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TOWARD THE GREAT OCEAN—2, OR RUSSIA'S BREAKTHROUGH TO ASIA

Valdai Discussion Club Report

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The views and opinions of authors expressed herein do not necessarily state or reflect those of the Valdai Discussion Club.

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Synopsis

Almost two years have passed since the publication of the Valdai Club report *Toward the Great Ocean, or the New Globalization of Russia*.¹ At the level of declarations, Russian politics has really turned toward to the East. The larger part of the Russian political and intellectual elites is aware of the importance of stepping up cooperation with the Asia-Pacific region (APR). However, the Asian vector of Russia’s policy has not yet been filled with real content. The policy of developing the country’s eastern regions has stalled. Despite the hopes pinned on the APEC Summit in Vladivostok, Russia has never achieved a breakthrough in its efforts to integrate into the APR.

By being active on multilateral negotiating platforms and using its objective advantages, Russia has made some progress in positioning itself in the APR. There is now a growing demand for Russia’s participation in efforts to solve regional problems. Amid a growing distrust and the growth of conflicts in the region, Russia’s emphasis on peaceful solutions to

conflicts and the absence of confrontation with any Asia-Pacific country enables it to claim the role of guarantor of security in the region. Russia’s place in the national strategies of APR countries is steadily growing too, albeit rather slowly. Whereas earlier Russia was viewed only as an Eastern European but not a Pacific country, now Asian countries pay more and more attention to opportunities that their mutually advantageous cooperation with Russia may open. Russia should continue to stick to its status of “non-aligned power” in the framework of multilateral diplomacy, while actively developing bilateral relations with countries of the region and pursuing a policy of small-scale initiatives – the initiation of cooperation in narrow formats, where Russia can act as a full-scale participant or even a leader.

But most importantly, Russia will be able to fully integrate into the APR only if it ceases to be a periphery for this region. The development of Siberia and the Russian Far East





would be Russia's window to Asia. It must be viewed as an essential tool for Russia's pivot to the East as a strategic goal of the new, "Pacific" century. Long-term political strengthening of the country can only be a consequence of its economic presence in the region.

tics is rapidly returning to international relations and natural factors have an increasing influence on the world economy, the area and geographical position of Siberia are becoming a powerful resource for development. But this resource can be used only by a talented, educated and active population.

The development of Siberia and the Russian Far East would be Russia's window to Asia

The full-scale development of Siberia and the Russian Far East requires:

1. Objectively assessing the main challenges to the region's development. One should discard myths that this development is impossible in conditions of a cold climate and low population density. At the same time, one should realize real threats stemming from the deterioration of the quality of human capital and the growing pessimism of the population about their future in this country.

2. Taking a sober look at the country's capabilities. Siberia and the Russian Far East will not become a new global center of industrialization (although it is necessary to develop individual high-tech industries and micro-regions). The source of the region's wealth is its vast area, resources, nature and, most importantly, people. Siberia and the Russian Far East are the last frontier and the world's largest territory which is poorly integrated into the world economy yet. Now that geopolitics

3. Admitting that natural resources will remain the basis of the new economy of Siberia and the Russian Far East. There is nothing wrong about using the wealth given by Nature. It is important that the resource sector work for the benefit of the region. To this end, it should not only create jobs but also serve as the core for the development of high-tech industries serving its needs – from the manufacture of oil production equipment to biotechnologies in agriculture. In addition, raw materials and energy should be supplied to foreign markets mainly as high value added products. Processing industries can be set up primarily in southern Siberian cities that have good-quality human capital and capabilities to build it up.

4. Changing significantly the institutional environment in the sphere of the development of natural resources in the region. Access to natural resources of Siberia should be given not only to state-owned companies but also private businesses and foreign capital (Russia lacks the required capital and technologies) – that is, to any economic agent that can make the best use of natural resources. In the times of the Russian Empire, successes in the development of Siberia and the Russian Far East were large-



ly achieved due to private enterprise. Private businesses were supported by the state which developed huge territories. The state's task number one is to create all conditions required for full-scale development of business, and thus to strengthen its own sovereignty.

growth and a window to growing Asia. The imperative of support for the region should be replaced with an imperative of its development, and the ideology of resource development, with an ideology of human capital development.

Natural resources will remain the basis of the new economy of Siberia and the Russian Far East. But there is a need to change significantly the institutional environment in the sphere of the development of natural resources in the region

5. Revising the role of northern territories in the country's development. In the conditions of growing international interest in the Arctic, it is time to stop viewing these territories as a burden and to launch a well thought-out state policy for using the region's resources and transit potential. The main principles of this policy should be incontestable state sovereignty over mainland and offshore areas, environmental security, and maximum use of opportunities provided by international cooperation.

6. Adopting a new philosophy for developing the region: Siberia and the Russian Far East should be viewed as a colony, or an object of paternalistic efforts by the center, or the rear, or a front of struggle against external enemies. They are a new source of

7. Opening the region to foreign investors. Russian does not and will never have enough resources to implement the Siberian project on its own. But there is no need for that. The last frontier must be developed by all Asia-Pacific countries under Russia's sovereign control. The interest in the development of Siberia and the Russian Far East, displayed by APR countries, is growing fast.

However, institutional and logistical constraints stand in the way of implementing this interest. These obstacles can be removed by a state policy for developing the region. Major obstacles include the shortage of manpower, the poor development of transport infrastructure, and the unfavorable business climate. All these problems can be solved. The main barrier to international cooperation in developing Siberia and the Russian Far East is Russia's insufficient perseverance.

8. Giving up the idea of socio-economic development of the entire territory of the country's east in favor of a different spatial-geographical model of development, based on the establishment of special economic and geopolitical zones. First of all, the state should attract investors by ensuring the functioning of essential institutions, above all,

those of law, and introducing tax breaks and other benefits for investors. Secondly, the state should support the social infrastructure and facilitate the inflow of workers of required professions and skills. The organization of special zones and the distribution of licenses and concessions apparently would require creating an agency for the development of Siberia and the Russian Far East. Later, its functions may be turned over to regional authorities.

The unprecedented shift of economic power to the Asia-Pacific region gives Russia a chance to transform the image of Siberia and the Far East – the last frontier of Asia

9. Building up the region's transport framework. Its key elements would be the Trans-Siberian Railway, seaports, the Northern Sea Route, the inland water transport system, the high-speed rail network in the south of Western Siberia and the Primorye Territory, and the network of air services. This framework

should be aimed at compressing the economic space of the region, overcoming the continentality of the hinterland, creating conditions for the export of local products, and developing the human capital of Siberia. It may also include other infrastructure projects implemented by private businesses or on the basis of public-private partnership.

10. It is time to realize that the world is changing and Russia should change together with it.

The unprecedented shift of economic power to the Asia-Pacific region and the aggravation of global demographic, resource and environmental problems open unprecedented opportunities for this country. Russia has received a chance to integrate into the global economy as a key player, transform the image of Siberia and the Far East, a region that has been underestimated for

centuries and now is the last frontier of Asia, and thus give a new impetus to the country's economic, spiritual and political development. Russia has no right to miss such a chance. It is on the verge of a new period in its history. It is time to move forward, towards the Great Ocean.

1. Toward the Great Ocean: From Calls to Action

1.1. The 2012 report *Toward the Great Ocean, or the New Globalization of Russia: main theses*

In 2012, the Valdai Discussion Club presented its report *Toward the Great Ocean, or the New Globalization of Russia* for the political and expert communities in Russia and abroad. The present report, *Toward the Great Ocean-2*, is a follow-up on the previous one; it has taken into account the experience gained in implementing some of the recommendations contained in the first report and results of its broad discussion.

The authors of the present report hold that the shift of the center of gravity and the pivot of Russia’s foreign and foreign-economic policies toward the Asia-Pacific region is a natural and top-priority response to the challenge faced by the country in the global and diverse world of the 21st century. We have been witnessing an unprecedentedly fast shift of the center of the world economy and politics to Asia. Asia’s eco-

nomie growth has become a “locomotive” driving many economies in the world, which have reoriented themselves to the supply of raw materials and goods to China, India and Southeast Asian countries. None of the leading states in the contemporary world can claim a truly global status without a strong presence in the Pacific.

Russia, too, can and must use opportunities opened by the “Asian century.” So far, Russia has not been sufficiently integrated into economic processes within the APR. The economic and political strengthening of Asian countries gives Russia a chance to become a truly global, Euro-Atlantic/Pacific power and derive much benefit from that. While preserving its general social and civilizational orientation toward Europe, Russia must make an economic and partially political pivot to Asia. Only then can it claim the status of a great power of the 21st century.

