



## PIVOT TO ASIA

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## Russia's Eastward Drive—Pivoting to Asia ...Or to China?

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### Abstract

Facing trouble on its western borders, Russia is pinning its hopes on the East. Moscow has initiated its own “Asian pivot,” making efforts to cultivate partners in Asia. The significantly strengthened Russo–Chinese entente has been the main result of the Kremlin’s tilt eastward. Russia has also expanded relations with North Korea, Mongolia, Vietnam, and Pakistan. The main question is whether Russia’s growing economic dependence on China will eventually translate into a junior status in the politico-strategic realm.

Facing trouble on its western borders, Russia is pinning its hopes on the East. Moscow has initiated its own “Asian pivot,” making efforts to cultivate political allies and economic partners in Asia. In fact, this eastward drive has already been in the making for quite a while. In the late 2000s, Moscow undertook a number of measures to boost the development of the long neglected Russian Far East and expand economic cooperation with East Asia. The main objective was to take full advantage of the rise of Asian economies and diversify away from economically stagnant Europe. However, at the time, Moscow’s pursuit of closer ties with Asia seemed somewhat half-hearted: Russia’s political class and business elite still saw the EU/Europe as their principal partner. The Kremlin even entertained the notion of a single European space—“Greater Europe from Lisbon to Vladivostok”—of which Moscow was to be one of two equal co-founders and stakeholders, on par with the EU. Russia’s biggest energy corporation, Gazprom, was focused on Europe as its main market and used its slow-moving gas negotiations with China primarily as leverage to extract better terms from its Western consumers.

### Russia and China: a Eurasian Entente

It was not until the arrival of the Ukraine crisis and the subsequent Western sanctions that relations with Asia began to be viewed as truly critical by the Russian leadership. China, Russia’s “strategic partner” since the mid-1990s, was the most obvious option to turn to. Beijing refused to join the Washington-led campaign of ostracizing Moscow and displayed benevolent neutrality regarding Russian moves in Crimea and Ukraine. Vladimir Putin’s visits to Shanghai in May 2014 and Beijing in November 2014, Xi Jinping’s trip to Moscow in May 2015, as well as other multiple Russia–China high-level meetings in recent months, underscore the growing closeness between the two great powers. In October 2014, during a meeting with Chinese Premier Li Keqiang, Putin declared that Russia and China were “natural partners and natural allies,”

using for the first time the word “ally” with respect to Beijing.<sup>1</sup>

Since the beginning of the Ukraine crisis, Russia and China have concluded a host of agreements, substantially expanding and deepening bilateral cooperation in energy, finance, high-tech and other sectors. The biggest among them was a 30-year \$400 billion contract to supply natural gas from eastern Russia to northeastern China, signed in May 2014, followed in November by a framework agreement that would allow China to receive gas from Western Siberia. At the same time, China’s imports of Russian oil skyrocketed by nearly 40 percent in 2014,<sup>2</sup> displacing other suppliers’ share of the Chinese import market, such as Saudi Arabia.<sup>3</sup> Russia now views China not just as a bargaining chip in its energy dealings with Europe, but as the top priority market.

The central banks of the two countries signed a currency swap agreement worth 150 billion yuan (around 25 billion dollars), enabling Russia to draw on renminbi in case of need, while Beijing’s officials announced China was willing to help the Russian economy.<sup>4</sup> As leading Western agencies, such as Moody’s, S&P and Fitch, downgraded Russia’s ratings to junk or near-junk level, Chinese credit rating agency Dagong Global gave Russia’s Gazprom the highest AAA rating, which would enable the Russian energy giant to place shares in Hong Kong.<sup>5</sup> While Western financial institutions have drastically cut their lending to Russian businesses, Chinese banks are expanding their presence in Russia, with many

1 “Putin confirms plans to meet Chinese president during APEC summit in Beijing.” October 14, 2014.

2 Press statements following Russian–Chinese talks. May 8, 2015.

3 “Russia, OPEC Jostle to Meet China Oil Demand.” The Wall Street Journal, January 23, 2015.

4 “Russia may seek China help to deal with crisis.” The South China Morning Post. Dec. 18, 2014; “Beijing ready to help Russia’s rattled economy, Chinese foreign minister says.” The South China Morning Post. December 22, 2014.

5 Jerin Mathew. “China’s Dagong undermines Western sanctions on Russia, rates Gazprom’s debt at top AAA.” February 2, 2015.

of the loans denominated in the yuan.<sup>6</sup> Another sign of growing collaboration in finance is that Russia and China are increasing the share of their bilateral trade conducted in their national currencies (mostly the yuan), rather than the US dollar. This share has grown to seven percent,<sup>7</sup> compared to almost zero only a few years ago.

Russia has traditionally been wary of Chinese presence in its Far East, which shares a 4,000-kilometer border with China. However, Moscow has now lifted tacit restrictions on Chinese investments and begun to actively court Chinese capital. In a landmark move, last year the Russian government agreed to sell Chinese companies stakes in the country's most lucrative oil field<sup>8</sup> and the world's third biggest copper field, both located in Eastern Siberia.<sup>9</sup> Russia and China have begun construction of a railway bridge—the first ever permanent link between the two countries across the Amur River—which will connect the Russian Far East's hinterland to China's Heilongjiang province. Russian and Chinese companies will also jointly develop the port of Zarubino, strategically located at the junction of the Russian, Chinese and North Korean borders. The port will provide China's land-locked provinces of Jilin and Heilongjiang with direct access to the Sea of Japan.

There are areas where Russia and China have competing interests, particularly Central Asia, where Chinese growing economic presence has long worried Russia. However, Moscow and Beijing are actively searching for mutual accommodation there. They have agreed to coordinate their flagship economic initiatives in Central Asia—the Russian-led Eurasian Economic Union (EEU) and China's Silk Road Economic Belt (SREB). In their joint declaration, the parties expressed willingness “to make coordinated efforts toward the integration of constructing EEU and SREB,” with the Shanghai Cooperation Organization (SCO) serving as the main platform for linking up the two Eurasian initiatives. The document also mentions “a long-term goal of progressing toward a free trade zone between EEU and China.”<sup>10</sup>

On the political-military front, Russia and China have been increasing the frequency and scale of their

joint drills. In May 2015, in a move fraught with symbolism, they conducted their first naval exercise in the Mediterranean, NATO's maritime backyard. Perhaps even more importantly, Russia, in a departure from its previous policies, appears ready to sell China its most advanced weapons platforms, such as S-400 surface-to-air missile systems and Su-35 fighter jets.

