



ANALYSIS

# Russia's Asian rebalance

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## EXECUTIVE SUMMARY

Russia's ambitious decision to 'rebalance' its strategic orientation towards Asia is going relatively unnoticed, yet has the potential to generate significant regional effects. It is engaging in a large-scale military modernisation project with the intention of projecting power into Asia. Its relationship with China seems to have deepened considerably. And it is looking to consolidate new and existing partnerships in Australia's regional area of interest in the Indo-Pacific. At the same time, Russia is seeking to tap its considerable energy and resource reserves in the Far East to become a major Asian energy supplier.

This recent boldness stems from Russia's fear of its future weakness. Moscow has no wish to become China's raw materials supplier, but nor does it want to be a subordinate partner of the West. Instead, it seeks a degree of independence through Putin's great power vision of Russia as a Euro-Pacific actor. Russia will by necessity have to follow through with its pivot to Asia, and this will mean an increased commitment to make gains in energy, in trade, and in military presence. Australia will need to respond to an enhanced Russian regional presence, as well as take a proactive stance to ensure competition from Moscow does not adversely affect Australian energy security. But there will also be some small incremental opportunities for Australia to re-engage with Russia, in spite of the ongoing friction in the relationship caused by the downing of Malaysia Airlines Flight 17 and Russia's actions in Ukraine.

After years of focusing heavily on Europe and the broader West, Russia's strategic posture is currently undergoing a fundamental reorientation towards Asia. In terms of Moscow's stated intentions, this is not a new phenomenon. In fact, Russia has announced plans to 'turn East' on a number of previous occasions.<sup>1</sup> In each past instance a combination of weak capacity, internal obstacles, and international events have thwarted such a move. With that in mind, it is tempting to dismiss as another unworkable grand promise President Vladimir Putin's declaration that pivoting East would be Russia's main nation-building task of the twenty-first century.<sup>2</sup>

On this occasion, however, the circumstances are different. First, an Asian pivot has become an imperative for Russia rather than a choice. Just as the US Department of Defense announced in 2012 that it would "of necessity" rebalance to the Asia-Pacific,<sup>3</sup> Russia sees the need to do so as central to its future power, prosperity, and prestige. Second, Russia is clearly calculating that the twenty-first century will be Asian in character, with a centre of gravity located around Beijing. Third, even a rudimentary strategic projection reveals that Moscow has only a relatively brief window of opportunity to cement itself as a major regional player.

Failure to achieve a successful Russian rebalance will lead to serious weakness, if not outright marginalisation. Within the next 20 to 30 years, if Russia is unable to extend its energy footprint eastwards, if it is incapable of matching new trade deals with an enhanced military presence, and if it fails to embed itself at least partially in a Sino-centric multilateral order, then it will lack the economic, strategic, and institutional basis to advance its interests. Even so, it will face stiff competition for European oil and gas markets from the United States, which is turning itself into an energy behemoth. Its behaviour over Ukraine and Crimea will ensure that it remains excluded from European security architecture. And in the absence of profound internal political change, a wariness of Russian realpolitik will make Western states hesitant about creating networks with Moscow that are based on anything other than expediency. Russia's future, therefore, will be largely dictated by how successful it is in its new Asian tilt.

This Analysis argues that Asian and Australian policymakers should take Russia's pivot seriously. First, it examines the strategic rationales behind Russia's rebalance and assesses the geopolitical, economic, and regional effects of Russia's pivot. It also looks at the internal and external obstacles facing Russia, and explores the implications of Russia's rebalance for Australia as well as potential responses.

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## MOTIVES AND MEANS

The motives behind Russia's rebalance to Asia consist of both 'push' and 'pull' factors. First, a rebalance is necessary for the Kremlin to secure a place in the 'Asian Century'. The relative transfer of wealth and power from West to East means that Russia must establish a stake in the evolving regional order if it is to benefit from new power configurations. In this context, deepening relationships with China, India, and the nations of Northeast and Southeast Asia helps embed Russia as an Asian energy superpower. Second, it is consistent with the idea of Russia as an independent actor that is not too firmly bound to either the West or China. Third, Russia's Asian rebalance is consistent with Putin's domestic political interests, in which nothing short of triumph is acceptable. As the spike in Putin's popularity after the annexation of Crimea demonstrated,<sup>4</sup> the Russian Government relies heavily on the constant reinforcement of success in its foreign policy as a way to underpin internal political legitimacy.

While Russian rhetoric about its intentions should never be taken as a substitute for reality, at the same time many Western commentators have fallen into the trap of writing Russia off prematurely.<sup>5</sup> A prominent view in the West, and especially in the United States, is that Russia does not have the capability to establish a viable military footprint in Asia. Australia's 2013 National Security Strategy makes one reference to Russia, and that is as an actor that will have increasing sway only within its own local region.<sup>6</sup> The reasoning behind this view is that since the collapse of the USSR, the post-Soviet Russian Federation has been almost invisible as an Asian security actor. Moreover, attempts to showcase its return to Asia — such as hosting the 2012 Asia-Pacific Economic Cooperation (APEC) Summit in Vladivostok — have been much more about optics than outcomes.

