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Russia and the CIS in 2013

Russia's Pivot to Asia

ABSTRACT

As global demand for energy supplies grew, Russia's Far East and Eastern Siberia in 2013 acquired ever more importance in the region's geopolitics. Moscow and Beijing reached accord on joint development of key oil fields in Eastern Siberia. But Moscow used arms sales to Vietnam as part of an apparent effort to thwart Chinese hegemony in the South China Sea. Still, just as Russian comparative economic advantage with Europe and the West has derived primarily from oil and gas, so has integration with Asia hinged on energy.

KEYWORDS: Russia, Vladivostok, oil and gas pipeline, Vietnam, Asia pivot

FOR A VARIETY OF ECONOMIC AND GEOSTRATEGIC reasons, Russia is now again attempting to increase its efforts to develop the economy of its eastern territories and integrate more deeply into the rapidly developing Asian regional economies.¹ Once the Obama administration announced what is widely called its "Asia Pivot" in 2011, Russia's own "Asia Pivot" was marked by its hosting of the APEC (Asia Pacific Economic Cooperation) summit in Vladivostok in September 2012.² Historically, Russia was primarily a European-focused power until the Cold War confrontation with the U.S. Engaging

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1. The most recent such attempt was launched in the latter 1980s under Mikhail Gorbachev. The signature moment was a major policy speech Gorbachev gave in Vladivostok in July 1986. See Tsuyoshi Hasegawa, Jonathan Haslam, and Andrew C. Kuchins, eds., *Russia and Japan: An Unresolved Dilemma between Distant Neighbors* (U.C. Berkeley, International and Area Studies, 1993). An earlier attempt under Brezhnev in the 1970s was mainly in response to the perception of China as a military threat. See, for example, Rodger Swearingen, ed., *Siberia and the Soviet Far East: Strategic Dimensions in Multinational Perspective* (Stanford, Calif.: Hoover Institution Press, 1987).

2. See Andrew C. Kuchins, "Russia Hosting the APEC Summit in Vladivostok: Putin's Tilt to Asia," *CSIS [Center for Strategic and International Studies] Critical Questions*, September 5, 2012, <<http://csis.org/publication/russia-hosting-apec-summit-vladivostok-putins-tilt-asia>>.

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in Asian affairs does not come naturally to Russia's elite, but President Vladimir Putin is keenly aware of the shifting global economic balance of power to Asia, and he understands that Russia's integration there is essential for its successful long-term development. It is true that during the latter Soviet period Moscow was more focused on Asia because of the emergence of China as a perceived strategic threat, but this engagement with the region was almost entirely on military-strategic terms. Now, however, the currency of power has shifted to some degree to economic prowess. And just as Russian comparative economic advantage with Europe and the West has derived primarily from oil and gas, so has integration with Asia hinged on energy.

THE SIGNIFICANCE OF RUSSIA'S VLADIVOSTOK APEC MEETING

In a significant sense, hosting the APEC meeting in 2012 symbolized many things about Russia's Asia pivot. The summit marked a major step forward in Moscow's engagement with multilateral organizations in Asia, a process that goes back to the early 1990s with its participation in the Six-Party Talks over the problem of North Korea's nuclear program. Russian engagement with Southeast Asian multilateral institutions had initially lagged behind that of other major regional powers such as China and Japan. But Russia joined the ASEAN (Association of Southeast Asian Nations) Regional Forum (ARF) in 1994, became an ASEAN dialogue partner in 1996, and in 2004 signed the Treaty on Amity and Cooperation. In 2010 Russia—along with China, the U.S., Japan, South Korea, India, Australia, and New Zealand—participated in the ASEAN Defense Minister's Meeting (ADMM). And in November 2012, Russia, along with the U.S., joined the East Asia Summit (EAS).

The multilateral institutional architecture of Asia is in flux, and Russia wants to be an influential voice in its development. But at the moment, much of Asia does not take Russia that seriously as a multilateral player. Unfortunately, the 2012 faux pas of sending Foreign Minister Sergey Lavrov rather than then-President Dmitri Medvedev to the EAS was repeated in 2013, when Putin did not attend. This perceived slight only heightens Asian skepticism of Russia. Nevertheless, a successful summit in Vladivostok in 2012 did embellish Russia's bona fides as an Asia-Pacific country.