The entente of Moscow and Beijing is also manifesting itself in their narratives on the Second World War. The victory in WWII has always been seen in Russia as achieved primarily through the efforts and sacrifice of the Soviet Union, with the help of the American–British allies. Russia's official discourse is now palpably changing, with China replacing the Western allies as the second most important contributor to the outcome of the war: the Soviet Union made the decisive contribution to the defeat of the Nazi Germany in Europe, while China overcame Imperial Japan in Asia. Xi Jinping's participation in the 2015 Victory Day celebrations in Moscow, and Vladimir Putin's upcoming visit to Beijing in early September 2015 for the commemoration of the end of the war in Asia, are consolidating this new interpretation of history.

### Coolness with Japan and South Korea, Warmer Ties with North Korea and Mongolia

Aside from its seeming enthusiasm for growing intimacy with Beijing, Moscow is also seeking to expand its Asian partnerships beyond China. In terms of strategic diversification, Japan could be an ideal choice. Before the advent of the Ukraine crisis, Japanese Prime Minister Shinzo Abe was eager to improve relations with his northern neighbor. He and Putin met seven times over the period of 2013 and early 2014. Yet its alliance with Washington and membership in the G-7 place severe limitations on how far Tokyo can advance in its rapprochement with Russia. Japan has had to introduce anti-Russia sanctions and, under American pressure, has indefinitely postponed Putin's visit to Tokyo originally scheduled for the fall of 2014. If Russia's relations with the West remain at a low point, Abe will hardly risk hosting Putin in Tokyo in 2015.

Even though Japan's sanctions against Russia were the mildest among the G-7 countries, they drew Moscow's ire. When the sanctions were introduced by Tokyo in August 2014, Russia held military maneuvers on the disputed South Kuril Islands. Then, in June 2015, when Abe visited Kiev in a show of solidarity with Ukraine's government, Russia's defense minister ordered the accelerated build-up of military infrastructure on the Kurils.<sup>11</sup>

6 “K zaemnoi vygode stroron”. *Kommersant*. June 4, 2015; Alexander Gabuev. Smiles and waves: what Xi Jinping took away from Moscow. May 29, 2015.

7 Press statements following Russian–Chinese talks. May 8, 2015.

8 Alexei Lossan. “Rosneft to sell 10 percent stake in largest oil field to Chinese company”. *Russia Beyond the Headlines*. September 8, 2014.

9 “Russia, China to jointly develop Udokan copper field in Transbaikalia”. *ITAR-TASS*. May 20, 2014.

10 Common declaration by the Russian Federation and the People's Republic of China on the coordination of the construction of the Eurasian Economic Union and the Silk Road Economic Belt. May 8, 2015.

11 “Russia orders quicker build-up of military facilities in Kurile Islands”. *Reuters*. June 8, 2015.

Unlike Japan, South Korea has refused to formally sanction Russia over Ukraine. However, being an America's ally, Seoul cannot but take into account the state of US–Russian relations. Similar to Japan's Prime Minister, RoK's President Park Geun-hye declined Putin's invitation to attend the Victory Day celebrations in Moscow in May 2015. Weighing-up the current political risks, many Korean firms have suspended their investment plans in Russia. Moscow, for its part, expressed strong disapproval of Seoul's impending decision to host America's THAAD missile defense system.<sup>12</sup>

By contrast, the other Korean state, the DPRK, has seen a remarkable improvement in its relations with Russia. There has been a flurry of high-level exchanges between Moscow and Pyongyang. The two sides have announced a number of economic deals, the biggest among them being a multi-billion project that calls for Russia to invest in the upgrade of North Korea's railways in exchange for access to the North Korea's mineral resources.<sup>13</sup> Moreover, 2015 was designated the Year of Friendship between the two countries. As both are currently ostracized by the West, Russia and the DPRK evidently feel more empathy with each other. And, Moscow probably wants to use its increased support for North Korea as additional leverage in the dealings with the West, Seoul and Tokyo.

Mongolia is another country in Northeast Asia with which Russia has strengthened ties over the period of 2014 and 2015. The two countries have introduced visa-free travel for their citizens and signed a number of economic agreements. Similar to Central Asia, Mongolia has traditionally been seen as an arena for competition between Russia and China. This may be changing. As is the case with Central Asia, where Moscow and Beijing have agreed to collaborate on their Eurasian initiatives, Mongolia is being incorporated into the Sino–Russian entente. This was evidenced by the near-simultaneous visits by Xi and Putin to Ulan Bator (the Chinese leader came on August 21–22, 2014; Putin visited on September 5), followed by the first trilateral summit among China, Mongolia and Russia held in Dushanbe on September 11, 2014 on the sidelines of the SCO meeting. The three presidents spoke of “China–Mongolia–Russia economic corridor” and agreed to expand trilateral cooperation.<sup>14</sup>

12 [US THAAD Installation in South Korea Poses Security Threat to Russia?](#) April 3, 2015.

13 [Russian investment into DPRK railway.](#) October 26, 2014.

14 Alicia Campi. “Transforming Mongolia–Russia–China Relations: The Dushanbe Trilateral Summit.” *The Asia-Pacific Journal*, Vol. 12, Issue 45, No. 1, November 10, 2014.

## Keeping Silent on the South China Sea

In Southeast Asia, Vietnam remains Russia's main friend. In May 2015, a free trade agreement was signed between the Russian-led Eurasian Economic Union and Vietnam. It is the first FTA Russia has concluded in the Asia-Pacific. With a modest volume of bilateral trade and with many tariff lines exempted from liberalization, the FTA is mostly of symbolic and political value. However, there are hopes in Moscow that a free trade regime with Vietnam could facilitate Russia's entry into the wider ASEAN market. Moscow is also looking to Singapore, with which it has recently established an active working dialogue at the governmental level. The Kremlin sees the prosperous city-state not only as a potential investor and gateway into the Asia-Pacific for Russian businesses, but also as a mentor on many modernization issues. In April 2015, Prime Minister Dmitry Medvedev made a high-profile visit to Thailand. The military junta's strained relations with the West no doubt contributed to Bangkok's embrace of Moscow.<sup>15</sup>

While pursuing more economic contacts with Southeast Asia, Moscow has been conspicuously silent on the region's hottest geopolitical issue—the intensifying disputes in the South China Sea (SCS). Russia's head representative at the *Shangri La Dialogue* on regional security, Deputy Defense Minister Anatoly Antonov, did not even mention the SCS controversy.<sup>16</sup> Moscow's lack of comment on China's increasing assertiveness in the SCS may, to some extent, be the quid pro quo for Beijing's stance on Crimea and eastern Ukraine.