However, it is increasingly apparent that such views are not borne out by recent developments. To begin with, Russia's pivot to Asia is resulting in a large-scale revamp of its Pacific fleet, which over the next decade will go from its smallest to its biggest naval asset.<sup>7</sup> As part of an overall Russian military build-up initially projected to cost an ambitious US\$600 billion,<sup>8</sup> the priority for the fleet is the acquisition of small surface combatants. This is necessary to transform what is effectively a shell of a force into a green water navy. In addition, new hunter-killer and ballistic missile submarines (or SSBNs) have been earmarked for the fleet, which will provide significant heft to Moscow's power projection aspirations. Two French-built Mistral-class helicopter carriers were ultimately destined for Vladivostok until the deal was scuppered by the Ukraine crisis. The Russian military has announced plans to construct its own vessels to replace them, even though it will take years for this to transpire.<sup>9</sup> Where Russian military power is clearly lacking is in a mobile platform for air superiority missions. Russia currently has only one aircraft carrier, the *Admiral Kuznetsov*. The other ship of the same class

(the *Varyag*, from the Soviet Navy) was sold to China by Ukraine.<sup>10</sup> To address this, the Russian Ministry of Defence has made several references to a new supercarrier that would potentially rival the US Nimitz-class capital ships,<sup>11</sup> although caution is required in assuming this will ever occur. In fact, it is estimated that it will take ten years to develop the requisite shipbuilding infrastructure before Russia could actually construct such a large vessel.

Still, plans for an enhanced military presence in Asia go beyond fleet reconstruction. In particular, Russia is keen to show it can project power into the region: its naval vessels are now regularly seen in Southeast Asia, and in the Indian Ocean as well. Russia will be operating its new Borei-class SSBNs from its newly upgraded Pacific base on the Kamchatka Peninsula.<sup>12</sup> Its six new Yasen-class guided missile submarines are expected to begin entering service in 2017, and it is upgrading its existing Akula, Oscar, and Sierra platforms.<sup>13</sup> In 2014 Russia increased long-range air activity over Guam and off the coast of California,<sup>14</sup> and in August 2015 it established an air force and air defence army within its Eastern Military District to perform training missions over Japan, the Pacific, and the Arctic Circle.<sup>15</sup>

Russia's future power projection capabilities are limited, since many of its new forces will be for broader strategic purposes, for area denial, and for local defence. But in addition to a larger military footprint, Sino-Russian relations have now reached a much more mature stage. Until recently, it was an open question whether Russia was prepared to adopt the mantle of junior partner to China in a deepened security relationship. This has been answered in the affirmative, at least for the moment. Sino-Russian cooperation is now broad-based. It can be found in heavy Chinese investment in Russia and Central Asia, in the opening up of the Russian Far East, in energy deals, institutional agreements, and military cooperation. In May 2015 China and Russia held a joint exercise in the Mediterranean Sea.<sup>16</sup> Joint exercises are also regularly carried out on land — under the auspices of the Regional Anti-Terrorist Structure of the Shanghai Cooperation Organisation (SCO) — as well as off China's Pacific coast.<sup>17</sup> At Russia's recent Victory Day celebrations in Red Square, Chinese troops marched along with Russian personnel in a display that would have been unthinkable only a few years ago. Public perceptions of deepened ties with China have also demonstrably warmed. According to a recent Levada Center poll, some 80 per cent of Russian respondents have a favourable view of China, while 81 per cent have a negative view of the United States.<sup>18</sup>

As well as the Moscow–Beijing axis, Putin has also been working to court New Delhi. Moscow has frequently invited India to become a full member of the SCO, in an echo of the Russia–India–China 'strategic triangle' proposal launched (with little success) by former Russian Foreign Minister Yevgeny Primakov during the late 1990s.<sup>19</sup> Russia and India have strong military ties dating back to the Cold War era. Around

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70 per cent of Indian military hardware is Russian, and Russia and India have been participating in the Indra biannual military exercises since 2003.<sup>20</sup> In addition to exercises there have been joint construction projects — such as the development of the Sukhoi/HAL Fifth Generation Fighter Aircraft — and a Russian-led deal to construct about 20 nuclear reactors in India at a cost of US\$43 billion.<sup>21</sup> Given that India has also been a major target of Australian diplomatic efforts, it is also noteworthy that Russia and India are considering the construction of an oil pipeline and a gas pipeline.<sup>22</sup>

The pace of Russian engagement in Southeast Asia has accelerated too. Moscow now has a comprehensive strategic partnership with Vietnam, covering energy, finance, and trade. This includes the Gazprom/Lukoil Vietsovpetro offshore block investments in Vietnam's exclusive economic zone, as well as an agreement for Gazprom to buy a 49 per cent share of Vietnam's only oil refinery and launch new joint exploration projects in the Arctic Sea.<sup>23</sup> Hanoi has recently agreed to a free trade agreement (FTA) with Putin's Eurasian Economic Union (EEU).<sup>24</sup> Russia is also operating tankers from the airbase at Cam Ranh Bay to refuel its bombers in the West Pacific. This exposed tensions with Washington in March 2015, when the State Department asked Hanoi to stop allowing Russian tankers access to the base.<sup>25</sup> While the Vietnamese Government had no immediate response to the US request, Colonel Le The Mau from Vietnam's Military Strategy Institute is said to have called the US request "interference in the internal affairs of Vietnam".<sup>26</sup> In 2014, Russia and Vietnam also signed an agreement to simplify procedures for visits by Russian ships.<sup>27</sup> Prior to that, in 2009, Hanoi struck a deal with Moscow to purchase six Kilo-class diesel-electric submarines at a cost of US\$3.2 billion.<sup>28</sup>