The latent Eurocentricity of the mentality of Russian elites and, more importantly, the





insufficient development of Russia's eastern territories adjacent to rising Asia are the main obstacles to Russia's full-scale "new globalization" and its inclusion in the economic and political development of the APR. Moscow still views Siberia and the Russian Far East as the geopolitical rear or an economic semi-colony. This view is erroneous – Siberia and the Russian Far East can serve as the basis for Russia's economic breakthrough. This requires:

- A sharp increase in Russia's foreign-policy activity in the APR, and the creation of a complex strategy for Russia's new Asian policy, involving political and economic aspects and including the program of the development of the East of Russia.
- The transfer of the capital or part of its functions to one or several cities in Siberia and the Russian Far East, or even creation of the third Russia's capital in Siberia or – even better – on the Pacific coast. It would cause part of the elites to reorient their mindsets and economic and political behavior.
- Opening the whole of Russia (through its eastern territories) to new "rising Asia"; making Siberia and the Russian Far East as open as possible to economic cooperation with Asian neighbors.
- Using Russia's competitive advantages in the conditions of Asia's growth, instead of outdated approaches, like "new industrialization." These advantages include ample reserves of fresh water and arable land, which enables producing food and high-tech water- and energy-intensive goods that are in growing demand in Asian countries which cannot produce them for lack of resources.
- Maximum attraction of foreign investment not only from China but also from the

U.S., Japan, South Korea, and ASEAN and EU countries under special protection and patronage of the Russian state for the development of Siberia and the Russian Far East.

- The creation of preferential conditions for talented and energetic people; the transformation of the region into a zone of development and creativity for the whole of Russia.

1.2. The pivot to the East two years later: What has changed since the publication of the report?

Almost two years have passed since the publication of the Valdai Club report *Toward the Great Ocean, or the New Globalization of Russia*. The report provided solid intellectual grounds for a "pivot to the East" in Russian foreign and economic policies and assigned a special role to Siberia and the Russian Far East in these efforts. This period has proved the correctness of most of the report's provisions. Russia is gradually reorienting itself toward Asia in its development, at least at the level of strategic documents and statements by national leaders. At the St. Petersburg International Economic Forum in June 2013, Vladimir Putin said that Russia would be able to boost its economic growth only if it oriented its exports toward growing Asian markets. In December in his annual address to the Federal Assembly the President identified the raise of Siberia and Far East as a "national priority for the whole 21 century". Thus Vladimir Putin repeated and even strengthened his call to "catch the Chinese wind in the Russian sail," which he had made in one of his pre-election articles.²

One can say with satisfaction that the attitude of the Russian political and intellectual elites toward the Asian vector of Russia’s foreign policy and toward the development of Siberia and the Russian Far East has begun to change. Whereas earlier a possible pivot to the East was often viewed as unnatural for Russian political and cultural traditions and as a result of the authoritarian instinct of the Russian authorities, now the public at large becomes aware of the objective need to use the opportunities opened by Asia’s growth in the interests of Russia’s eastern regions and the country as a whole.

The need to conduct an active foreign policy in Asia is determined not by cultural or civilizational norms but by economic and political expediency

The artificial East-West dichotomy – “Either we side with Europe or China” – has almost disappeared from public discussions. The need to conduct an active foreign policy in Asia is determined not by cultural/civilizational norms but by economic and political expediency (and even necessity). Retreat from political and economic Eurocentrism to which we appeal shouldn’t and can’t mean retreat from civilizational belonging to Europe.

The “turn in the minds,” which has begun among the elites, is a huge step forward. But it is not complete yet; besides, it is not enough for success. Russia’s Asia policy needs to be

filled with real content, based on pragmatic use of Russia’s own competitive advantages. This content is now almost lacking.

The 2012 APEC Summit, held in Vladivostok, came as an important and symbolic move toward a reorientation of Russia’s foreign policy toward Asia. Preparations for the summit were the main megaproject in Russia for some time, and problems of the Russian Far East drew close attention of the whole country. At the summit, Russia proposed an ambitious agenda for Russia’s speedy integration into many economic and political processes in the Asia-Pacific region. The summit declared a policy of liberalizing trade in the region and adopted a list of 54 environmental goods which will be traded in the region almost tariff-free. Russia expressed readiness to assume the functions of a key player in ensuring regional food security. The summit reached framework agreements to develop transport and investment cooperation and create APEC common education and science spaces.

The Vladivostok summit marked the beginning of consistent efforts to promote and protect Russian interests in Asia. Some of the initiatives presented at the meeting were further developed in 2013. For example, the 2013 APEC summit in Bali made a commitment to refrain from introducing any protectionist measures in trade and investment cooperation between the member countries until 2016, and worked out a mechanism for trade in environmental goods (tariffs on them



are to be reduced to five percent or less by the end of 2015). The 2013 East Asia summit continued the discussion of food security issues, started in Vladivostok. One of the items on the 2013 APEC summit agenda, the promotion of connectivity, resonates with Russian experts' Eurasian-Pacific initiative to build up mutual ties in the region.³ On the whole, despite the fact that not all Russian proposals aroused interest among its partners and that only a few of them have been translated into concrete measures, Russia's chairmanship of the APEC can be considered successful.

The APEC summit in Vladivostok marked the beginning of consistent efforts to promote and protect Russian interests in Asia

Since the APEC summit in Russia's Vladivostok in 2012, there has emerged a risk of Moscow's backtracking on its Asia policy. On the one hand, the Kremlin's attention has switched to other mega-projects: the Olympics, chairmanship of the G20 and G8, the FIFA World Cup, etc. On the other hand, the Eurasian integration project is going ahead full steam. Theoretically, integration in the post-Soviet space and integration in the Asia-Pacific region are not rival projects, especially as long-term benefits from participation in Asia-Pacific economic processes are incomparably higher. However, given the limited amount of financial and human resources,

which may not be enough for the two projects, as well as the peculiarities of the current political situation, there is a risk that priority will be given to Eurasian integration. For Russia, this will mean not only huge untapped opportunities but also a danger of remaining on the periphery of global economic and political processes, whose center is moving to the Asia-Pacific.

The likelihood of this scenario is increased by a factor of unjustified (and, possibly, a priori over-inflated) expectations. The hype about the APEC summit made many people expect Russia's breakthrough into Asia, both politically and economically. And whereas the political positions of Russia in the Asia-Pacific region have really strengthened somewhat, the same cannot be said about its economic positions.

The share of the APEC countries in Russia's foreign trade reached a record high of 24.8 percent in 2013.⁴ On the one hand, this share is constantly growing, and in 2013 it increased due to Russian exports. On the other hand, this is largely compensatory growth which is due to a decline of the EU share, as the EU is struggling to recover from the crisis and has a decreasing demand for imports, including Russian raw materials. Russia's trade with APEC countries increased by only 2.4 percent in 2012 and by 3.5 percent in 2013.⁵ This is too little to speak of a breakthrough. China, Japan, Korea, India and ASEAN countries taken together account for about 20 percent of Russia's trade – too little, considering the increasing role of these





Plans set out in the state program *Socio-Economic Development of the Russian Far East and the Baikal Region* were wrecked by a flood of 2013

countries in the global economy.⁶ The ratio between Russian exports and imports almost balanced out in 2013, but the structure of exports is still unfavorable. Raw materials, largely unprocessed, still make the bulk of Russian exports, and Russian manufacturers of high-tech products (except the armaments industry) are still not present in Asian markets. New agreements, concluded in 2013, for the supply of energy resources to Japan and China will only strengthen the raw-material orientation of Russia's participation in Asia-Pacific economic processes.

Investment cooperation remains at a low level. Foreign investment in Russia by major Asian countries in 2012 even decreased. For example, China invested only U.S. \$0.74 billion in the Russian economy, and Japan, \$1.14 billion (the figures for 2011 were \$1.89 billion and \$1.24 billion, respectively). South Korea was the only Asian country to increase investment in Russia's machine-building in 2012 – from \$0.78 billion to \$0.95 billion.⁷

The APEC summit in Vladivostok did not become a real driver of the development of the Russian Far East, despite the hopes pinned on it and the record spending on its preparations which cost tens of times more than prepara-

tions for all the previous APEC summits, taken together, over the 24 years since the organization was established. In 2012, after the completion of the main construction work, investment in the Primorye Territory fell by 44 percent, compared with 2011, and over the first half of 2013 it further decreased

by half in annual terms. The summit has left behind infrastructure but has failed to revive private business and the regional economy in general.

New “post-APEC” benchmarks for the region's development were to be set by the new Ministry for the Development of the Russian Far East, established in May 2012. Since then, it has produced one major document – the state program *Socio-Economic Development of the Russian Far East and the Baikal Region*, approved in March 2013. However, even though the program's preparation took an unprecedented long time, it was actually discarded six months after its adoption.

To a certain extent, the plans set out in the state program were wrecked by a flood in the region in July-September 2013, the largest over the last 115 years. It affected 100,000 people and did damage of more than 30 billion rubles. The flood, which destroyed the transport and social infrastructure of the southern areas of the Russian Far East, required revising plans for developing these areas, considering the zero-base effect produced by the disaster. There emerged opportunities to carry out modernization in a shorter period of time. Naturally, the program could not foresee such opportunities.