## Winning a New Friend (Pakistan), While Keeping an Old One (India)

In South Asia, Russia has scored a major diplomatic success, securing simultaneous admission of India and Pakistan into the Shanghai Cooperation Organization, even though China was at first less enthusiastic about it. The formal decision is very likely to be made at the SCO summit in the Russian city of Ufa in July 2015. Moscow has managed to substantially improve its traditionally problematic relations with Islamabad.<sup>17</sup> At the same time, Moscow remains a friend of Delhi, although the decline in Russia's arms sales to India may be somewhat eroding the bilateral strategic relationship.<sup>18</sup>

15 Saksith Saiyasombut. [Russian premier visits Thailand: More rubles rolling into Prayuth's regime?](#) April 10, 2015.

16 [Main points of speech by Deputy Minister of Defense of the Russian Federation Dr. Anatoly Antonov at the 14th Asia Security Summit “The Shangri-La Dialogue.”](#) Singapore, May 30, 2015.

17 [“Pakistan Army Chief Visits Russia to Forge New Ties”.](#) Voice of America, June 17, 2015.

18 Jayant Singh. [Russia and India: A 21st Century Decline.](#) June 6, 2015.

## Making Vladivostok Russia's Hong Kong

Moscow is well aware that Russia will not be a major power in Asia while its own Asia-Pacific territories remain woefully underdeveloped. In 2013, Vladimir Putin declared the development of the Russian Far East “a top national priority.” One of Putin’s close aides, Yuri Trutnev, was placed in charge of this mammoth task and given the rank of a deputy prime minister. Liberalized tax and regulatory regimes, meant to lure Russian and foreign investors, are now being implemented in the Russian Far East. The region’s main city, Vladivostok, is to become a “free port.” As part of these efforts, the Russian government has established the annual *Eastern Economic Forum*, which will be launched in Vladivostok in early September 2015 and likely be attended by Putin himself.

## Conclusion

Moscow’s ongoing Asian pivot has so far produced mixed results. On the plus side, most Asian countries did not join the Western campaign of punishing Russia over Ukraine and Crimea. Only Japan and Australia introduced sanctions against Moscow, while New Zealand, although not formally signing up to the sanctions, responded by freezing the bilateral FTA talks with Russia. In 2014 and the first half of 2015, Russia has strengthened and improved relations with a number of Asian countries. Of course, the most crucial is the cementing of Russia’s quasi-alliance with China. Russia has also boosted ties with North Korea, Mongolia, Vietnam and Pakistan.

However, Moscow’s diplomatic activism towards Asia is not quite being matched by economic deliverables. Asian investors are not flocking to Russia, with the exception of a few large deals involving Chinese cor-

porations. Even with China, economic cooperation has faced serious obstacles. So far, most of the major projects between Russia and China have involved state-controlled companies, while private Chinese enterprises have been significantly less active in doing business with Russia.<sup>19</sup> Russian financiers complain that, in the wake of Western sanctions, most Chinese banks have been reluctant to execute inter-bank transactions with their Russian peers.<sup>20</sup>

Russia’s economic dependence on China is clearly rising. This was more than likely in any case, but the Ukraine crisis has accelerated this trend. Japan and South Korea, Asia’s two other major economies, could theoretically help Russia diversify away from China, but their allegiance to Washington will force them to be circumspect about collaboration with a rebellious Russia. Therefore, for the foreseeable future, Russia’s trade and investment reliance on China is set to grow substantially. The question is whether this economic dependence on China will lead to Moscow becoming Beijing’s junior partner—a risk pointed out by some observers.<sup>21</sup> However, the prospect of Russia of becoming China’s geopolitical satellite is very unlikely. Moscow’s great-power instincts are simply too strong for that to happen. Russia has never been the West’s junior partner, despite its perennially inferior economic status in the relationship. So why should it become China’s?

In the political domain, Russia–China relations will most likely be based on equal reciprocity. In particular, Moscow can lend Beijing support (or at least stay neutral) on matters in Asia, which are China’s “core interests,” such as the South China Sea. But, the Kremlin will do so only in exchange for Beijing’s backing of its own vital interests—in Ukraine and elsewhere in Russia’s neighborhood.

## About the Author

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19 Tatyana Yedovina. Na te zhe barery. June 17, 2015, <<http://kommersant.ru/doc/2748301>>

20 Yuri Soloviev. Unlocking the potential of Russia–Asia cooperation. FinanceAsia, June 16, 2015, <<http://www.financeasia.com/News/398460,unlocking-the-potential-of-russia-asia-cooperation.aspx>>

21 For example, Alexander Gabuev sees the Chinese leadership as “gradually turning Russia into China’s junior partner, while keeping up the appearances of equality.” (Alexander Gabuev. Smiles and waves: what Xi Jinping took away from Moscow. May 29, 2015, <<http://carnegie.ru/eurasiaoutlook/?fa=60248>>)



## The Intersection of Russia's "Turn to the East" and China's "March to the West"

By Gilbert Rozman, Washington, DC

### Abstract

The Silk Road Economic Belt and Eurasian Economic Union are proposals that focus on Central Asia. Instead of exposing the frailty of Sino–Russian cooperation, they have become linked in claims to be strengthening ties and the Shanghai Cooperation Organization. National interests do not coincide, but national identities are overlapping more, as they target the West.

Central Asia is where Xi Jinping's "Silk Road Economic Belt" (SREB) starts winding its way from the western reaches of China across Asia and into Europe. It is also where the Eurasian Economic Union (EEU) of Vladimir Putin becomes Asian, rather than the Europe-centered union of the Russian Federation and Belarus. While China and Russia have overlapping interests in Northeast Asia—both opposed to a "color revolution" in North Korea and the extension of the U.S. alliance system much closer to their border—and Xi's "Maritime Silk Road"—crossing the Indian Ocean—poses quite distant risks for Russia's interests in Southeast Asia, South Asia, and Southwest Asia, it is in Central Asia where their two, major frameworks for reorganizing Asia have the greatest potential for colliding. The recent rhetoric from both sides of harmonious complementarity must be subjected to close scrutiny.<sup>1</sup> In this analysis, I look at the impact of: 1) Russian behavior in Ukraine; 2) prospects for the SCO; and 3) the new balance of dependency between Moscow and Beijing that is likely to be established.