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Thailand is also being wooed by Moscow. A Russian naval battle group visited Thailand's largest naval base at Sattahip in March 2015, and discussions have taken place on deals for rail services, military aircraft, and main battle tanks.<sup>29</sup> Thailand is already a major Russian trading partner in ASEAN, and Thai Prime Minister Prayut Chan-o-cha recently announced his government's intention to double bilateral trade from its current level of US\$2.3 billion annually.<sup>30</sup> Russia is also attempting to sell Sukhoi fighters to Indonesia, with Moscow promising to include technology transfers in any agreement. Other weapon sales being floated include diesel-electric submarines, amphibious vehicles, and helicopters. In the South Pacific, a military technical cooperation agreement with Fiji was signed in 2013, and Moscow has identified Suva as a candidate for further engagement.

The Russian pivot has been largely piecemeal in the military domain. It is primarily aimed at building bilateral relationships, albeit sometimes under the auspices of the EEU, rather than any kind of broad-based cooperative framework. Indeed, many of Russia's targets for engagement are also either competitors with other Russian partners, or



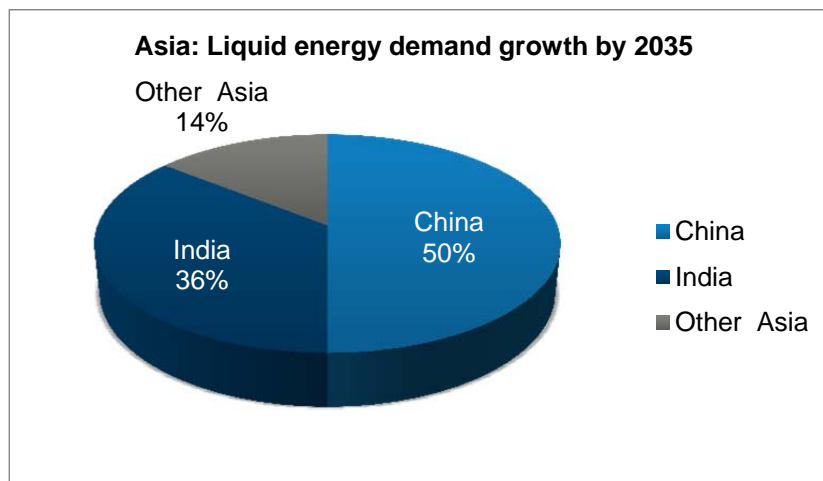
at least wary of them. This is especially true of the Sino-India and Sino-Vietnamese relationships. In addition, it is unclear where Russia sees itself establishing a firm military security toehold in the region. Doubtless its ideal scenario would be for a string of bases stretching from its Pacific coast across Southeast Asia to the Indian subcontinent. This would serve the dual benefit of underscoring an increased presence in an area where it seeks significant trade enhancements, as well as providing a rudimentary check against both US and Chinese naval power in the region. But such an objective will be many years in the making, and there are a number of hurdles that Russia must clear before it can hope to establish anything other than temporary military outposts in the region.

In crude terms, then, Russia's pivot does not alter the balance of power in Asia. Nonetheless, recent developments should be taken seriously by regional elites. They signal the entry of another player into a crowded region. And although Russia's military efforts have been little more than first steps, they will complement its efforts to establish itself as a major energy- and resource-trading nation. This is likely to have a significant effect on the foreign and security policy postures of a number of regional actors, including Australia.

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## RESOURCE TRADE IMPACTS

Asia's energy import dependency is set to rise dramatically over the next 20 years, especially in oil and gas. The nations driving that upsurge in demand will be China and India, which will respectively be the region's top two consumers of imported energy.



Source: *BP Energy Outlook 2035*

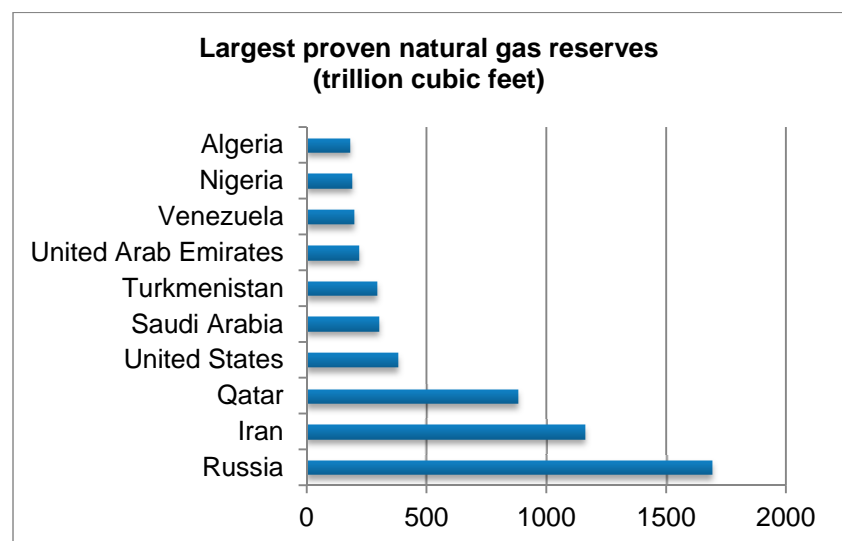


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It is likely that Asia's oil imports by 2035 will almost equal OPEC's current entire production.<sup>31</sup> Russia is already making headway in meeting that demand. The first major results from Russia's energy pivot came in 2014 when an increase in oil supplies to China saw it overtake Germany as Russia's biggest oil customer.<sup>32</sup>