But the main drawback of the program is that it was obsolete from the very beginning. Its approach, based on a key role of mega-projects (the extension of the Baikal-Amur Railway, the construction of a bridge to Sakhalin, etc.), is geared to yesterday. The era of mega-projects – symbolically and politically important but very costly undertakings – is over. Federal budget allocations for the program were set

and removing barriers, rather than trying to carry out its development on their own and pay for it from the federal budget.

The paternalistic approach to the region has necessitated limiting the program to the Russian Far East and the Baikal Region, and the ministry, to the Russian Far East only. The once-single region “Siberia and the Russian Far East” has been fragmented, leaving out territories of Western and Eastern Siberia, without which it is impossible to speak of Russia’s integration into the Asia-Pacific region. Why these territories have not been included in the program is clear – given the current approach to its implementation, there will not be enough funds for the development of Siberia as well – irrespective of economic growth rates in Russia.

New model for the state policy is based on the development of industries that would be oriented to export their products to the Asia-Pacific region by improving the investment climate and creating special economic zones

at 3.8 trillion rubles, which by far exceeds the budget capacity. The slowdown of economic growth and the ensuing need to reduce government spending dictates abandoning mega-projects in favor of less ambitious and more pragmatic measures.

The program’s model for developing the Russian Far East duplicates the federal center’s policy towards the republics of the North Caucasus: to keep a region under control Moscow invests huge funds in it, which cannot be recovered even in the medium term. This duplication is a mistake. The Russian Far East offers many opportunities for development. The federal authorities need only to help the region tap them by eliminating bottlenecks

The failure of the state policy of the eastern regions’ development was publicly admitted in October 2013. At a meeting of the Government Commission for the Development of the Russian Far East in Komsomolsk-on-Amur, Dmitry Medvedev said that Russia’s Far Eastern policy had not produced the desired effect and that it should be changed. Previously, in September 2013, the Kremlin decided to breathe new life into Russia’s Far Eastern policy with a government reshuffle. The Minister for the Development of the Russian Far East and, simultaneously, Presidential Envoy to the Far Eastern Federal District, Victor Ishayev, was discharged from his posts. Alexander Galushka

took over as the minister, and Yuri Trutnev was appointed Presidential Envoy to the Far Eastern Federal District and Deputy Prime Minister of Russia. Almost simultaneously, Pavel Grachev resigned as General Director of the Far East and Baikal Region Development Fund, established by Vnesheconombank. No one has been appointed to replace him yet, although the Fund has for several years been one of the key instruments of Moscow's Far Eastern policy.

The reshuffle can benefit the development of Russia's Asian part. However, it is important not to repeat the mistakes of the past: choosing a philosophy for the region's development should be the first step, without which concrete investment mechanisms cannot be implemented. An effective strategy for developing the Russian Far East should not just provide for a set of concrete measures but also contain a vision of the desired state of the region and its positions in the world and in Russia, to be achieved with the help of these measures.

The meeting in Komsomolsk-on-Amur made an attempt to work out, if not a philosophy, then at least a new model for the state policy towards the Russian Far East. This model is based on the development of industries that would be oriented to export their products to the Asia-Pacific region. This can be done

by improving the investment climate and creating special economic zones. This goal can only be hailed, but the success of its implementation depends on the right choice and efficiency of new institutions and instruments of development. There is still a high risk of bureaucratization of the management system, which will replace real processes of the region's institutional and economic development with various kinds of initiatives and the establishment of ever new institutions as an end in itself. The danger of such a scenario grows as not a single document gives a clear picture of the region's integrated development, including the form of management, the format of interaction with investors, the degree of foreign partners' involvement, etc., even though the legislative endorsement of concrete mechanisms will begin in the near future. There has also been no analysis of the needs of the domestic and foreign markets, as well as Russia's competitive advantages and weaknesses.

The complex vision is impossible without understanding the processes taking place in the Asia-Pacific region (in other words, the external environment for the development of Siberia and the Russian Far East), as well as without defining objectives and mechanisms for Russia's integration into them.

2. Economic and Political Processes in the APR and Russia's Place in Them

2.1. Asia's growth in the face of new challenges

Over the last decade, Asia-Pacific countries – China, India, South Korea, and ASEAN member-states – were real drivers of the world economy. It was largely thanks to them that a catastrophic turn of events was avoided during the crisis, and it didn't become the new Great Depression. In 2009, U.S. GDP decreased by 3.1%, that of the EU by 4.3%, Japan by 5.5%, and Russia by 7.8%. At the same time, Chinese GDP grew by 9.1%, and India's by 8.5%. Vietnam, Laos and Indonesia posted high growth rates, too.⁸ This trend caused many analysts to conclude that the center of economic power was obviously shifting to East Asia.

Nevertheless, the global financial and economic crisis has left its mark on Asia-Pacific countries. Starting from 2011, almost all economies in the region have been marked by slower economic growth. One major reason was the decline in demand for Asian goods due to

slow recovery in the European Union. In 2012 in China the GDP growth rate decreased to 7.8% (the record low since 1998), and in India it decreased to 3.2% (the record low since 1991). Economic growth slowed down also in other countries in the region – the Republic of Korea, Indonesia, Vietnam and Singapore.⁹

In 2013, the leading Asian economies were faced with serious challenges. The situation on export markets did not improve, which adversely affected the balance of trade in APR countries that are traditionally export-oriented. On top of that, in the spring of 2013, rumors began to circulate that the U.S. would phase out its quantitative easing policy. Despite it didn't happen until the end of 2013 the associated uncertainty caused panic in the capital market and a capital outflow from countries that are particularly dependent on cheap dollar loans, among them India and Indonesia. The growing insecurity in the Greater Middle East fueled the panic even more, boosting energy prices and threatening



the stability of exports of Asian production and imports of raw materials.

Amid the growing problems, there are louder and louder voices of skeptics who say that the prospects of Asian economies have been overestimated. Russian analysts have also expressed fears that the pivot to the East has proved untimely: Asia's growth, which Russia finally planned to join, has stopped.

In our opinion, this conclusion is hasty as it does not take into account the peculiarities of

Russia's Asia policy should take into account the economic problems that arose in Asian countries in 2013, but Russia's response to them should be not a decision against pivot to the East but a clearer choice of priorities within the framework of this turn

the region's emerging economies. Of course, Russia's Asia policy should take into account the economic problems that arose in Asian countries in 2013, but Russia's response to them should be not a decision against pivot to the East but a clearer choice of priorities within the framework of this turn.

The growing uncertainty with economic processes in the world in general and the Asia-Pacific region in particular has become a litmus test that has shown stability or instability of economic growth in the region. In terms of economic dynamics, Asian countries can be divided into two groups.

In the summer of 2013, long-existing structural imbalances in economies with weak institutions brought about crisis phenomena: sharp drops in national currency rates, growing national budget and balance of trade deficits, and reductions in official reserves.

In Indonesia, there have emerged prerequisites for a full-scale economic crisis. Last summer, the Indonesian rupiah depreciated by

14 percent and became the weakest currency in Asia. National budget and balance of trade deficits hit record highs in recent years, inflation soared, and capital flight reached billions of dollars. In 2013, the GDP growth rate did not exceed six percent, for the first time since the global financial crisis. The country badly needs institutional reforms, but these are hardly possible before the next presidential election, scheduled for July 2014.

In Thailand, the decrease in external and internal demand for domestic goods in the first half of 2013 led to a technical recession – a decline in GDP for two consecutive quarters of a year. The decline was stopped in the third quarter, yet the GDP growth rate for the year was still below four percent. Given considerable gold and forex reserves in the country, there is a small likelihood of a full-scale economic crisis there. However, economic difficulties may become an additional factor in aggravating political crisis. The country is swept by protests. Formally, they were caused by the authorities' attempt to use an amnesty law and return to the country Thaksin Chinnawat, former prime minister and brother of the current Prime Minister Yinglakh Chinnawat. Many people believe Thaksin is the backstage leader of Thailand. However, the protests were also caused by economic factors: prerequisites for them were created by populist policies of the Yinglakh Chinnawat government in its first years and the ensuing crisis of unjustified expectations.

India is on the verge of economic crisis. The rupee rate fell by 10 percent over last summer. The government has to simultaneously combat high inflation, budget and balance of trade deficits, and capital flight – and, at the same time, repay its short-term debt of \$172 billion by the end of the 2013–2014 fiscal year. The country needs serious institutional reforms, but the government does not dare to start them before the 2014 parliamentary elections, especially amid a sharp fall in the popularity of the ruling Indian National Congress. The country's huge official reserves make a full-scale economic crisis, like the Asian financial



crisis of 1997–1998, hardly possible (despite many parallels). Yet, it is obvious that, to continue its economic growth, India needs more than objective competitive advantages, such as cheap labor, or a large domestic market.

At the same time, countries with strong economic institutions and stable political systems (Japan, China, South Korea and Singapore) demonstrate sufficient flexibility in the face of economic difficulties.