Hosting the summit in Vladivostok rather than Moscow or St. Petersburg also carried important symbolic and geographic value. Just as St. Petersburg was built as Russia's "Window on the West," Vladivostok (literally meaning,

“Ruler of the East”) was founded in the middle of the nineteenth century as Russia’s main outlet to Asia. The completion of the Trans-Siberian Railroad a century ago to its eastern end point in Vladivostok, a rapidly developing port city, enhanced the connectivity of the Russian Far East to European Russia. But for much of the Soviet period, until 1990 just before the USSR’s collapse, Vladivostok was a closed city, being home to the Pacific Fleet. Beginning in the middle 1960s after the split with China, under the leadership of Leonid Brezhnev, the USSR invested billions of dollars in the militarization of Asian Russia. Vladivostok’s status as a closed city symbolized Moscow’s outlook on Asia at the time: defensive and isolated.

Certainly, hosting the 2012 summit in European Russia would have been a lot easier and cheaper. The Russian government invested about \$20 billion to upgrade the infrastructure of Vladivostok, not only to make it a reasonably comfortable host city but also with an eye to the future of the city and the Russian Far East more broadly. Officials seem to want to better position Russia for deeper economic integration with Asia first and foremost, but also politically, socially, and culturally. Whether this investment will pay off in tangible long-term development rather than in short-term symbolism remains to be seen, and there is understandably a lot of skepticism on this question.³ Like the 2014 Sochi Olympics and the 2006 G-8 meeting in St. Petersburg, the 2012 Vladivostok APEC meeting is a significant event, in Putin’s view, for his legacy.

THE CHINA FACTOR: AN AXIS OF NECESSITY

Rather than being characterized by the term, “axis of convenience,” popularized by Bobo Lo,⁴ the relationship, I think, is best described as an “axis of necessity.” Both countries place primary importance in the relationship on maintaining a stable and uncontested border, one of the longest in the world. Vladimir Putin has stated on a number of occasions that he considers the final resolution of the Sino-Russian border in 2004 as one of his most significant foreign policy achievements. Both countries view their primary and secondary security challenges as elsewhere, thus making the peaceful maintenance of their mutual strategic rear very important.

3. Similarly, there is great skepticism about the more than \$50 billion invested in the Sochi region for the 2014 Winter Olympiad.

4. Bobo Lo, *Axis of Convenience: Moscow, Beijing, and the New Geopolitics* (Washington, D.C.: Brookings Institution Press, 2008).

For China, its eastern littoral and the western province of Xinjiang are of primary importance, while Russia continues to view NATO and the domestic security of its Islamic republics in the Northern Caucasus as its most pressing security concerns. From an economic standpoint, there is strong complementarity with China's status as the world's fastest growing consumer of energy and natural resources and Russia's comparative advantage as an exporter of energy and other natural resources. Bilateral trade eclipsed \$80 billion in 2012, and each side has set the goal of \$100 billion in 2015 and \$200 billion by 2020. While reaching these goals will be partially dependent on natural resource prices, the task appears feasible. Shortly after coming to power more than a decade ago, Putin quipped that if the eastern portions of Russia were not more effectively developed, soon the dominant language would be Chinese. Like virtually all countries on China's periphery, even mighty Russia has concerns about being overwhelmed by Chinese economic power and the political influence that comes with it.

A Breakthrough on Oil Development and Supply to China

The second phase of the ESPO (Eastern Siberia-Pacific Ocean) oil pipeline system, which extends the route by 2,000 km to the Pacific Ocean from the connection point of the spur pipeline to China and the terminus of the first phase, was completed in the winter of 2012. With the new line having a designed capacity of 50 million tons annual delivery (which equates to about one million barrels a day), Russia intends to increase crude exports to the Pacific coast from the current 15 million tons to 30 million tons in the near future. Meanwhile, Beijing's request for Russia to increase the amount of crude exports through the spur pipeline, which has spare capacity for shipping another 15 million tons per annum, was promptly rejected by Moscow without showing any interest in continuing the negotiations.