While oil will continue to be vitally important in regional energy security dynamics, the majority of competition between energy suppliers is likely to be found over natural gas. Asia's gas needs are expected to triple, representing about 50 per cent of global demand.<sup>33</sup> And while China intends to boost its own production, particularly in shale gas, it will require significantly more imports. In this context, Australia's planned expansion of natural gas supplies is instructive given its position as a major exporter of liquefied natural gas (LNG). As noted in Australia's 2015 Energy White Paper, building on the 2012 White Paper that sought to transform Australia into the 'Saudi Arabia of gas', an increased energy trade is vital to Australian energy security. By 2018 Australia is looking to meet about 60 per cent of Asia's increased gas demands.<sup>34</sup> Increased future competition for those gas markets is likely, not least from US LNG projects such as Cheniere's terminals in Louisiana and Corpus Christi in Texas, which are gearing up for export to Asia.

Russia, for its part, has an ambition to meet 100 per cent of Asia's gas demands by the same time, although it is unlikely to reach that capacity.<sup>35</sup> To do so, the development of the Russian Far East is critical to Moscow's projections. With Western Siberia reaching peak production, the Putin administration has been pumping funds into gas fields in the eastern and southern areas of Pacific Russia, and appealing for foreign investment to assist in this effort.



Source: US Energy Information Administration Oil and Gas Journal, 2013

By the time Russia's \$400 billion gas deal with China starts deliveries, slated to begin as early as 2018, China will be importing more Russian gas than Germany does today.<sup>36</sup> Moreover, Russia's abandonment of the South Stream pipeline and its decision to route a pipeline west to Turkey allows it to sell the same amount of gas (6.5 million tonnes a year) via Greece into European markets, but also to re-route south-east with new and existing networks to India and Asia.<sup>37</sup>

Russia is also seeking to diversify its transit methods to a more balanced mix between natural gas pipelines and overland/seaborne LNG deliveries. An example is its LNG Sakhalin-1 plant on Sakhalin Island north of Japan, which could handle five million tonnes annually from 2018.<sup>38</sup> Shifting to LNG potentially gives Russia the flexibility to increase the scope of its intended customer base by offering gas with low transit distances to South Korea and Japan, and potentially to Southeast Asia as well. Doing so not only eases the burden on the Russian pipeline network, but also makes significant savings on infrastructure and maintenance costs.

Another important area where Russia is seeking to compete on energy is in coal. With the depreciation of the rouble, Russia's share of Asia's coal market has gone from 17 per cent to 35 per cent.<sup>39</sup> The coal market is already flooded and in 2015 the price has dropped significantly for both steam coal and coking coal. And while over the next 20 years the place of coal in China's energy mix will go down, it will still represent over half of its primary energy needs by 2035.<sup>40</sup> To meet this need, Russia plans to quadruple coal output by 2030, and is building two new coal ports on its Pacific coast, which will be able to handle around 40 million tonnes annually.<sup>41</sup>

There have been repeated suggestions that Russia is prepared to sell both energy and resources at a loss in order to outmuscle competitors. Indeed, there are certainly strong indications that it is losing out in its gas deal with China. In this respect, the Russian strategy is to sign up states to relatively long-term deals, to keep competition down, and then ratchet up the price. Russia pursued a similar approach in Eastern Europe after the end of the Cold War. However, there are three important caveats militating against Russian monopolist policies. First, Asia represents a more crowded marketplace, and will be more so once US gas exports to Asia from resource extraction become economically viable. Second, Russia's prospective energy clients are wary of Russia's past use of energy as a strategic lever. Third, Russia will need to secure heavy investment in infrastructure and logistics to achieve even the functional ability from which to attempt regional energy dominance.

To secure investment in infrastructure and logistics, Moscow must rely heavily on Chinese capital. But India (and even the United States) has also recently participated as a joint development partner in projects on Sakhalin Island. In the Far East and across Siberia, new transport

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corridors are opening up. Three bridges are being built over the Amur River, which separates Russia's Far East from Northeast China, there are plans for an aerial lift to carry tourists and workers across the Russian–Chinese border, a highway through Mongolia is under construction, and so too is another bridge over the Ussuri River. In addition, there are up to four mooted distribution points for Russian gas into China via the Altai and 'Power of Siberia' pipeline networks: an existing link into Western China via Gorno-Altai, and three separate conduits in the Far East (at Blagoveschensk, Dalnorechensk, and Vladivostok).<sup>42</sup>

### Energy transit corridors: Russia–China



Source: Gazprom, <http://www.gazprom.com/about/production/projects/east-program/>.