For more than a decade, the SCO had awkwardly struck a balance between China's aspirations for economic regionalism leading to an FTA and Russia's hopes for the revival of a political, military, and economic union excluding China from a leading role in Central Asia. Beneath the facade of a model association under co-leadership of two close partners, Beijing and Moscow jockeyed for a more dominant position in the region.<sup>2</sup> While China's economic superiority gradually served to tip the balance, institutional arrangements did not reflect this new reality. As Xi and Putin assumed the top posts in their country in 2012—both with strong determination to pursue more assertive, regional policies—, there was speculation about whether their plans would come into conflict with each other. Putin quickly

announced his proposal for the EEU, with the possibility that it would displace the SCO in Central Asia and be targeted at blocking China's aspirations there. His unbridled confidence threw down the gauntlet, as he stressed multipolarity (not bipolarity backing China's rise), a breakthrough with Japan (just as Sino–Japanese relations grew tenser), a newly assertive partnership with North Korea (when China's ties had deteriorated), and other moves that could prove challenging to China. In September 2013, Xi responded with his SREB speech at Nazarbayev University, representing a counter offer in the very backyard of Russia. For a time, it was unclear how the two agendas might mesh.

It was not long before Putin realized that he could do little more than acquiesce to what Xi presented as largely an infrastructure plan not aimed against Russia. In the following months, Putin became preoccupied with Ukraine and the perceived threat from the West. Instead of falling into difficulty over their conflicting strategies for regionalism rooted in Central Asia, China and Russia claimed to be joining forces. It would be a mistake, however, to conclude that Ukraine forced Putin's hand. He was drawing closer to China before the crisis began and viewing the West as the enemy to the degree that China may well have calculated that Russia would be unable to resist.<sup>3</sup>

### The Ukraine Crisis and Central Asia

The Ukraine crisis from March 2014 did not transform Sino–Russian relations or Russia's "turn to the East," but it did tilt the balance further in China's direction. As the crisis unfolded, China's response on Ukraine was ambivalent, but sufficiently supportive for Russia to claim its backing. At the same time in bilateral relations, it seized the opportunity to press for Russian support for the SREB, a favorable deal on a gas pipeline from Russia on which talks had long been stalled, and a stronger SCO. Observers focused on an isolated Rus-

1 For interpretive coverage of Russian and Chinese writings on the themes covered in this article, see "Country Report: Russia" and "Country Report: China," bimonthly in *The Asian Forum*.

2 Richard Weitz, "The Shanghai Cooperation Organization: A Fading Star?" *The Asian Forum*, Vol. 2, No. 4 (2014).

3 Gilbert Rozman, "The Russian Pivot to Asia," *The Asian Forum*, Vol. 2, No. 6 (2014).

sia winning much needed support from an ascendant China, giving some substance to the prospect of turning away from Europe, but they gave less notice to China, as it was declaring plans for “Asia for the Asians,” widening the space open to it for its “march to the West.” The timing of the Ukraine crisis proved ideal for turning potential tension into growing cooperation.

Russia’s aggression in Ukraine under pretexts, such as acting in accord with the will of the ethnic Russians in an area and reviving historical ties to Moscow, gave Central Asians, Kazakhstan above all, more reason to welcome China as a restraining force on similar behavior in their neighborhood. Russia’s worsening economic situation—due to failure to reform, economic sanctions, and later falling energy prices—made it harder to compete with China. Kazakhstan’s deteriorating economy also made it more dependent on China. Not only was Russia left with nowhere to turn besides China—economically and politically—, it had driven states on the fence between it and China closer to China. The SREB and the Silk Road Infrastructure Fund coupled with the Asian Infrastructure Investment Bank (AIIB) promised vast sums of money from China, while Russia’s political posture and economic promise were degraded.

Most importantly, the Ukraine crisis shifts the balance in Russian national identity in China’s direction and away from the West.<sup>4</sup> The ambivalence of Eurasianism, putting Russia between West and East, is giving way to a more anti-West identity, which is ideal for China. Differences over ideology center on the West’s “Cold War” mentality. Differences over history focus not on China’s victimization at the hands of Tsarist Russia, but on Russia’s victimization by the West, leading to the expansion of NATO. The civilizational divide that matters is with the West, parallel to China’s grievances.

### Prospects for the SCO

The emergence of the SREB and the EEU exposed the reality that the SCO served as a holding operation, as each side sought to block the other’s aspirations and extend its own leadership in Central Asia. Generally, it was Russia that vetoed China’s appeals to establish an FTA or to strengthen security cooperation. With the end of the heavy military presence of the United States and NATO in Afghanistan, the U.S. presence in Central Asia is also receding, refocusing Moscow and Beijing on their own role there and in stabilizing Central Asia from the spillover of an expanded conflict. More-

over, their decision to cooperate on linkages between the SREB and EEU, requiring inputs from the Central Asian states, raises the profile of the SCO as the integrating force.

The SCO may expand to include India and Pakistan as full members, which would tie Central Asia and South Asia together politically in ways that test the cooperation between Moscow and Beijing. The outcome of the P5 +1 nuclear talks with Iran has the potential to bring Iran into the SCO as a full member and to demonstrate that Moscow and Beijing are interested in its inclusion in a new continental architecture. Their common aim is to give weight to Eurasianism, countering the US-led, maritime alliance and partnership system that can best be labeled Indo-Pacific regionalism.

China’s infrastructure ambitions also have promise for transforming the SCO. They will connect Xinjiang province more closely to Central Asian states, turning them into transit corridors between Asia and Europe. Russia’s limited ability to forge its EEU would be exposed, leaving it as little besides a sub-unit within China-centered regionalism. Low energy and raw material prices are giving China a big advantage.

### The New Balance of Dependency between China and Russia

Russia is enamored of such concepts as the strategic triangle, multipolarity, energy superpower, and the Eurasian civilizational pole. All serve to give it a false sense of hope in relations not only with the United States, but also with China. In a triangle with Washington and Beijing, Moscow is squandering what leverage it had, failing, as it did in the 1970s–80s, to maneuver to gain more leverage. In Central Asia, it has stressed the threat from Washington rather than the one from Beijing, indicative of the failed strategy to maneuver between the two powers it takes most seriously. Claims of multipolarity have centered on Asia and have rested on expectations for relations with India, Vietnam, Japan, and South Korea, most of all. Yet, all four relationships are fraying. Russia has tilted sharply to China at a time when India is tilting to the United States and its allies. Russia has sold weapons to Vietnam, but it increasingly stands with China when Vietnam is turning to the United States and its allies for support in the South China Sea dispute. Efforts to keep the momentum of Putin-Abe ties alive finally have reached a point where Russia is massively fortifying disputed islands in a manner threatening to Japan. Finally, Russia’s tilt toward North Korea similarly is meant to warn a US ally of the price to be paid for not continuing to woo Russia. In Central Asia too, multipolarity has lost meaning as only China serves as a partner.

<sup>4</sup> Gilbert Rozman, *The Sino–Russian Challenge to the World Order: National Identities, Bilateral Relations, and East vs. West in the 2010s* (Woodrow Wilson Center Press and Stanford University Press, 2014).