For maximum use of the ESPO pipeline system, considerable amounts of crude oil must be developed in Eastern Siberia, which requires a vast scale of investment, given geological difficulties across a vast area covered by permafrost, harsh climatic conditions, lack of sufficient economic infrastructure, etc. Even with tax exemptions for extracting minerals and reduced export duties, investments by Russian domestic oil companies in East Siberian oil fields have been seriously insufficient. The increment of proven reserves calculated in advance of increasing commercial production has lagged behind the

governmental plan. Despite the urgency of developing oil fields to increase crude production for the ESPO pipeline, the role of foreign capital in the surrounding areas has been limited in scale. Overall, Russia is prepared to work closer with Japan in the field of oil development, however few and small the existing joint projects may be to date. Capital investment from China, which will presumably become the biggest beneficiary of increasing oil supplies from Russia's eastern flank, had obviously remained unwelcome until just recently.⁵

However, in October 2013, Rosneft, Russia's leading oil and gas producer, and CNPC (China National Petroleum Corporation) reached a historic agreement to establish a joint venture to develop fields in Eastern Siberia. Development of the Srednebotuobinsk Field, a world-class field with oil reserves of over 134 million tons and over 155 billion cubic meters (bcm) of gas, will serve as the initial foundation for this joint venture in which Rosneft will hold 51% and CNPC 49%. The significance of this agreement lies in the fact that it provides a Chinese company with a large stake in upstream oil development.

A Continued Stall in Negotiations on Gas Supply to China

The reason why China and Russia have disagreed on building any gas pipeline has been officially attributed to a gap between the purchase price proposed by the two sides, reportedly of more than \$100 per 1,000 cubic meters. Russia long insisted that the price of its gas to China should be equivalent to that of its exports to the EU. However, the record of the past 15 years demonstrates that the bottom line of Russia's gas pipeline strategy toward China addresses not merely pricing but also geopolitical calculations and certain Russian corporate interests, notably, the giant producer Gazprom.

In the meantime, Russia has hurried up construction of a new LNG (liquefied natural gas) plant in Vladivostok for the purpose of increasing not merely Russia's share in the global LNG market but also endorsing nationalist emphasis on its overall presence in the Asia-Pacific region. The work is driven by calculations to secure export destinations other than China before the emergence of the bilateral Russia-China pipeline. The so-called "SKV" pipeline, which stretches 1,800 km from Sakhalin Island to Vladivostok, was completed in September 2011 in time for Russia to host the 2012 APEC summit without having successfully clarified the source of sufficient gas

5. For details, see Shoichi Itoh, *Russia Looks East* (Washington, D.C.: CSIS, July 2011), p. 41.

supplies for it. As prime minister at that time, Putin publicly declared that Russia would construct a gas pipeline from the Chayanda Gas Field, second to the Kovykta Field in gas reserves in Russia's eastern regions, to be connected with the SKV pipeline regardless of cost.

Against the stalled Sino-Russian gas cooperation, Russia has advanced negotiations with Japan, especially for realizing a new LNG plant at the endpoint of the SKV pipeline in Vladivostok. A consortium of Japanese companies and Gazprom are currently studying the feasibility issue, with strong backing from both governments. When and from where the SKV pipeline will procure a reasonable amount of natural gas at an economically competitive price are the key to this planned LNG plant. Gazprom and Japanese companies are also in the process of negotiations over two more projects: expansion of the Sakhalin-2 project's liquefaction capacity and development of the Sakalin-3 project.

MOSCOW'S INCREASING DIVERSIFICATION OF ASIAN PARTNERS

Despite continuous official pronouncements of the historically unprecedented harmony in Sino-Russian relations (which may be true: for centuries this has been a highly conflictual relationship), Putin's greatest foreign policy challenge in the years ahead will likely be managing relations with his rapidly rising neighbor to the East.⁶ Just as Russia is wary of Chinese encroachment on its most valuable sovereign domain, hydrocarbon supplies, Russia is acutely concerned about becoming overleveraged to China more broadly in regional relations if not global ones. Consequently, we are seeing increasing signs of efforts by Moscow to diversify its portfolio of Asian partners, especially with Japan, South Korea, and, most recently, Vietnam.

Russia's concerns about Chinese encroachment are not simply paranoia. Over the past five years, China has planted an increasing footprint in Russia's historic sphere of influence, Central Asia. In 2009, the presidents of China, Kazakhstan,

6. In fact, however, I would contest this proposition that the Sino-Russia relationship is today better than at any time in history and argue that the Sino-Soviet alliance period of the 1950s marked a substantially deeper and closer relationship. First, there were genuine security guarantees and cooperation to support North Korea in the Korean War. Secondly, there was massive industrial and modernization assistance from Moscow. Thirdly, the Soviets were also assisting the Chinese with their civilian and military nuclear programs. And while my evidence is only anecdotal at this point, there were also, at the societal and people-to-people levels, genuinely deeper and warmer relations than those that prevail today.