Russia's intended future as a major energy player in Asia is therefore a serious issue for energy exporters in the region. In oil, gas, and coal, but also in iron ore, Russia is already seeking to significantly shore up its position. Russia's draft Energy Strategy to 2035 forecasts a 2 per cent cut to oil production, but expects an overall increase of 15–17 per cent under its target scenario. It has also cut expectations for LNG production from 100 million barrels to 60 million barrels by 2035,<sup>43</sup> implying a heavier reliance on pipelines. Gas exports to Asia are projected to rise from 6 per cent (of total exports currently) to 35 per cent in 15 years,

while it seeks to grow Asian oil exports from 16 per cent to 32 per cent.<sup>44</sup> The fact that Russia has sizeable reserves, and is untroubled by some of the environmental concerns that affect other producers, will make regional energy competition more intense.

## REGIONAL AND MULTILATERAL ENGAGEMENT

It is important not to overplay the significance of institutional dynamics as a driver of Russian policy in Asia. Indeed, Russia's role in East Asia's multilateral political, economic, and security architecture has been relatively tepid, and remains driven by a strong focus on Northeast Asia. As its relatively low-key performance in the Six-Party talks over North Korea demonstrated, it has often been content to follow Beijing's line while ensuring it continues to assert influence in subregional economic and security activities. Russia joined APEC in 1998, the Asia-Europe Meeting in 2010, and the East Asia Summit in 2011, after having signed the Treaty of Amity and Cooperation in Southeast Asia in 2004. While it has been a member of the ASEAN Regional Forum (ARF) since its inception in 1993, and became a dialogue partner with ASEAN in 1996, the first ASEAN–Russia summit was not held until 2005. ASEAN elites initially exhibited deep scepticism over Moscow's ability to project power into the region, which was underscored by the general lack of substance in their trading relationships with Moscow. This has changed over time: in the 1990s, Russia's share in trade with East Asia amounted to only 1 per cent. Since then, trade volumes have increased more than tenfold.<sup>45</sup> And despite this still very low base, Moscow is keen to attract additional business across the ASEAN region.

Nonetheless, the majority of Russian engagement with the region continues to be done bilaterally via trade missions and summits, and on the sidelines of various multilateral forums. In Southeast Asia, Vietnam remains Russia's closest partner, but it has developed broader links with others such as Thailand and Indonesia over arms sales, technology transfers, joint energy investment projects, and increasingly agriculture (the latter resulting from Russia's ban on 'Western' food in response to sanctions over Ukraine). Other targets of Russian investment have been Indonesia, Thailand, and Malaysia. A 'trade first, political engagement second' agenda suits both ASEAN members as well as Russia. This is because ASEAN increasingly views Russia as a potential strategic and trade balancer in the context of China–US competition, and Russia prefers to conduct its deep multilateral engagement within its own geopolitical orbit — especially in relation to China.

But if its experience in the former Soviet space is anything to go by, Moscow has shown little potential to shape the multilateral order in East Asia. Certainly its own efforts — organisations such as the EEU, the Commonwealth of Independent States and the Collective Security Treaty Organization — are not institutions linked to broader regimes governing behaviour and promoting deep cooperation on a variety of

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issues. They have memberships that differ, competencies that overlap, and have been much more about Russia attempting to consolidate its grip over a truncated sphere of influence than about establishing a broad community of equal partners. In fact, Russian dominance is by no means total in the former Soviet space. It has managed to exercise material primacy, and a degree of functional primacy, by compelling many former Soviet states to participate in its institutional designs. Locally, the thrust of these is defensive: an attempt to ring-fence its region. Given that oil and gas — the two key strategic Russian bargaining chips — are currently excluded from the EEU, Moscow's regional integration strategy resembles a neo-mercantilist bloc with Russia at the centre. At best it dilutes the potential for the EEU to make headway with its own association agreements, since closer integration with Brussels precludes membership of a rival trade bloc. Yet it also leaves Russia exposed due to the slow and steady accumulation of bilateral trade deals between China and a variety of Central Asian states.

Beyond the former Soviet states, Putin clearly intends to use the EEU as Russia's preferred multilateral vehicle for targeted engagement. Currently, the territory of the EEU encompasses a fifth of the world's natural gas resources and 15 per cent of its proven oil reserves. After much vacillation, Kyrgyzstan joined in May 2015. Expansion to encompass Turkey has also been mooted, but this is likely to be put on hold in the aftermath of the Turkish Air Force downing a Russian SU-24, which also threatened to jeopardise the small but positive signs of NATO-Russia cooperation over the conflict against Islamic State in Syria. As the recent deal with Vietnam illustrates, the delivery of FTAs in East Asia and the Pacific are also on the agenda. Preliminary discussions on the topic have commenced with New Zealand, and negotiations with both China and India have been ongoing since 2013.