In the new energy environment of 2015, Russia's claim to be a superpower falls flat. Indeed, in energy-rich Central Asia, it is China's role as an energy consumer power that matters much more. Russia's assets count for much less in Central Asia, but the presence of a large Russian minority—especially in Kazakhstan—and the concern in the region over excessive dependency on China remain Russia's principal assets. It also seeks to play the civilizational card, insisting that Central Asian nations share a Eurasian identity and are distinct from China's civilization. This message is diluted, however, by the disrepute of Putin's civilizational claims and the caution against any open criticism of Chinese civilization or attention to gaps with Russian civilization.

Dependency is a function of how both national interests and national identities are interpreted. In Central Asia Russia's national interests are being quietly defended, as if they are far less important than purported national interests in Europe. The threat to Russian interests in Europe is greatly exaggerated and that to its interests in Asia is unduly minimized. The dearth of analysis of relative threats—short-term or long-term—is a striking feature of Russian publications. As I summarize and interpret the writings on East Asia every other month, I am struck by their one-sidedness. Yet, the greater problem, in my view, is the reconstruction of Russian national identity in a manner that greatly widens the gap with the West and conspicuously narrows the gap with China. The accusations against China's past behavior in Central Asia raised during the period of the Sino–Soviet split are nowhere to be found. Issues related to China's sinocentric ideology, an authoritarian

system now growing more hostile to civil society, and deviations from a free market economy are rarely raised in a state that is russocentric and guilty of similar transgressions. There are no signs that Russia is debating the linkage of the SERB and the EEU in a way favorable to its strategic choices.

### Conclusion

Central Asia is, arguably, where Chinese and Russian national interests are most at odds with each other. For a quarter century, they have viewed each other warily, but insisted that they were cooperating closely and that the SCO is a model of harmony. Now they are both asserting regional initiatives to strengthen their position in this region, but at the same time claiming to be joining forces more than ever before. It is doubtful that this combination can be sustained unless both sides remain fixated on their struggles with the United States and its allies. Yet, that is precisely what keeps drawing them closer, and there is no reason to expect any change in the short term. Over a longer period, however, much depends on how China wields its clout. The recent record in Southeast Asia and its relations with Japan and India casts doubt that restraint comes easily. In turn, Russia's reliance on China is so inconsistent with its national interests that the potential for a change of course is always present. Deducing from these acknowledgements that the SERB and the EEU are on a collision course would be a mistake. Looking at the evidence from both narratives and policies is the basis for a different conclusion: Sino–Russian cooperation in Central Asia is the main trend.

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## Russia and Southeast Asia: Reciprocity in Engagements and Transnational Crime

By Alica Kizekova, Prague

### Abstract

Russia continues to balance its interests between Europe and Asia in a quest to connect these two regions through different projects. With deteriorating ties to the West, the Kremlin has opened its market to new partnerships with Southeast Asia (Thailand, Vietnam), and thus the discussion is no longer only about Russia's actions in Southeast Asia, rather it is also about Russia becoming a place of action. The question is whether these joint economic and financial projects will sustain in light of limited funding. Progress has been made in tackling common issues of transnational crime, with increased collaboration between Russia and the Association of Southeast Asian Nations (ASEAN). However, such issues remain and might even become worse due to the continuing crisis in Eastern Europe and the opening-up of borders within the ASEAN Community in 2015.

### Russia in Southeast Asia

There is no doubt that Russia has been more proactively engaged in Southeast Asia in the past few years. Some attribute this development to Russia's search for "alternatives", in response to worsening ties with Western countries in the aftermath of Russia's interventions in Georgia and Crimea, as well as the ongoing crisis in Ukraine. Russia's orientation to the East, however, is not a complete novelty. High-level political engagements grew throughout the 1990s, especially during the era of Yevgeny Primakov, which saw Russia increase its contacts with the region and institutionalize these relationships by joining various multilateral organizations.

Post-Cold War Russia has been perceived as less threatening and more active in building ties by Southeast Asian analysts and elites, but they emphasize that Russia is a European power and thus that its main interests lie elsewhere. Some go as far as labeling Russia a "lost player", lacking a concrete comprehensive strategy for Southeast Asia. In his keynote address at the IISS Shangri-La Dialogue 2015, Prime Minister of Singapore, Lee Hsien Loong made a reference to Russia's participation in the region, but he stressed that Moscow was primarily focused on Europe, Central Asia and Eurasia. In spite of such perceptions, the Russian leadership continues to claim it has a proper place in Asia.

President Vladimir Putin, known for embracing a pragmatic policy of "Asianization", used his speech at the annual gathering of the Valdai Club in Sochi in October 2014, to state that it would be shortsighted for Russia to overlook the increasing role of Asia in both international politics and economics, at a time when everyone is using their competitive advantages to fulfill their national interests in the region. The current Russian Ambassador to Thailand, Kirill Barsky regularly publishes articles in the Bangkok Post to reassure

its readers that Russia is "deeply rooted in Asia" and wants to improve the connectivity between Europe and Asia through transportation and infrastructure projects.<sup>1</sup>

Naturally, all eyes are on Sino-Russian dynamics and their potential competition to other regional partnerships. Since Russia does not have an all-encompassing Southeast Asian strategy and has been sympathetic to China's "Asia for Asians" initiative, there is a likelihood that Russia will be more accommodating to China's policy in Southeast Asia, in comparison with the "near abroad" region of Central Asia, where China has successfully evolved into a key player.

### Bilateral Linkages First, Inter-Organizational Ties Later?

It is important to view this topic in the context of an evolving interlocking regionalism in which regions become more connected through a network of transportation and infrastructure projects. Within the Shanghai Cooperation Organization (SCO), the idea of the Moscow-Beijing High Speed Rail Road has become a suitable model for linking Russia with Asia. In addition, Russia promotes its own initiative—Eurasia-Pacific Connectivity Initiative—and argues that the Association for Southeast Asian Nations (ASEAN) is a viable link to connect the Asian subregions. This view is in line with the ongoing effort by the Kremlin to enhance practical collaboration between the SCO and ASEAN. However, specific steps still need to be worked out.

In reality, ASEAN is rather fond of the ASEAN+1 format (including the ASEAN+Russia format), because it can work closely with an individual dialogue partner. Even though Russia's relations with ASEAN started with

1 "Russia in Asia: has always been and will always be," *The Bangkok Post* (November 6, 2014).

a role as a “consultative partner” as early as 1991, and it was formally announced that Russia would become an ASEAN Dialogue Partner during the 1996 annual meeting of the ASEAN Foreign Ministers, it was not until 2005 that an actual “dialogue partnership fund” (fee for establishing ties, used for collaborative projects) was established. The first contributions from Russia amounted to \$500,000, and came in 2007.<sup>2</sup> Thus, it is clear that ASEAN–Russia relations are primarily driven by strategic and political considerations.