However China is now witnessing an economic slowdown, too. Until the third quarter of 2013, the Chinese economy had been slowing down for 13 consecutive quarters of a year. This is a record-long decline in economic dynamics since 1979, when market reforms were only just launched in the country. According to preliminary estimates, China's GDP growth rate in 2013 stood at 7.8 percent, which equaled the record low of 2012. But of more importance is not so much the figure per se as China's decision to stop supporting high economic growth rates at any cost. With the help of state intervention, the government could have kept the growth rate at more than eight percent, but it opted not to do that. According to China's new leader Xi Jinping, economic restructuring (first of all, transition to domestic consumption as a major growth driver in the future) is now more important than short-term peace of mind of investors who are accustomed to high growth rates. The Central Committee of the Chinese Communist Party, at its plenary meeting in November 2013, offered a restructuring plan providing for a greater role for market regulation and a reduction of the state sector in the economy. If structural reform is

launched in defiance of opposition from conservatives, who traditionally do not welcome higher competition in key sectors, a certain slowdown of the Chinese economy could be viewed as a sign of its maturity and a transition to a new stage of development, rather than a manifestation of weakness.

For Russia, it is important that, given structural reforms continue, and notwithstanding the economic slowdown, China's demand for consumer goods and energy resources will keep increasing due to the stimulation of domestic consumption. It leads to a paradox: the attractiveness of the Chinese niche in the markets of most kinds of water-intensive products, food and energy resources will only grow as the Chinese economy is slowing down.

The year 2013 saw Japan returning to the ranks of growing economic players in the region. The economic policy of Prime Minister Shinzo Abe (dubbed Abenomics), aimed at combating deflation and stimulating economic growth, is one of the world's most successful examples of government policy at the stage of post-crisis recovery. It is too early to speak of its final results, yet it is already clear that economic growth rates in Japan in 2013 in any event will be much higher than the national average over the last two decades. Unemployment in Japan hit a record low since 2008, and the government eliminated deflation, which had plagued the Japanese economy for 15 years. Of the "three arrows" of Abenomics, two have been successfully implemented – namely, a massive fiscal stimulus and monetary easing. Now it is time to launch the third "arrow" – structural reforms. This will be of decisive importance

for Japan’s return to a trajectory of sustainable growth.

Korea has responded to economic problems in key export markets by building up state investment. At the same time, it has increased domestic consumption which, in turn, has boosted economic growth – to 2.8% in 2013. Prospects for the Korean economy look quite stable. The same applies to the economy of Singapore.

China, Japan, Korea, Singapore and Vietnam are the main potential partners of Russia in the Asia-Pacific region

This country has also succeeded in increasing domestic demand and, due to this, in accelerating economic growth, which is driven by industries supporting consumption – the financial sector, trade and construction.

Vietnam occupies a position between economies on the verge of a crisis and islands of stability. On the one hand, as in the previous year the country’s GDP growth rate has not exceeded six percent. Like other developing economies in the region, Vietnam has suffered from uncertainty about the future of the U.S. quantitative easing policy. The amount of bad debts has reached such a high level that the government has had to establish a special agency to clear the economy of them. At the same time, problems facing the country cannot be described as critical. They do not prevent Vietnam attracting

foreign investment and even steadily increasing exports, while reducing inflation. It seems that Vietnam is becoming the most competitive economy in Southeast Asia if we take the relationship between its potential of catch-up development (due to a relatively low basic level and low labor costs) and the country risk level.

Economic difficulties of 2013 have increased polarization in the region (which will enhance instability), dispelled illusions about some fast-developing countries and, at the same time, strengthened the positions of the leaders. China, Japan, Korea, Singapore and, to some extent, Vietnam have proved that their economies are resistant to crisis phenomena. They have shown a good example of adaptability and the use of common sense as an alternative to dogmatic approaches which brought about the crisis in the West. The leading Asian states have passed one more maturity test. We believe it is these countries that are the main potential partners of Russia in the Asia-Pacific region.

2.2. The growing potential conflict of the Asia-Pacific region

Interaction among Asia-Pacific countries has recently been marked by increased rivalry. At the same time, there is a feeling that the initial expectations with regard to mechanisms intended to reduce tensions have been exhausted. Meanwhile, conflicts keep growing. At first, China announced the creation of a new air defense zone in the East China Sea, which





We are witnessing a certain *détente* in U.S.-Chinese relations, which just a few years ago were viewed by many as the main source of a potential global conflict of the 21st century

included disputed islands. Korea and Japan described the move as an attempt to disrupt the status quo in the region. Then, Japanese Prime Minister Abe visited the Yasukuni Shrine where Japanese war criminals are enshrined, along with other people who died in wars. China and Korea took the visit as a provocation. The new conflicts have increased tensions caused by recent territorial disputes and critical developments in many countries of the region, and coincided with China's general military strengthening. As a result, tensions in the Asia-Pacific region have risen to dangerous levels.

Regional security challenges are evolving faster than institutional mechanisms intended to keep conflicts under control. Problems in the South China Sea are a most characteristic example. After the Obama administration proclaimed the United States' "comeback to Asia," the center of contradictions has shifted from the China-ASEAN to the China-U.S. axis. The problem is therefore not so much which country should own the disputed islands and reefs in the South China Sea, but whether China is basically ready to put up with the activity of the U.S. and its allies in a territory claimed by China as its territorial waters in accordance with the Law on the Territorial Sea and the

Contiguous Zone that it endorsed in 1992.

At the same time, today we are witnessing a certain *détente* in U.S.-Chinese relations, which just a few years ago were viewed by many as the main source of a potential global conflict of the 21st century. After Barack Obama's

first meeting with Xi Jinping in June 2013, the latter announced an upcoming "unprecedented event" – "the creation of a new type of relationship" between the two powers. However, this "*détente*" should not mislead anyone. The leaders' warm handshakes could have significance if U.S.-Chinese relations followed the logic of the Cold War, which was largely determined by the heads of states. The Cold War metaphor is handy, hence it is favored by many experts. However, it oversimplifies the situation. In actual fact, the ongoing political processes in the Asia-Pacific are rather a return of the 19th-century geopolitics to international relations than a reproduction of the 20th-century realities.

Geopolitical maneuvers make the quintessence of U.S.-Chinese contradictions. On the one hand, there is the Chinese "active offshore defense" doctrine (also known as Anti-Access/Area Denial). Its first phase aims to prevent the opponent from entering a certain area while the second, in the event the opponent forces his way, prevents him from deploying there. This area covers the first chain of islands in the Yellow, East China and South China Seas. On the other hand, there is the

U.S. concept of Air-Sea Battle. Its key element is integration of U.S. capabilities in the sea, air, outer space and in cyberspace for military activity in any place of the world.

In the face of such transformation of the South China Sea problem, the prospects for the U.S.A. or other countries’ joining the ongoing China-ASEAN talks over its solution, are obscure. In these conditions, drawing a Code of Conduct in the South China Sea contributes not so much to resolving the existing contradictions as to their conservation.

Economic integration within the Asia-Pacific region is currently developing in the spirit of “new regionalism,” that is, as a web-like interaction, devoid of a hierarchy of institutions, which are characteristic of the European and Eurasian integration processes

The current mechanisms to tackle North Korea’s nuclear and missile problem are as ineffective. As a de-facto nuclear state set to develop delivery vehicles, North Korea is not going to renounce such programs; moreover, it plans to raise them to a markedly higher level. Meanwhile, the international community’s reaction to North Korean missile and nuclear tests in 2012 and 2013 did not go beyond what had been proposed before. It urged the resumption of Six Party Talks, but Pyongyang’s participation in them did not stop it from developing its missile and nuclear potential. The UN slapped new sanctions on North Korea, yet their effect is highly doubtful, considering its undeveloped foreign economic relations. Lastly, the U.S. and its allies in Northeast Asia stepped up mutual cooperation, which urged Pyongyang to respond rather than restrain.

Clearly, the U.S. and China are not prepared to agree on a common vision of the factors undermining the sustainable development of the region. Both are interested in maintaining regional stability, yet they differ in the understanding of the framework to secure it.

Washington understands it as strengthening its military and political positions and stepping up cooperation with established and new partners. For the last years for Beijing the stability has supposed creating a belt of good neighborhood along its borders, which Chinese policymakers believe has been countered by U.S. actions.

The above trends decrease the level of controllability of the regional environment through efforts of the key players. The new spiral of arms race has been launched, specifically by the navies, and the strengthening of military ties between many countries of the region has begun. Another trend is a flurry of strategic partnership treaties, where the signatories often have no clear idea of the implications.

Attempts to soften the sharp problems of the South China Sea or Korean peninsula are thwarted by low efficiency of the mechanisms which until recently were regarded as key factors in maintaining regional stability. Despite the emergence of new ASEAN-based platforms of multi-party diplomacy, their participants seem to be unable to find mutually acceptable compromises to resolve contradictions.