Broader Russian multilateral cooperation with East Asia via the EEU is also being dictated by a shift in emphasis in the SCO. The organisation is routinely derided as a club for dictators: an artificial multilateral organisation for Sino-Russian bilateralism.<sup>46</sup> But it is taken seriously in Moscow and in Beijing, and two competing visions for the SCO have been put forward. Russia sees it as a military organisation (an Asian NATO), whereas China sees it more as a forum for trading arrangements. In recent years, since the 2012 Beijing Summit, China's view has won out: the SCO space is increasingly an energy trading area. That not only gives Beijing options when it comes to source diversification, but also binds Russia more closely to what China sees as its own 'near abroad'. Increasingly, then, the SCO is becoming more like a hegemonic regime, perhaps giving a first glimpse at the type of East Asian neo-tributary system that China may seek to construct in future. Russia's desire to expand deals between the EEU and Asian actors goes some way towards counterbalancing its decision to give preference to Chinese-led initiatives.

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## OBSTACLES TO RUSSIA'S PIVOT — INTERNAL AND EXTERNAL

So far this Analysis has focused on the potential effects of Russia's Asian rebalance. However, a successful pivot is by no means assured. Many of the economic, strategic, and institutional requirements for Russia to embed itself as a major actor in the Indo-Pacific are highly contingent, and in some cases rely on developments over which the Kremlin has limited control. Before drawing any firm conclusions about implications, it is appropriate to assess how viable a Russian rebalance is likely to be. Broadly speaking, there are three arenas that make the Russian pivot challenging: relations with leading states in the region; economic and financial problems that also include domestic capacity issues; and the unanswered question of Russia's place in a multilateral East Asian order.

The relationship between Russia and China is already unbalanced, and will become increasingly so in future. While Chinese elites pay lip service to the notion that Russia is an equal partner in trade, security, and institution-building, few specialists — even in Russia itself — would be prepared to argue that this reflects reality.<sup>47</sup> Developments in the key areas of investment in Russia's Far East, negotiations over future energy deals, and the shape of the Central Asian security environment are all strongly weighted in Beijing's favour. China also has momentum on its side, which may be less tangible, but is nonetheless significant. As the rising power, China's efforts at regional leadership are yet to convince US allies in the region to shift towards China. This has been true of its so-called 'smart' power initiatives, its land reclamation efforts in the South China Sea, its large-scale regional investment, and its attempts at trade governance. But in the case of Russia, how much control does Moscow actually have over the evolving relationship? If indeed Russia is being compelled closer to a dependent posture on Beijing's terms then this is not a pivot, it is bandwagoning.

A similar question can be raised in relation to the expansion of Moscow–New Delhi ties. Indo-Russian relations are less robust than outward appearances. Deals over arms sales and military research and development joint projects are frequently delayed on the Russian side, and are a persistent irritant.<sup>48</sup> While it is reasonable to expect further deepening of trade and security ties between the two, it is highly unlikely that Putin will be able to engineer a deep and lasting triangular partnership between China, Russia, and India. Indeed, Beijing and New Delhi continue to view each other with mutual suspicion, in spite of attempts by Prime Minister Narendra Modi to reset the relationship. More importantly, India is at least partially Westernising, and has been doing so since George W Bush's second presidential term, which opened up trade in nuclear materials between the United States and India. That cooperation has accelerated under President Barack Obama. It is unclear how Russia will manage its dual relationships with a nation

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moving slowly towards the United States, and one gearing up to compete with the United States. By the same token, Russian efforts in the South China Sea, including using its relationship with Vietnam as a hedge against China, have the potential to damage its association with its 'senior' Chinese security partner.

Russian relations with Japan have also soured after an initially promising 'reset' initiated by Prime Minister Shinzo Abe. The main reason has been the deployment of ballistic missile defence hardware — such as the X-band radar network — as a part of US–Japan defence cooperation.<sup>49</sup> Symbolic issues have also contributed to the downward trajectory, including Prime Minister Dmitri Medvedev's plan for a third public visit to the Kuril Islands/Northern Territories, as well as Russia's participation in September's 'Victory over Japan' ceremonies in Beijing.<sup>50</sup>

The prospects for Moscow's relationships with both North and South Korea remain difficult to judge. While Western sanctions have led to the cancellation of North Korea's debt and a renewed push<sup>51</sup> to deepen North Korea–Russia cooperation (and capitalise on deteriorating Pyongyang–Beijing ties), few major gains have been made. The Russian–South Korean relationship, meanwhile, has led to some promising developments for Putin. A decision in 2013 by President Park Geun-Hye to accelerate the pace of Eurasian cooperation led to the signing of 17 cooperation agreements between Russia and South Korea at the St Petersburg G20 meeting.<sup>52</sup> They incorporated visa exemptions, technology transfers, shipbuilding contracts, and South Korean cooperation in the Russia–North Korea rail and port project linking Khasan and Rajin, with the aim of potentially opening a transport corridor from East Asia to Europe. Even so, Russia's position is tenuous given that it continually risks being squeezed out between Chinese and US lobbying of Seoul.

Another issue is whether Russia will be able to garner sufficient development capital — and use it efficiently — to adequately meet its energy trade ambitions. While much Western attention has focused on the impact of sanctions in the wake of the Ukrainian conflict, low energy prices have been at least as significant in curtailing Russia's plans for the Far East. The region itself has been historically underdeveloped, and is relatively unpopulated in comparison to European Russia. Existing road and rail networks are in a poor state of repair, and new ones costly to construct using Russian labour (which itself is a challenge due to chronic corruption, social problems, and low skills). This will mean increased reliance on Chinese labour.<sup>53</sup> This already occurs unofficially: it is estimated that there are around two million illegal Chinese migrant workers in the Russian Far East.

