

A country's capital cannot be relocated overnight. Economic preparations are needed, and the public must be prepared, both in Russia and globally

at De Kastri, and the Vanino port is being upgraded along with other local facilities. The upcoming launch of the Sakhalin-3 project, estimated to contain the greatest resources in the region, as well as the plans to support the Sakhalin-Lazarevo bridge project proposed by the country's leadership, will soon make this region an investment center in the Far East. It will be an attractive destination for large Japanese investments. But in this case, the southern Primorye Territory will end up on the sidelines of this economic boom.

2.4.10. In any case, in order to reorient Russia toward the Asia-Pacific Region, Russia's

2.4.12. Naturally, a country's capital cannot be relocated overnight. Brazil's capital was also moved step-by-step. Economic preparations are needed, and the public must be prepared, both in Russia and globally. Therefore, APEC Summit in Vladivostok in September 2012 seems a perfect opportunity to announce the concept. After that, a step-by-step relocation plan may be implemented.

2.4.13. Finally, history remembers those who succeed in relocating their nation's capital as great leaders. The best-known example is Russia's Peter the Great, who built St. Petersburg. Brazilian President Juscelino Kubitschek,





who ordered the construction of Brasilia, is also remembered in Latin America as one of the greatest politicians of the region. Finally, Helmut Kohl is remembered not only for reuniting Germany but also for building a new Berlin. Modern Russian history has an empty place for a new Peter the Great to build a new capital on the Pacific coast.

2.4.14. In fact, the project has already gotten off the ground during the years that we have been working on this issue. Certain organizational changes were made in the past year, such as the establishment of the Ministry for the Development of the Russian Far East. Arguments were also made against this plan. We are not going to argue our point here, but will reiterate several fundamental principles which we deem essential for Russia's policy with regard to the East:

- **Russia needs to open up to the “emerging Asia” via the Trans-Urals regions;**

those regions need to be entirely open for economic cooperation with their Asian neighbors;

- **Russian needs to use its competitive advantages stemming from Asia's growth rather than to be guided by obsolete theories such as “new industrialization”;**
- **Russia needs to attract as much foreign investment as possible for the development of the Trans-Urals regions, not only from China but also from the United States, Japan, South Korea, the ASEAN countries, and the EU, while protecting Russian sovereignty over these regions;**
- **Russia needs to introduce incentives for gifted and enterprising individuals, especially young ones, from the Trans-Urals regions as well as from around Russia, to make this region a center for development and creativity for the entire nation.**