Uzbekistan, and Turkmenistan celebrated the inauguration of the Central Asian-China pipeline, which runs approximately 2,000 km through the four countries and has a planned total capacity of 40 bcm.⁷ This marks the first major diversion (Turkmenistan began exporting gas to Iran in 1998) of former Soviet Republic gas resources outside the Soviet legacy Gazprom pipeline network. In September 2013, China's new President Xi Jinping made a highly publicized tour through Central Asia, signing over \$50 billion in bilateral deals. China is now far and away the biggest trade and investment partner for Central Asia.⁸

In Russia's relations with Japan, the territorial dispute over islands is still the cause of a rift. Nonetheless Moscow has studiously avoided taking sides in the separate Sino-Japanese territorial dispute, despite public pressure from China to take its side. In July 2012, Putin called for an increase in trade between Japan and Russia,⁹ and Japan was one of the three locations that his top aide, Nikolay Patrushev, visited in his Asia-Pacific tour in October (China was absent from the itinerary as the other two stops were South Korea and Vietnam). Abe Shinzo's visit to Moscow in April 2013 and the 2 + 2 meetings in November have given greater momentum to relations with Japan. Chinese naval incursions in July 2013 for the first time into the Sea of Okhotsk, formerly the strategic Soviet bastion for its SLBM (submarine launched ballistic missile) capabilities in Asia, have raised mutual concerns in Tokyo and Moscow. The pace and scope of bilateral naval cooperation and exercises have increased.¹⁰ One also sees again, somewhat similar to the early 1990s, Russian liberal voices advocating stronger relations with Japan (and South Korea and the U.S.) in the Pacific for both domestic and foreign policy goals.¹¹

With regard to South Korea, there has been bilateral cooperation, especially in space technology. In November 2012, South Korea sent an "SOS" to Russia for rocket parts for its already-delayed satellite launch. Most South

7. Itoh, *Russia Looks East*, p. 35.

8. See Andrew C. Kuchins, "Global Security Forum 2013: The Geopolitical Implications of a Reconnection Eurasia Presentation," CSIS, Washington, D.C., November 5, 2013.

9. "Putin Calls for Russian-Japanese Trade Development," *RIA Novosti*, July 28, 2012, <<http://en.rian.ru/russia/20120728/174828775.html>>.

10. For an excellent summary of recent developments in Russo-Japanese Relations, see Hyodo Shinji, "Japan-Russia Relations in Triangular Context with China," *Asan Forum* 1:3 (November-December 2013), <<http://www.theasanorum.org/japan-russia-relations-in-triangular-context-with-china/>>.

11. For example, see Ekaterina Kuznetsova and Vladislav Inozemtsev, "Russia's Pacific Destiny," *American Interest* 9:2 (October 10, 2013), <<http://www.the-american-interest.com/articles/2013/10/10/russias-pacific-destiny/>>.

Koreans still look at Japan as a foe, but when it comes to Russia, they are more relaxed, if cautious.¹² Seoul regards positively Russia's position in the Six-Party Talks on North Korea's nuclear capacity.¹³ Putin's November 2013 visit to Seoul offered an opportunity to explore upgrading relations, although the headlines centered on triangular arrangements with North Korea and divergence over Japan, rather than on multilateral projects inclusive of Japan. The Russian position on North Korea is far closer to South Korea's than China's. Russia would welcome unification on the peninsula: it would improve conditions for the development of railroad and piped gas supply projects reaching South Korea through the North.

Russia has also been exploring its other options in Southeast Asia to hedge China. Most notable is the increasingly friendly relationship with Vietnam. In April 2012, China advised Russia to abandon its energy and other ties with Vietnam.¹⁴ Russia did not respond and has remained silent. This undoubtedly antagonized Beijing. Since then, Russia has increased its support of Vietnam in regard to energy exploration in the South China Sea, as well as in arms sales and defense cooperation.¹⁵ Vietnam's defense budget for 2012 was \$3.1 billion, a yearly rise of 35%.¹⁶ Additionally, Russia is contributing under building contracts to the construction of Vietnam's first of eight nuclear reactors. In the past three years, Vietnam has sent 200 people to Russia and 200–300 others to various countries to attend short- and long-term nuclear training courses.¹⁷ In July, Russia's navy announced that it was seeking maintenance and

12. Rajeev Sharma, "Russia Needs to Re-Orbit Its Space Diplomacy with South Korea," *Russia Beyond the Headlines Asia Pacific*, November 21, 2012, <http://rbth.asia/articles/2012/11/21/russia_needs_to_re-orbit_its_space_diplomacy_with_south_korea_17989.html>.