Political contests between the major energy companies, which want pipelines, and the agencies given the task of development have also been apparent. For example, the Russian Ministry of Far East



Development has found it difficult to acquire funds that could supplement Moscow's export-driven resource extraction policy with the longer-term development of the transport, logistics, and technology sectors around special economic zones.<sup>54</sup> The risk is that neither side of this contest in the policy process is successful: Russia fails to develop the infrastructure necessary to ship energy to Asia; and it simultaneously fails to enable a broader base for Far Eastern trade and prosperity.

Russia will need to make more concerted efforts to influence Asia's political and security architecture. In particular, it will need to play more than a passive or spoiling role in the myriad organisations of which it is a member. Although some of these organisations — such as the SCO, the Asian Infrastructure Investment Bank, and (initially at least) the East Asia Summit — have reflected Chinese preferences, Western nations and their allies heavily influence others, including APEC, the ARF, and informal dialogue processes such as the stalled Six-Party Talks on North Korea. As noted above, within the ASEAN area, attitudes towards a Russian rebalance have initially been cautious.<sup>55</sup> Many members are US allies or partners and Russian overtures are yet to coalesce into a call for wider EEU–ASEAN cooperation.

## IMPLICATIONS AND POLICY RESPONSES

Although the outcome of Russia's rebalance is not predetermined, it will certainly have implications for Asia and Australia. Due to Russia's desire to expand its joint exercises with Asian navies, the modernisation of its Pacific fleet, and its attempts to negotiate visits and access to bases, there will be increased contact between Russian military forces and those of regional actors. Asian players, particularly Japan and South Korea, will also have to respond to deepened Sino-Russian (and potentially also Indo-Russian) ties. This is significant given that China is Australia's largest trading partner, and India has been identified as an emerging partner. Even more importantly, both India and China are set to experience growing energy demands, and both Australia and Russia see themselves as being well placed to capitalise on those needs. Even if Russia's pivot is only partially successful, it is likely that Australia will find itself competing on energy and natural resources with Russia in what Canberra regards as its priority markets.

How should Australia respond to Russia's rebalance? The Russian pivot is both a challenge and a potential opportunity for new thinking on Australia's security policy. Australia cannot rest on its laurels as an energy superpower. It will need to increase its competitiveness and create energy partnerships to counter Russian competition. Australian political leaders have been justifiably critical of Russia, especially in the aftermath of the downing of Malaysia Airlines Flight 17. And while alliance politics may drag Australia into reinforcing a regionally bifurcated sense of security competition, the risks from direct Russian military

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threats are small, in spite of the furore caused by Russia's naval show of force off the Queensland coast during the 2014 G20 Leaders' Summit.<sup>56</sup>

Pure strategic and trade balancing would be assisted by a limited Australian re-engagement with Russia. Re-engaging would be compatible with Australia's overall hedge-and-balance strategy in the Indo-Pacific. A change in Prime Minister and the evolution of a more agile and flexible security concept has sought to get the balance right between principles and pragmatism in a complex and changing regional environment.<sup>57</sup> In practice, this means developing new and looser coalitions on trade and security to supplement Australia's existing strong relationships, and leveraging bilateral ties into 'minilateral' ones. Such efforts will also need to include those nations — such as Russia — that Australia has not regarded as 'natural' partners in the past.

Currently, there are virtually no interdependencies in the Russia–Australia relationship. Much of this is due to the political climate, and indeed Russia's own behaviour. However, Australia should examine seriously the idea of seeking to create some functional trade and security synergies with Russia. The appointment of a more senior departmental officer as the new ambassador to Russia is a good move. The Komodo exercises<sup>58</sup> that have included ASEAN states, as well as Australia, Russia, and China, may be a first step here. And while any gains in trade would be modest initially, arenas such as agriculture (excluding wheat) and oil exploration provide examples of areas where there is little competition yet. On the multilateral side, Australia's longer-term interests may also be suited to taking a 'wait and see' posture that is not overtly hostile to an increased Russian regional role. Whatever Australia's response, though, its firm proviso should be to act cautiously until it is clear that Moscow is making a genuine effort to contribute to regional order, rather than seeking to undermine it.

## CONCLUSION

Russia's recent boldness stems from a fear of weakness just over the horizon. Moscow has no wish to become China's raw materials supplier, but it sees no advantage in turning to the West either. Instead, it seeks a degree of independence through Putin's great power vision of Russia as a Euro-Pacific actor. To achieve this, Russia will need to follow through with its pivot to Asia, and deepen its energy, trade, and military presence.

A successful Russian pivot is not guaranteed. The robustness of Sino-Russian ties is unclear. Russia's ability to convert its energy and political intentions into achievements is patchy. Whether or not the rebalance succeeds, Canberra should consider a limited and certain re-engagement with Moscow. Such an approach would protect Australian interests while also potentially nudging Russia towards a more balanced and constructive posture in regional affairs.