As problems grow in complexity, the Association reiterates the necessity to counter them by means of preventive diplomacy, yet it is unable to explain how it differs from confidence-building measures. Lastly, the latest economic regionalism initiatives, such as Trans-Pacific Partnership and Regional Comprehensive Economic Partnership, have not only failed to contribute to a reduction of contradictions between APR countries and territories by building up trade, investment, technology and other exchanges, but rather created new dividing lines.

Escalation of military and political contradictions doesn’t affect directly economic integration at the moment. However given the high degree of mutual mistrust, the demand for it is met not through large regional umbrella-type partnerships, but a web of bilateral free trade treaties which now covers practically the entire region. (A lack of such treaties between the key

players – China, South Korea and Japan – is the main obstacle to this web becoming a full-fledged free trade zone). Economic integration within the Asia-Pacific region is currently developing – and is likely to develop in the future – in the spirit of “new regionalism,” that is, as a web-like interaction devoid of a hierarchy of institutions, which are characteristic of the European and Eurasian integration processes.¹⁰

The demand for Russian presence in the region grows as the local conflict potential increases. Russia is now a participant in nearly all multi-party formats of the region

2.3. The “demand for Russia” in Asia-Pacific countries

The demand for Russian presence in the region grows as the local conflict potential increases. Our partners’ higher expectations are not without reason; they are generated by Russia’s more active policy in the Asia-Pacific Region. Russia is now a participant in nearly all multi-party formats where the key players of the Asia-Pacific economy, politics and security consider opportunities for maintaining sustainable and conflict-free development of the region.

Russia has made a tangible contribution to discussions on regional order at sessions of the East Asia Summit (EAS), the ASEAN regional

forum (ARF) and the ASEAN Defense Ministers–Plus Eight Meeting, which the Association views as a framework for monitoring the Asia-Pacific strategic environment, which is aimed at preventing regional problems from escalating to major crises.

In the future, it might be possible for Russia to join other multi-party initiatives, such as the Regional Comprehensive Economic Partnership (RCEP) and the Regional Cooperation Agreement on Combating Piracy and Armed Robbery against Ships in Asia (ReCAAP).

Russia is important for Asia-Pacific region countries because it has the capacity and necessary institutional basis for easing regional security problems and forming conditions for their evolution in a peaceful non-confrontational vein. For example, South China Sea disputes, largely focused on energy resources and maritime lines, could be defused by boosting supplies of Russian oil and gas to the Asia-Pacific region. Increasing exports of Russian foods to Asian countries would help ease their food security problem.

Russia’s more active development of the Northern Sea Route potential and the Trans-Siberian railway would “unclog” the Strait of Malacca where tensions have been mounting due to its overload and lack of alternative routes. Lastly, Russia is heading the Northeast Asian Peace and Security Mechanism, a working group set up within the format of Six Party Talks. This forum can meet in the absence of





After a noticeable thaw in Russia's relations with Japan has been reached, there is not a single country left in the Asia-Pacific region which would be in a state of confrontation with it. Russia's relations with all regional players have a generally positive character

North Korea, which makes it possible to coordinate the positions of five key – in terms of the region's economy, politics and security – players, and address not only issues related to North Korea, but also such vital agenda as U.S. missile defense and missile defense potentials of APR countries.

After a noticeable thaw in Russia's relations with Japan has been reached, there is not a single country left in the Asia-Pacific Region which would be in a state of confrontation with it. Russia's relations with all regional players have a generally positive (or, at worst, neutral) character. Russia reacted to China's growing might by forming around it a belt of friendly states from Japan to India. It also maintains close and friendly ties with China, although these relations are complicated by persisting phobias (which are often maintained artificially) of Chinese threat. Unlike America however, Russian politicians never emphasize military and political deterrence of China.

Against the general background of increased tension in relations between the key APR play-

ers, Russia underscores its interest in obtaining the opposite – regional peace as a crucial condition for the country's integration in the region. This factor became instrumental in ASEAN's decision to invite Russia to take part in EAS meetings. The initiatives Russia brings forward on multi-party diplomacy platforms are specifically aimed at strengthening regional stability.

The demand for Russian presence in the Asia-Pacific region is growing. All parties find it advantageous to have Russia as a regional security guarantor. At the same time this demand should not be overestimated. It is just emerging, and Russia is yet to reinforce it and make proper use of it. However, in terms of interaction with individual countries of the region, the demand for Russia's presence lags far behind the regional demand. In APR countries' strategies Russia is not assigned a significant role, it is still viewed as an East European rather than a Pacific power. Nevertheless, the recent tendencies in Russia's bilateral relations with countries of the region point to a gradual change of this trend.

China

In its strategic partnership with Russia, China gives priority to a safe northern border and cooperation in the international arena in forming a new "world and regional order." Intense economic collaboration with Russia is not an aim for China. If we factor out fuel sup-



Against the general background of increased tension in relations between the key APR players, Russia underscores its interest in obtaining the opposite – regional peace as a crucial condition for the country's integration in the region

plies Russia is a key economic partner only for the Chinese province of Heilongjiang which has close ties with border areas in the Russian Far East.

Access to natural resources has unquestionable priority in China's economic relations with Russia. At present, fuel supplies make the basis of bilateral cooperation, but even in case of significant expansion of China-oriented fuel transit infrastructure, Russia's eastern regions will still remain just one of many sources of oil, gas and coal. At present, oil and gas imports from Russia make up, respectively, 6 percent and 4 percent of all supplies of these fuels to China.¹¹ These figures may grow by several percentage points, but the increase will not be considerable, as it is capped by China's active efforts to develop its own shale gas production (China's shale gas reserves are probably the largest in the world). Also, China is unwilling to heavily rely on Russian fuels. In a more distant future, it might be more interested in gaining access to other kinds of natural resources in eastern Russia, such as minerals, arable land, fresh water, forest and seafood rather than local fuel reserves.

Contrary to the widespread opinion, Russia is not facing the threat of military, political or demographic "Chinazation" of its eastern regions in the short and even medium term. China only has pragmatic, resource-conscious interest in the Russian land, with nearly no ideological significance involved. The best illustration is probably the Russian and Chinese names for Russian city of Vladivostok,

which means "possess the East" in Russian, and "the bay of trepang" in Chinese.¹² Indeed, China needs Russian resources, but it can gain access to them without populating Russian territories and control over them.

The number of ethnic Chinese permanently living in Russian border areas reaches several hundred, and just a few Chinese children attend Russian schools or use Russian healthcare services. The maximum number of Chinese workers in the Far Eastern Federal District was recorded in 2008 at 65,000 (in 2009 it reduced as Russia dramatically reduced foreign labor quota), which made up around 1 percent of the region's population.¹³ At present, the Central Asian workforce in Russia's Far East exceeds the Chinese by several times. Even those Chinese who work in Russia are largely not interested in living here permanently. They always return to their homeland after doing seasonal business in Russia.

The problem with Chinese migration in Russia's Far East is not the number of guest workers, it is corruption in the procedures to attract

foreign labor. This is the reason behind a considerable portion of Chinese working illegally, especially in logging and construction.

China’s economic presence in Russia is far stronger, yet it is overestimated as well. China’s exports to the U.S. exceed those to Russia not just in absolute figures (nine times), but also in relative values, considering the difference in U.S. and Russian GDPs. In recent years, Chinese goods have been leaving the Russian market due to a stronger yuan. Russia’s cumulative investment in China, currently at

Asia’s territories in Asia (Russia’s Pacific Fleet and nuclear potential as a threat), as well as in Russia’s resources and transit opportunities, which was the case in the first half of 1990s. As the Pacific Fleet and nuclear potential degraded and there emerged problems in the use of resources and transit opportunities, Siberia and the Russian Far East ceased to be significant factors worth U.S. economic attention.¹⁶ The U.S.A.’s economic and humanitarian presence in Russia’s Pacific territories has been minimal in the past two decades.

In its strategic partnership with Russia, China gives priority to a safe northern border and cooperation in the international arena in forming a new “world and regional order”

2.6 billion dollars, is too small for investment cooperation between the economies of such a scale. By and large, China’s presence in the Russian economy is only dominant in the Far East, where Chinese goods have claimed two-thirds of the market.¹⁴

The United States

The main 21st century external challenges the U.S. is facing, are found in the Asia-Pacific region. They are the rise of China, India’s growing influence, and regional instability largely related to the North Korean nuclear threat. This makes Washington strengthen its traditional political alliances and seek new partners in the Asia-Pacific region. Theoretically, the U.S. could partner with Russia, but the latter is hardly ever mentioned in the current Asia-Pacific context of U.S. policy in the region. Russia has been perceived as an East European rather than a Pacific power. A vivid example of this approach was the omission of Russia in Hillary Clinton’s article addressing reorientation of the United States’ strategic attention to the Asia-Pacific region.¹⁵

Theoretically, the U.S.A.’s national security concerns might sustain its interest in Rus-

Russia could be of strategic interest at least to the adjacent Alaska if it had any substantial cooperation ties with this U.S. state. However, it is not even among Alaska’s top 20 trade partners and its trade volume with Alaska is smaller than Ukraine’s.