With the evolving discussions about Russia’s Pivot to Asia and the impact of Western-led sanctions on Russia’s cooperation with ASEAN countries, ASEAN Secretary General, H.E. Le Luong Minh stated that Russia’s willingness to engage in ASEAN-led mechanisms—East Asia Summit (EAS), ASEAN Regional Forum (ARF), and ASEAN Defense Ministers’ Meeting-Plus (ADMM-Plus)—was welcomed. He also outlined that he appreciated Moscow’s support for ASEAN’s central role in these mechanisms. However, he noted during his interview for *Russia Direct* (June 30, 2014) that the primary area of interest lies in economic relations and that ASEAN wished to engage Russia in a free trade agreement.

While Russia might be successful in pursuing its partnership with ASEAN on a bilateral level, as well as with individual ASEAN member states (a promise to sign a free trade agreement between Vietnam and the Russian-led Eurasian Economic Union (EEU) by the end of this year)<sup>3</sup>, it might struggle to link the EEU with the ASEAN Economic Community (AEC). Unlike the EEU, the AEC is not a Customs Union and ASEAN members have not worked out their common external tariffs yet.

### Evolving Reciprocity and Market Opportunities

Russia’s achievements and limitations in securing economic opportunities in Southeast Asia have been well-documented in recent previous articles in the *Russian Analytical Digest*.<sup>4</sup> A decade ago, Russian energy giants and resource producers were already prominent in Asian

markets. More recently, Russian companies are now increasingly finding their way into the spheres of construction and infrastructure projects, mobile telecommunications, machinery and equipment manufacturing. In Southeast Asia, Moscow has aimed at securing railway construction contracts in response to the growing demand for land transportation in the region. It has scored deals with Indonesia and Vietnam. However, further penetration of this market might be a challenge due to a lack of funding or an inability to provide suitable gauge tracks or high-speed railroad systems.

During his recent trip to Southeast Asia—Thailand and Vietnam—in April 2015, Russian Prime Minister Dmitry Medvedev signed a series of agreements with Hanoi to develop further cooperation in energy, nuclear and military-technical spheres. In 2014, the Vietnamese energy-company Petrovietnam and Russia’s Gazprom and its oil arm Gazprom Neft signed a joint agreement to develop Russia’s Arctic offshore oil and gas in Siberia and to supply ESPO blend crude oil to Vietnam. Russia hopes to build Vietnam’s first nuclear power plant and help to create a Center for Nuclear Science and Technology. Russia actively assists with naval cooperation and the use of the Cam Ranh Air Base by Russian tanker aircraft has been watched equally by the US and China. In the eyes of Beijing, Vietnam’s defense modernization creates better opportunities for Hanoi to defend its claims in the South China Sea, and thus challenges China’s position in the Sino–Vietnamese dispute.

With the economic difficulties at hand, we might start seeing more action from Southeast Asian nations on the Russian market. Indeed, there are recent examples of Vietnamese and Thai deals with Moscow. The authorities of the Moscow Region and Ho Chi Minh City signed a set of agreements—during Vietnam’s attendance of the 70<sup>th</sup> Anniversary of Victory in the Great Patriotic War in Moscow in May 2015—to establish a Vietnamese cluster in the Moscow Region, as well as a deal that will see the Vietnamese company, TH True Milk, invest \$1 billion to establish a dairy production plant and cattle breeding facilities in the region.<sup>5</sup>

Thailand is also convinced that now is a good time to invest in Russia. CP Foods Ltd is already investing in the Russian agricultural sector, and has become the largest investor focused on the construction of piggeries in various regions: Kaliningrad, Kaluga, Kursk, Lipetsk and Moscow. Further construction is expected, as well as the building of the largest feed production plant in the European part of Russia. This comes at a time at which there is a food embargo against the West in Russia.

2 Rodolfo Severino and Moe Thuyar, “ASEAN Regionalism and the Future of ASEAN–Russia Relations,” in *ASEAN–Russia: Foundations and Future Prospects*, eds. Victor Sumsky, Mark Hong and Amy Lugg (ISEAS, Singapore, 2012), pp. 24–25.

3 A similar offer was made to Thailand.

4 Victor Sumsky and Evgeny Kanaev, “Russia’s Progress in Southeast Asia: Modest but Steady,” RAD 145 (March 31, 2014); Vitaly Kozyrev, “Russia–Vietnam Strategic Partnership: The Return of the Brotherhood in Arms?,” RAD 145 (March 31, 2014); Vyacheslav Amirov and Evgeny Kanaev, “Russia’s Policy towards the Countries of South-East Asia and ASEAN: Positive Developments, But an Uncertain Future?,” RAD 76 (April 15, 2010).

5 Anton Tsvetov, “Changing Nature of Russia–Southeast Asia Relations,” *Russia Beyond the Headlines* (May 19, 2015).

Russia's market is now open to new business circles and Moscow wants Thailand to supply fish, seafood, tropical fruit, natural rubber and sugar. In return, Moscow can export its wheat, since it has a surplus after a record grain harvest in 2014.

### Tourism and Organized Crime

One area of common interest between Thailand and Russia is tourism. For years, the number of Russian tourists to Thailand has steadily increased. In 2005, it was reported that over 100,000 Russians visited Thailand, the figure reached 269,479 tourists in January 2014 (an estimate is that 1.7 million Russian tourists would visit Thailand annually, in comparison, Vietnam has become a popular destination, almost 365,000 Russians visited it in 2014). It has since been reported that 46% fewer Russian actually arrived in January 2015. The drop in numbers is attributed to the plunge of the ruble.<sup>6</sup> This also affects the condo market in places such as Pattaya, because some Russian owners cannot afford to meet their payments.

While Thailand has enjoyed an expansion of Russian visitors, there is also an unwanted side-effect of this trend, which is the presence of Russian organized crime networks in the area around the popular beach destinations of Pattaya and Phuket. According to the Thai Transnational Crime Coordination Center, these networks operate side by side with gangs from other countries (Taiwan, France, Lithuania, Pakistan, South Africa, and others). These groups have been accused of several crimes: money laundering, narcotics trafficking, real estate fraud, counterfeiting, document fraud, human smuggling, extortion, financial fraud, cybercrime, illegal import of cars, and killings.

The most challenging issue for bilateral relations was the arrest of the international arms dealer, Victor Bout in Thailand (March 2008) and his subsequent extradition to the United States. The Russian leadership expressed their strong disagreement with the Thai decision and blamed political pressure from Washington on Bangkok for this decision. Bout was later convicted by a jury in a Manhattan federal court to 25 years in prison for terrorism crimes.