*Moscow has no wish to become China's raw materials supplier, but it sees no advantage in turning to the West either.*

## NOTES

<sup>1</sup> Previous attempts to 'turn East' include a bid by Mikhail Gorbachev to open up Eastern Siberia in the 1980s, and a failed effort during the 1990s by the Yeltsin administration.

<sup>2</sup> Vladimir Putin, "Presidential Address to the Federal Assembly," 12 December 2013, <http://en.kremlin.ru/events/president/news/19825>.

<sup>3</sup> US Department of Defense, "Sustaining US Global Leadership: Priorities for 21st Century Defense," 3 January 2012, [http://www.defense.gov/news/Defense\\_Strategic\\_Guidance.pdf](http://www.defense.gov/news/Defense_Strategic_Guidance.pdf).

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<sup>7</sup> Franz Stefan-Gady, "What to Expect from Russia's Pacific Fleet in 2015," *The Diplomat*, 2 March 2015, <http://thediplomat.com/2015/03/what-to-expect-from-russias-pacific-fleet-in-2015/>.

<sup>8</sup> Matthew Sussex, "Russia's Next Big Strategic Move (And It Has Nothing to Do with Ukraine)," *National Interest*, 10 June 2015, <http://nationalinterest.org/blog/the-buzz/russias-next-big-strategic-move-it-has-nothing-do-ukraine-13081>.

<sup>9</sup> "Mistral Amphibious Assault Ships for Russia: Deliveries Hanging," *Defense Industry Daily*, 21 May 2015, <http://www.defenseindustrydaily.com/russia-to-order-french-mistral-lhds-05749/>. The deal was ultimately cancelled, with France refunding Russia its estimated US\$1 billion investment: see "Mistral Warships: Russia and France Agree Compensation Deal," BBC News, 5 August 2015, <http://www.bbc.com/news/world-europe-33798102>.

<sup>10</sup> The carrier underwent a significant refit and was relaunched into the People's Liberation Army Navy as the *Liaoning* in September 2012.

<sup>11</sup> Zachary Keck, "Russia Reveals New 'Super' Aircraft Carrier Plans," *National Interest*, 19 May 2015, <http://nationalinterest.org/blog/the-buzz/russia-reveals-new-aircraft-carrier-plans-12923>.

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<sup>13</sup> Franz Stefan-Gady, "Russia to Upgrade 10 Nuclear Submarines by 2020," *The Diplomat*, 24 March 2015, <http://thediplomat.com/2015/03/russia-to-upgrade-10-nuclear-submarines-by-2020/>.

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<sup>15</sup> The air arm includes Su-35 and Su-30 fighters, and the defence grid will feature the new S-400 missile systems: "Russian Eastern Military District Gets New Air Force, Air Defense Army," *Sputnik International*, 7 August 2015, <http://sputniknews.com/military/20150807/1025493346.html>.

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<sup>19</sup> Akihiro Iwashita, "Primakov Redux? Russia and the 'Strategic Triangles' in Asia," in *Eager Eyes Fixed on Eurasia: Russia and Its Neighbors in Crisis*, Volume 1, ed Akihiro Iwashita, Slavic Eurasian Studies No16-1 (Hokkaido: Hokkaido University Press, 2006).

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<sup>21</sup> "Going Nuclear: Russia and India Agree to Build 12 Power Reactors by 2035," *Russia Today*, 11 December 2014, <http://www.rt.com/business/213411-going-nuclear-russia-india/>.

<sup>22</sup> This is yet to become a firm agreement given that the pipelines will have to follow one of two transit routes (via either China or Pakistan), both of which are unpalatable to New Delhi.

<sup>23</sup> Andy Tully, "Russia Reaches Oil and Gas Agreement with Vietnam," *OilPrice*, 7 April 2015, <http://oilprice.com/Latest-Energy-News/World-News/Russia-Reaches-Oil-And-Gas-Agreement-With-Vietnam.html>.

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<sup>28</sup> "Vietnam's Russian Restocking: Subs, Ships, Sukhois and More," *Defence Industry Daily*, 11 December 2014, <http://www.defenseindustrydaily.com/vietnam-reportedly-set-to-buy-russian-kilo-class-subs-05396/>.

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<sup>33</sup> *BP Energy Outlook 2035*, [http://www.bp.com/content/dam/bp/pdf/Energy-economics/energy-outlook-2015/Energy\\_Outlook\\_2035\\_booklet.pdf](http://www.bp.com/content/dam/bp/pdf/Energy-economics/energy-outlook-2015/Energy_Outlook_2035_booklet.pdf).

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<sup>35</sup> Sergey Paltsev, "Scenarios for Russia's Natural Gas Exports to 2050," *Energy Economics* 42 (March 2014), 262–270.

<sup>36</sup> James Paton and Aibing Guo, "Russia, China Add to \$400 Billion Gas Deal with Accord," *Bloomberg*, 10 November 2014, <http://www.bloomberg.com/news/articles/2014-11-10/russia-china-add-to-400-billion-gas-deal-with-accord>.

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<sup>40</sup> *BP Energy Outlook 2035*, <http://www.bp.com/content/dam/bp/pdf/energy-economics/energy-outlook-2015/bp-energy-outlook-2035-booklet.pdf>.

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