In the Asia-Pacific region, the U.S. has displayed sincere interest in Russia only with regard to the “Chinese factor.” Russia is viewed in this connection:

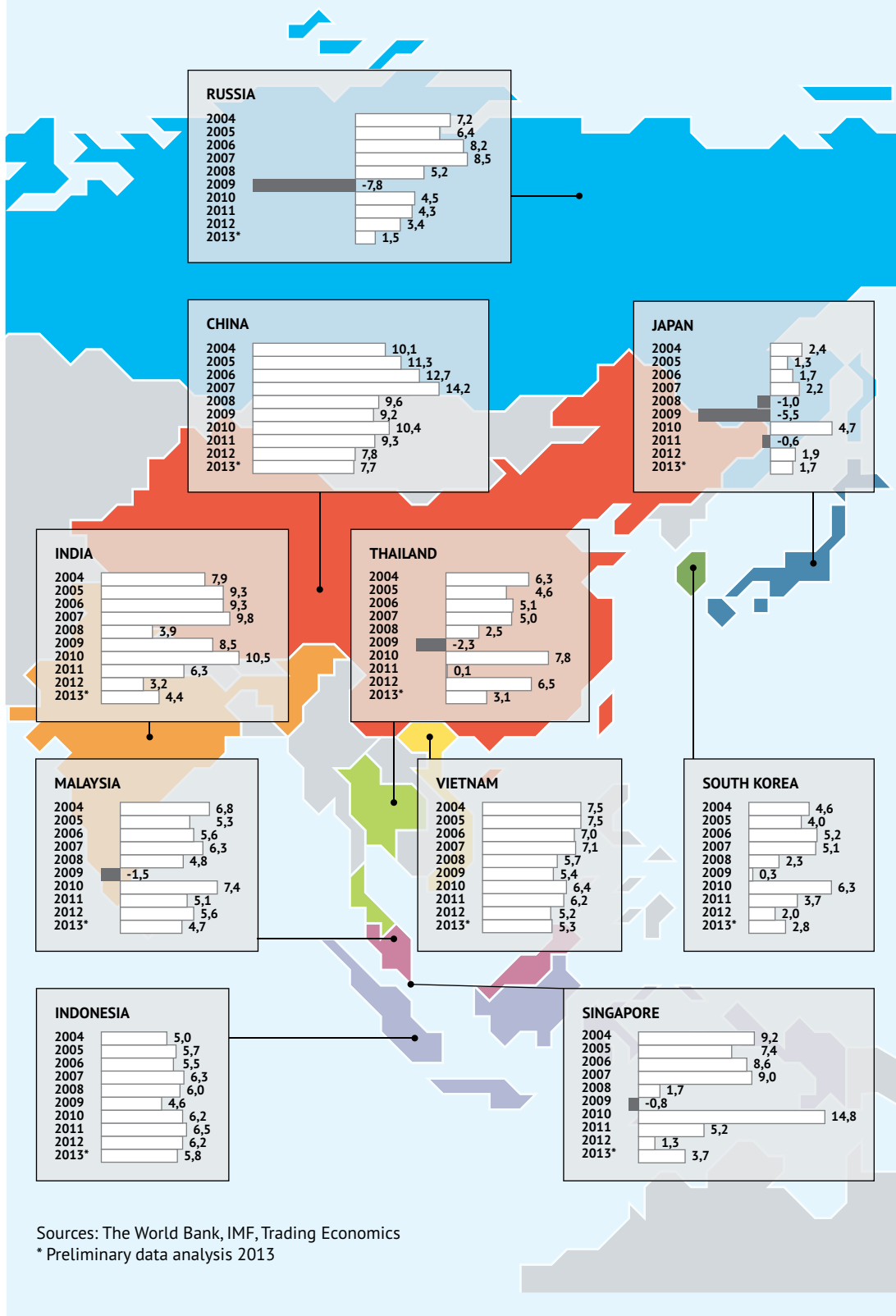
- as a possible U.S. ally and partner in the struggle against the common threat – rising China, or
- as a factor facilitating the strengthening of China. In this context, Russia again becomes a threat to the United States. China’s stronger economic positions and influence in Russia’s Pacific territories are considered from this viewpoint, as well.

Japan

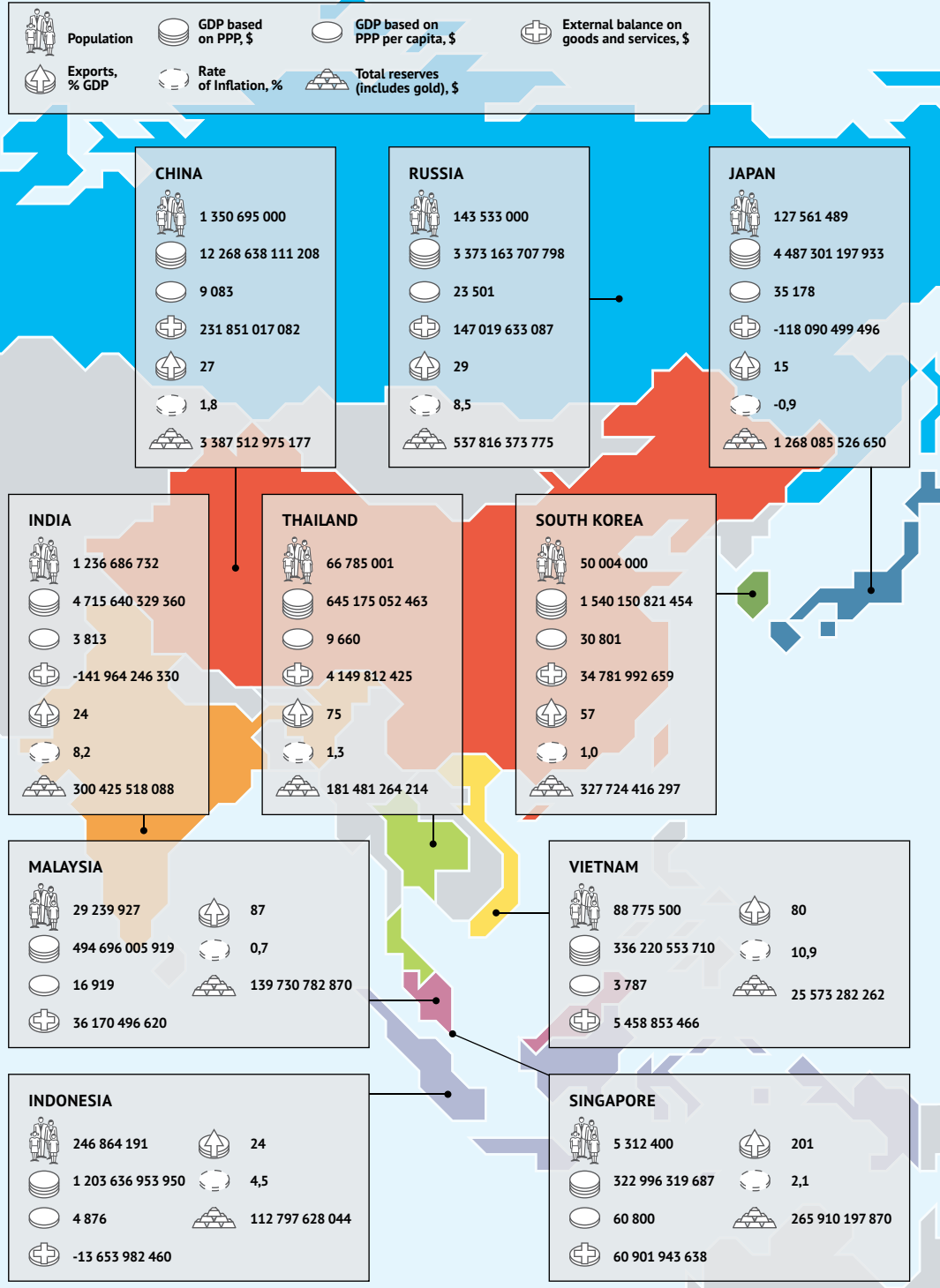
Russia was among the countries of the fifth group of Japan’s foreign policy priorities, together with Central Asian and Caucasian countries for a long time.

The situation changed after Shinzo Abe took over as prime minister. Japan announced that developing relations with Russia was one of its foreign policy priorities. Economic interest moved to the foreground, sidelining the hitherto dominating political agenda. For the sake of economic interests, Japan softened its rhetoric in the territorial dispute, though not its stance. It continues to consider the return of four Kuril Ridge islands as a problem of

Economy Growth in Asia-Pacific, % 2004-2013



Asia-Pacific Economics 2012



Source: The World Bank



The main 21st century external challenges the U.S. is facing, are found in the Asia-Pacific region. They are the rise of China, India's growing influence, and regional instability largely related to the North Korean nuclear threat

national state sovereignty and national pride, which makes any significant concessions on the part of Japan unlikely. The compromise Japan is ready for at the moment concerns only the details and mechanisms of the handover of these territories.