#### *About the Author*

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The Russian and Thai law enforcement agencies have since improved their relationship, and undertaken joint operations. In 2014, they succeeded in arresting Alexander Matusov, accused of organizing one of the most dangerous criminal gangs in Russia—Chelkovo—and for being responsible for dozens of murders and kidnappings in Russia. The same year, Marat Minlebaev, who had been convicted in 2003 to 34 years of prison, was released on parole for the first time by the Thai authorities. The head of the Russian diplomatic mission in Thailand, Ambassador Kirill Barsky stated that the Embassy makes sure that there is adequate protection of the rights of Russian citizens in Thailand, even those in prison.

While the Kremlin and Thailand's ruling military junta have made tackling transnational crime a top priority, they might need to step up their cooperation and further engage their counterparts in the years ahead. Thai officials warn that an integrated and borderless ASEAN could exacerbate the issue, and thus that it is vital to manage borders more effectively, and improve both law enforcement and justice strategies. In May, Russia became a full-scale dialogue partner of the Association of National Police Forces of South East Asian Nations (ASEANPOL). This collaboration could pave the way to the launch of practical initiatives in the field of transnational crime within an inter-regional framework (the Memorandum of Understanding between the SCO and ASEAN from 2005 identifies this area as its top priority).

### Conclusion

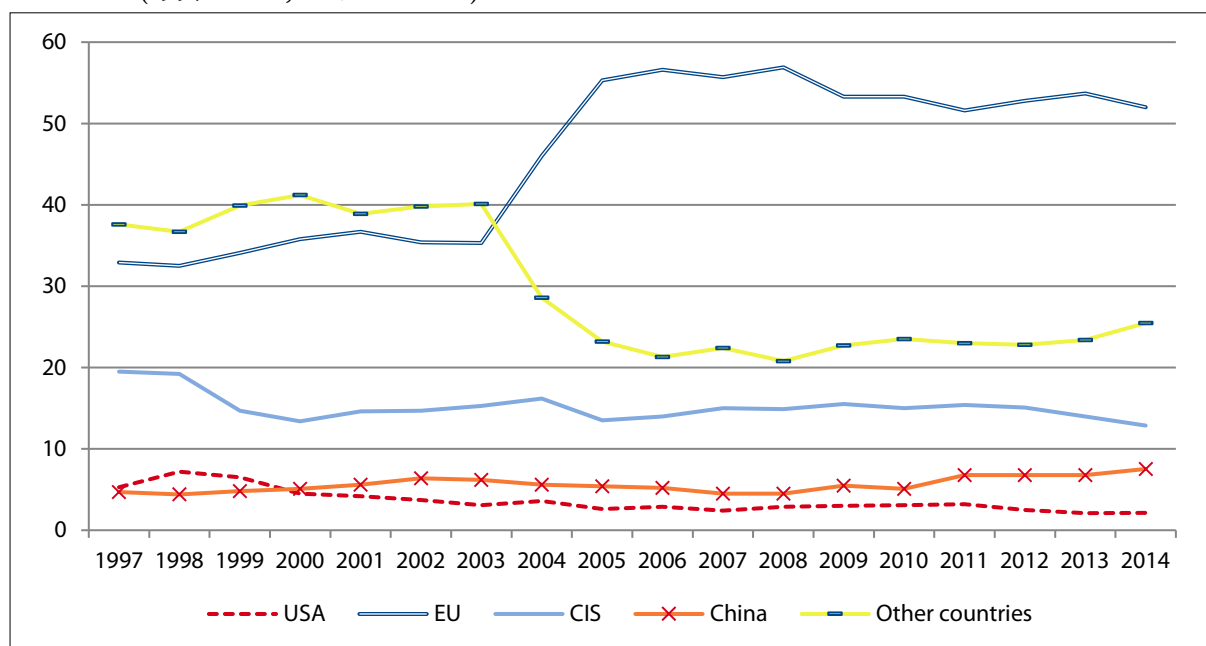
At present, Russia's means for building strong relations with Southeast Asia are still fairly limited because of its economic and financial weakness. In its engagements with regional partners, it needs to tread carefully to not upset the status quo, especially in relation to China who might view Russia's military sales to Hanoi as threatening. By bringing Vietnamese or Thai investors and businesses to the Russian market, however, the Kremlin increases its chances of improving people-to-people ties and provides a stimulus for these Southeast Asian nations to learn more about Russia, beyond encounters within popular tourist destinations.

6 Susan Cunningham, „As Ruble Plunges, So Does Russia's Tourism in Thailand,” *Forbes* (March 25, 2015).

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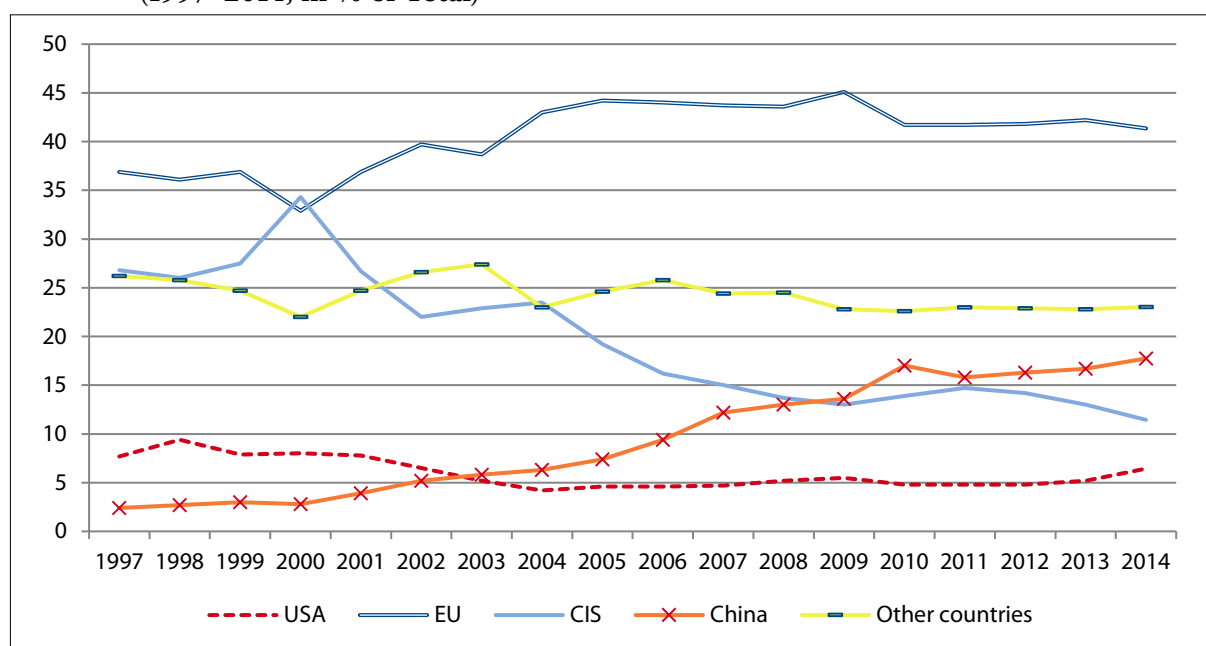
## Russian Exports and Imports