13. Steve Gutterman and Nick Macfie, "Russia, China Urge North Korea to Drop Rocket Launch Plan," Reuters, December 23, 2012, <<http://www.reuters.com/article/2012/12/03/us-korea-north-idUSBRE8B21A920121203>>.

14. "Russia Sends Ambiguous Signal over Vietnam Deal," *Global Times*, April 12, 2012, <<http://www.globaltimes.cn/NEWS/tabid/99/ID/704613/Russia-sends-ambiguous-signal-over-Vietnam-deal.aspx>>.

15. Stephen Blank, "Russia's Ever Friendlier Ties to Vietnam—Are They a Signal to China?" *Eurasia Daily Monitor* 9:112 (November 30, 2012), <[http://www.jamestown.org/single/?no_cache=1&tx_ttnews\[tt_news\]=40184&tx_ttnews\[backPid\]=7&cHash=b7200312cd65f215595a2b0f6058fab5](http://www.jamestown.org/single/?no_cache=1&tx_ttnews[tt_news]=40184&tx_ttnews[backPid]=7&cHash=b7200312cd65f215595a2b0f6058fab5)>.

16. Lindsay Murdoch, "Arms Race Explodes as Neighbours Try to Counter China," *Sydney Morning Herald*, November 19, 2012, <<http://www.smh.com.au/world/arms-race-explodes-as-neighbours-try-to-counter-china-20121118-29k4m.html>>.

17. Tim Daiss, "Going Nuclear in Southeast Asia," *Energy Tribune*, November 9, 2012, <<http://www.energytribune.com/64902/going-nuclear-in-southeast-asia>>.

supply facilities at Vietnam's Cam Ranh Bay (as well as in the Seychelles Islands and Cuba).¹⁸ Moscow intends to broaden arms sales cooperation with BRICS members (Brazil, Russia, India, China, South Africa), including China, as well as with Vietnam. The arms sales, which have included Kilo-class submarines, may demonstrate Russia's resolve to prevent China from dominating Southeast Asia and the South China Sea: Chinese hegemony over the latter would marginalize Russian influence in the region.¹⁹ The Russian-Vietnamese bilateral partnership is clearly Russia's strongest in the Asia-Pacific region.

WHAT TO EXPECT IN 2014?

In general, I would expect Russia to continue to expand its ties with China as well as with many other Asian partners along the lines described in this article. Certainly, there will be no alliance with China, nor a rift that would move Russia toward a multilateral containment strategy, unless Beijing did something very aggressive and ill-advised. Possibly, China and Russia will finally resolve their difference over gas prices and supply arrangements, but the full nature of that agreement, if it is achieved, will essentially be a state secret. It is not totally implausible that Russia and Japan will finally resolve their territorial dispute, now entering its 69th year; in their recent article in *American Interest*, Ekaterina Kuznetsova and Vladislav Inozemtsev propose a resolution centered around a 99-year lease to Japan of the Northern Territories/Kurile Islands.²⁰ To date, Russia has for the most part kept the U.S. out of its Asia pivot, probably to avoid drawing the ire of Beijing. Perhaps in the coming year, we will see some small steps in this direction if the broader U.S.-Russia relationship continues a slight rebound from recent cooperation over Syria and Iran. If Russian concerns about an overweening and assertive China grow, then the logic of Moscow playing its own Washington card increases. It is also possible that the Obama administration would come to see Moscow as a useful partner in this regard as well.²¹

18. "Vietnam: Russia Building Naval Base at Cam Ranh," *Langley Intelligence Group Network*, July 28, 2012, <<http://www.lignet.com/InBriefs/Vietnam-Russia-Building-Naval-Base-at-Cam-Ranh>>.

19. *Ibid.*

20. Kuznetsova and Inozemtsev, "Russia's Pacific Destiny."

21. For further exploration on this issue, see Andrew C. Kuchins, "Putin's U.S. Card in the China-Russia-U.S. Triangle," *Russia Direct*, June 27, 2013, <<http://russiadirect.foreignpolicy.com/content/putin%E2%80%99s-us-card-china-russia-us-triangle>>; and idem, "Russia's China Challenge in a Changing Asia," *Asian Forum*, November 13 (December 2013), <<http://www.theasanforum.org/russias-china-challenge-in-a-changing-asia-an-american-perspective/>>.