The rapprochement with Russia was apparently prompted by problems in the energy sector after the Fukushima-1 accident. Japan had to boost the imports of hydrocarbons as it stopped the operation of its nuclear power plants. As the reliance on Australia and Indonesia for fuel is quite high while supplies from Gulf countries are risky due to tensions in the Middle East, Japan opted to step up cooperation with Russia. However the interest in Russian fuel and energy resources has proved transient: in 2013, Japan started the process of restoring the nuclear power industry, and decided to import LNG from North America to diversify gas supply sources. Yet, Japan's rapprochement with Russia is not over: the two countries have identified many other areas where they can interact to mutual benefit. In some of the areas, in particular agriculture, this interaction has already begun.

In political terms, notwithstanding the territorial dispute, Russia remains a significant factor for Japan because it still has a relatively powerful military potential and may opt for closer military and political ties with China, which worries Japan in the strategic terms. On the other hand, Japan has consistently underscored the danger of "Chinazation" of Russia's Far East. Perhaps, this problem is exaggerated to encourage Russia to move toward further rapprochement with Japan.

So far, Japan has been doing well, especially as the rapprochement meets Russia's interests as well, as it helps to counterbalance the power of friendly China. In November 2013, Japan and Russia held their first ever negotiations in the two-plus-two format, which involved their foreign and defense ministers. Sergei Shoigu was the first Russian defense minister in ten years to visit Japan. The two countries have decided to regularly exchange visits by their defense ministers. They have also agreed to hold joint military exercises: counterterrorism and anti-piracy exercises in the Gulf of Aden, and exercises at a Russian Interior Ministry base at Domodedovo to practice measures to combat drug-trafficking from Afghanistan. In addition, the two countries plan to create a mechanism for expert consultations on cybersecurity.

Meanwhile, the U.S. has a positive view of closer Russian-Japanese ties as a step toward more intensive American-Russian relations in



The success of Russia’s interaction with Japan may serve as a catalyst for the United States’ deeper participation in developing Siberia and the Russian Far East

the Asia-Pacific region.¹⁷ The success of Russia’s interaction with Japan may serve as a catalyst for the United States’ deeper participation in developing Siberia and the Russian Far East.

South Korea

South Korean policymakers actively bill their country as a candidate for a group of key Russian partners in the Asia-Pacific region, as a sort of “guide” to usher Russia into the region and as a bridge between Russia and the U.S. The Seoul-proposed new institutional architecture of Northeast Asia is rather interesting and not trivial. South Korean companies are interested in a range of industrial and infrastructure projects in Siberia and the Far East. Historically and psychologically, there are no “demons of the past” in Russian-South Korean relations, unlike in Russia’s relations with China and Japan. It would probably be more correct to say that Russia often takes a reserved and mistrustful position on South Korea’s cooperation proposals. The delayed signing of the visa free travel agreement by Russia is an example.

Seeking to achieve a strategic balance in relations with the key players – China and the U.S. – the South Korean leadership supports

the image of Russia as its major partner in the Asia-Pacific region . In actual fact however, Russia is perceived, first of all, as a source of fuels and raw materials for the South Korean economy. Secondly, it is viewed as an important resource to improve inter-Korean relations and resolving the Korean problem. Russia, as well as China, is urged to take responsibility for not only “placating” North Korean leaders, but also for the future of the North Korean people who first of all have to be fed. South Korea has big hopes for Russia’s massive attraction of labor force from North Korea to develop Siberia and the Far East. Thirdly, correlating its policy with Washington’s Pacific strategy, South Korean leaders are alarmed about possible rapprochement of Russia and China (including within the framework of the Shanghai Cooperation Organization), above all in the military sphere.

North Korea

Although North Korea’s policy toward Russia remains largely obscure, its objective is pretty obvious and practical: Pyongyang uses Moscow’s interest in preserving North Korea and tapping certain economic resources of Siberia and the Far East to secure the survival of the North Korean regime.

Southeast Asian countries

A number of Southeast Asia countries (Singapore, Malaysia, Philippines and Thailand) have obvious interests in the energy, transport, tourism and agricultural resources of

Siberia and the Russian Far East. However, aside from Vietnam, none of them has a well-considered strategy for Russian territories in Asia or Russia on the whole. As Northeast Asia countries, they claim that they have taken a reserved attitude due to problems in Russia's business climate, such as corruption, imperfect customs, tax and currency legislation and shortcomings in the legal system. A serious obstacle is a lack of strong interest and active actions by Russia at the regional and local levels in making foreign partners interested in Siberia and the Far East.

interest in Russia's eastern regions but, with better places to commit capital in the APR and the world, is not yet prepared to increase its presence there. At the same time, Australian capital could be highly instrumental in the development of Siberia and the Russian Far East, and Australia's experience of doing business in scarcely populated areas could be very beneficial for the region.

For the time being, Australia interests mainly Russian migrants and attracts intellectual and labor resources from the Russian Far East.

Seeking to achieve a strategic balance in relations with the key players – China and the U.S. – the South Korean leadership supports the image of Russia as its major partner in the Asia-Pacific region

New Zealand, despite a considerable distance from Russia, is one of the APR states showing an interest in a free trade zone with Russia. In this case, it might become, like Vietnam, a “bridge” between Russia and the Trans-Pacific Partnership.

Vietnam is the only country in Southeast Asia to have strategic partnership relations with Russia. The two countries give priority to military, military-industrial, energy, research and humanitarian cooperation. Free trade zone talks between the partners are underway. In case of success, Vietnam may become a bridge to Russia's interaction with the Trans-Pacific Partnership, in the context of parallel Vietnamese-American rapprochement. At the same time it is possible to throw a bridge to a free trade zone with ASEAN and participate in the Regional Comprehensive Economic Partnership.

Russia and Indonesia stepped up their political dialogue during their APEC presidencies in 2012 and 2013, not only at the general diplomatic level, but also between specific economic ministries and departments.

Australia and New Zealand

Canberra does not consider Russia a strategic actor in the Asia-Pacific Region but wants it to play a bigger role in regional affairs as a balancing factor in the growing standoff between U.S.A. and China. The Australian business community has a certain commercial

2.4. Increasing Russia's integration on the Asia-Pacific region

The growing “demand for Russia” on the part of its Asia-Pacific partners requires a substantive and quick response from Russia. However, in reality there is an obvious imbalance between these expectations and Russia's opportunity to fully meet them.

Despite Russia's boosting its role in the region, it remains on the sidelines of the Asia-Pacific region – an unusual situation for this country, which is traditionally in the thick of events. Russia is a leader in relations with former soviet republics. It has an array of trump cards making it feel its strength and confidence in dealing with the West. As for the APR where Russia can reinforce its influence, it still has a long way to go to become a leader. In these conditions the only reasonable strategy is to adopt a course to change its periphery status. Russia needs a window to Asia, and it can be opened by Russian eastern territories. Apparently, Russia's integration in the Asia-Pacific region can be reached through deepening economic cooperation by developing Siberia and Far East. As a consequence, Russia will cease to be perceived as a peripheral state, and politi-



Active participation in multi-party cooperation formats, in which Russia has been relatively successful, should be augmented by the establishment of a network of strong bilateral economic and political ties with regional players

cal strengthening of the country will be a direct result of its economic presence in the region.

Russia and APR countries have many common interests. The APEC summit in Vladivostok became an important platform for identifying these interests. The summit is over, and now it is important for Russia to outline further strategy of cooperation with countries of the region. Russia’s APR policy used to lean on integration groups such as APEC. Yet the significance of this platform for economic and political processes in the region is not large. The same holds for other associations, such as EAS, ASEAN, etc. In fact, these associations cannot serve as the door to the APR for Russia.

A lack of dominant integration associations in the region requires a flexible foreign policy and much pragmatism at the same time. Active participation in multi-party cooperation formats, in which Russia has been relatively successful, should be augmented by the establishment of a network of strong bilateral economic and political ties with regional players.

The bilateral track is already indicative of Russia’s more active foreign policy in the Asia-

Pacific. Aside from strengthening political and military ties, it steadily increases the scale and quality of trade and economic cooperation, although Russian positions are still weaker compared to those of other regional players. In 2013 Moscow signed numerous agreements with China and Japan. The current improvement of Russia–Japan relations

gives hope on signing the peace treaty. Russia now has warmer relations with North Korea. It is launching cooperation with Indonesia and boosting its presence in Vietnam.