Figure 1: Russian Exports to Selected Countries and Regional Organizations (1997–2014, in % of Total)



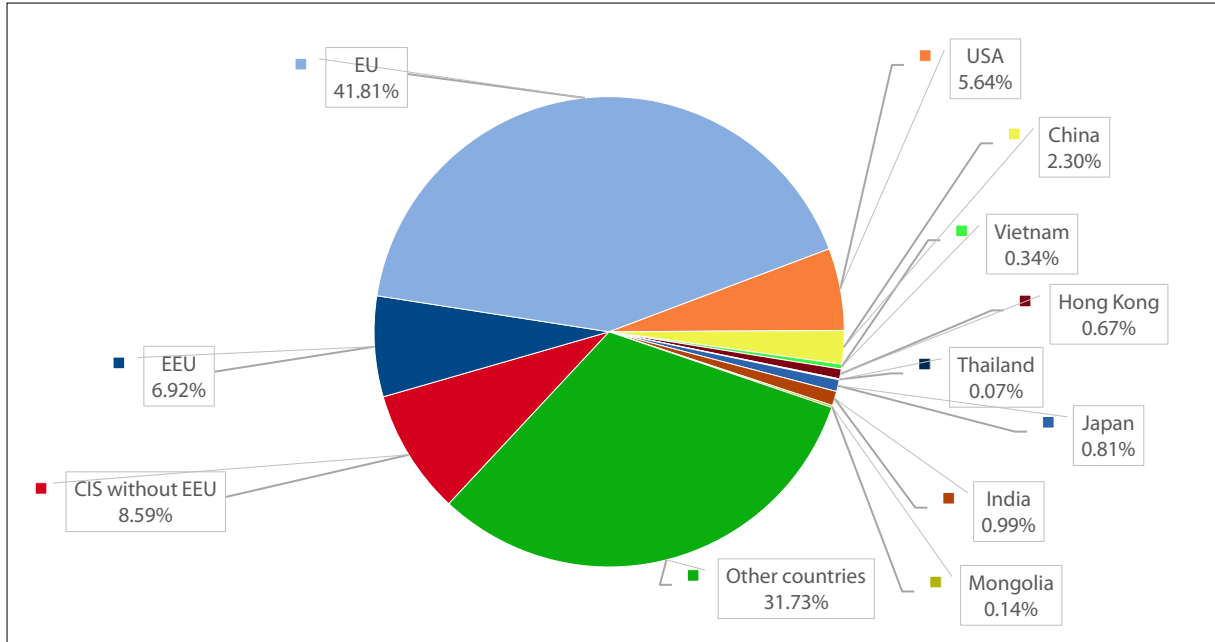
Sources: Reuters, Rosstat, RBI/Raiffeisen RESEARCH

Figure 2: Russian Imports from Selected Countries and Regional Organizations (1997–2014, in % of Total)



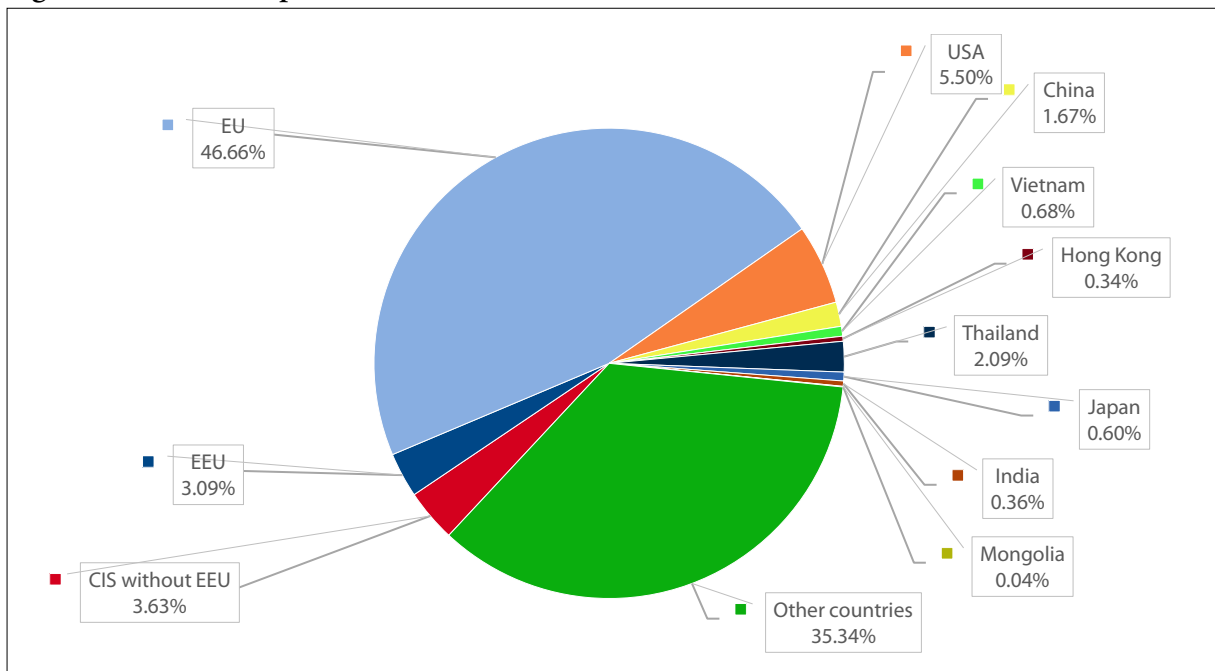
Sources: Reuters, Rosstat, RBI/Raiffeisen RESEARCH

Figure 3: Russian Exports (2014, in % of Total)



Sources: Reuters, Rosstat, RBI/Raiffeisen RESEARCH

Figure 4: Russian Imports (2014, in % of Total)



Sources: Reuters, Rosstat, RBI/Raiffeisen RESEARCH



**ABOUT THE RUSSIAN ANALYTICAL DIGEST**

Editors: Stephen Aris, Matthias Neumann, Robert Ortung, Jeronim Perović, Heiko Pleines, Hans-Henning Schröder, Aglaya Snetkov

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