Strengthening bilateral relations between Russia and a number of APR countries works toward settling pressing security problems and stepping up regional economic integration. For example, Moscow’s build-up of relations with Pyongyang and Seoul – even though the Korean dialogue has stalled – is a step toward the implementation of transport and energy projects on the Korean Peninsula, which also strengthens the prerequisites for Korean unification. The prospect of Russian-Vietnamese free trade zone paves the way to Russian-ASEAN free trade, thereby removing the formal obstacle to Russia’s joining the Regional Comprehensive Economic Partnership. Russia’s participation in RCEP can help stabilize multi-party economic cooperation on the Asia-Pacific and East Asia tracks.

In politics and security, Russia should be credited with successful development of the niche of “great regional non-aligned power.” This means Russia distances itself from the



Russia's input was crucial for securing the regional order based on the principle of equality, mutual advantage and polycentric system, which helps maintain the APR's general economic dynamics

key sources of Sino-American rivalry in the Asia-Pacific region over sea lines and related contradictions. Russia's approach to the nuclear/missile problem of North Korea has consistently emphasized the inadmissibility of its solution by force and of Pyongyang's preliminary conditions for its return to the negotiating table.¹⁸ Conceptually, Russia stands for the so-called "indivisible security" in the APR which rules out strengthening one's security at the expense of other states.¹⁹

This situation has contributed to our APR partners' growing awareness that Russia's input was crucial for securing the regional order based on the principle of equality, mutual advantage and polycentric system, which helps maintain the APR's general economic dynamics.

To meet expectations, Russia is expanding the scale and quality of cooperation with its regional partners, launching new promising lines for cooperation and diversifying policy instruments.

Joint global projects are a dividing rather than consolidating factor in the conditions of mutual mistrust between APR countries (which

is best illustrated by the Trans-Pacific Partnership). Small initiatives, on the contrary, play a consolidating role.²⁰ A full-fledged regional integration body can hardly be created along a vertical model. Even if such a body appears in the next decades, it will be structured from bottom to top as a sum of highly specialized

areas of cooperation between APR states. Russia can play a key role in developing a number of these cooperation areas.

Cooperation in nuclear energy is definitely a promising field. The Fukushima-1 accident and suspension of nuclear reactors in South Korea following the discovery of substandard parts of NPP equipment make this issue especially pressing. It has become obvious that it is necessary to coordinate safety standards and common principles of response to possible accidents. Russia, as a leader in nuclear power generation and developer of state-of-the-art technologies in this field, could act as an initiator of such cooperation, which has been quite sluggish so far.

Cooperation in measures to respond to natural disasters is long overdue. Russia's eastern region are plagued by wildfires and floods, while China's northern areas suffer from floods and earthquakes. China is one of the world's most vulnerable countries in the face of natural calamities, reporting an estimated damage of 3 to 6 percent of its GDP annually. In the meantime, the two countries continue to respond to natural disasters separately, which reduces the effectiveness of relief efforts, espe-

cially because Russian and Chinese remote border areas are located far from economic centers possessing the necessary capabilities to cope with the aftermath of natural disasters. The Amur flood which hit both Russia and China, despite the tragedy it brought, could have become an arena of cooperation between the two countries. They should not wait for more disasters in order to understand that joint response to them is more effective. Japan and Southeast Asia countries, exposed

extraction of mineral reserves, transit and fishing.²¹ Interaction of the three northern countries in this sphere and the potential for other leading Asian states to join them in the future may further stimulate cooperation around the Northern Sea Route.

Also promising is sea tourism cooperation between Russia, Japan, South Korea and China. Launching a network of cruise liners between these states would be a breakthrough in cultural interaction. Given the frictions between China, South Korea and Japan, no other state except Russia can come forward as initiator of this long overdue project.

All the above cooperation areas may look to have little significance, but they should not be dismissed. It is only from cooperation in these areas that larger partnership can emerge.

In the conditions of mutual mistrust between APR countries small initiatives play a consolidating role where Russia can play a key role: cooperation in nuclear energy, in safe navigation and environmental safety, around the Northern Sea Route and in sea tourism

to earthquakes, hurricanes and tsunami, which are the main threats to their economic development, could join the cooperation in responding to natural disasters.

Cooperation around the 180th meridian is another possible sphere for promising local initiative. The water area adjacent to the Bering Strait is a place where the interests of Russia, the U.S. and Canada converge. There are prerequisites for their cooperation in safe navigation and environmental safety in the

Advancing on the adopted course on the platforms of multi-party diplomacy, developing bilateral relations and pursuing the “policy of small initiatives” are key steps toward Russia’s full-fledged integration in the APR. Importantly, these steps can be taken already in the near future. Nonetheless, these steps should not sideline the main objective for Russia – stop being Asia’s backyard in order to integrate in it. To this end, let us repeat once again, Russia should develop its eastern territories as an economic “window to Asia,” while at the same time preserving them as a crucial part of Russia’s political and cultural space.

3. Siberia and the Far East: Redefining Risks and Opportunities

3.1. Threats

3.1.1. Myths about a bad climate and low population density

The existing perception of Siberia and the Far East as a burden for the country is based on the belief that the development of the region can not be an economically justified project.²² The sparsely populated eastern areas and harsh climatic conditions are usually considered as the main obstacles.

Of course, both factors significantly hamper the economic development of Siberia and the Far East, but they can hardly be called the key constraints. Suffice it to recall that the density of the population of Siberia and the Far East is 2.3 pers./sq. km – by this parameter it is pretty close to Australia (2.8 pers./sq. km.) and Canada (3.5 pers./sq. km.). Also, it is 4.6 times ahead of Alaska (0.5 pers./sq. km.).²³

In Canada and in Alaska, the climatic conditions are comparable to those of Siberia and

the Far East. Most of these areas are unfit for habitation and economic activity, except for the extraction of natural resources. However, their level of development is much higher than that of similar areas in Russia. Nordic countries (Norway, Sweden and Finland) also demonstrate the ability to provide a high standard of living in the cold Arctic climate.

Climate cannot be regarded as an ultimate verdict. Many countries are confronted with no smaller environmental challenges. The Netherlands is forced to regain its territory from the sea; the Gulf countries, to reclaim the desert; and Israel, to combat the acute water shortage. The times when a cold climate automatically rendered production activity uncompetitive are long gone. Heating costs in Siberia are no higher than those of air conditioning in California. In Australia the most of territory can't be populated densely for climate reasons, but this isn't an obstacle for exploiting natural resources with fly-in fly-out method and developing efficient high-tech agriculture



there. Another example of victory over a harsh environment is the dynamic development of Mongolia, which was able to buckle itself to China's economic growth and is now showing the world's highest GDP growth rate, despite its climate, perhaps the worst among all countries of the world.

Rigorous climatic conditions should not be used as an excuse for failing to provide a decent standard of living and maintain growing economic activity in an area. The real cause of failures is rooted in the inability to develop a

economy as a whole, one must be aware that doing this would be tantamount to measuring the average temperature in a hospital. For example, if in calculating the unemployment rate one ignores the ethnic republics in the south of Eastern Siberia but at the same time includes the Tyumen Region (historically an integral part of Siberia, but for some obscure reason made part of the Urals Federal District), the Far East and Siberia will find themselves in a far more favorable position compared with the Urals and the Volga federal district, and pretty well off even next to the center of the country.

Rigorous climatic conditions should not be used as an excuse for failing to provide a decent standard of living and maintain growing economic activity in an area

special approach to the development of this or that region with due allowance for the climatic factor. An example of such a failure is seen in the Soviet era mechanisms of luring the population into the northern regions, least suitable for permanent residence, instead of concentrating the population in the southern regions and putting the emphasis on a shift rotation development pattern. The population of the northern territories and the state still have to pay for the managerial mistakes of the past.

3.1.2. Economic and demographic risks

Unlike bad climate and low population density, unfavorable economic situation in the region is a real threat to its development. The nominal wage here is one of the highest in the country, but the gap in real incomes between Siberia and the European part of Russia increased from 15% in 2000 to 30% in 2010.²⁴ Of the top ten subjects of the federation where the number of residents with incomes below the subsistence minimum is the greatest seven are located in Siberia and the Far East. The unemployment rates in the Siberian and Far Eastern federal districts are 7.4% and 8.7% respectively. Only the North Caucasus is above. Some territories have double-digit unemployment.

Although the temptation is high to formulate a disappointing diagnosis for the region's

Siberia and the Far East are the two most polarized parts of Russia. For example, the GDP per capita in Sakhalin and the Khabarovsk Region, separated only by the narrow Nevelsky Strait, differs 3.8 times. The unemployment rates in the neighboring Tyva Republic and the Krasnoyarsk Territory, differ three times. In terms of investment per capita the Far Eastern Federal District is two times ahead of the Siberian Federal District, while the Tyumen Region and its two autonomous districts (all located in Siberia but not included into the Siberian Federal District) now rank second, third and fourth in Russia.²⁵

But even the analysis of the state of affairs at the level of individual territories of federation is unable to give a clear idea of the real state of affairs in the region. Human resources and investment in Siberia are historically concentrated in large cities. Contrasts between them and the periphery are enormous. Despite the fact that the average living standards of the population of the eastern regions are relatively low, the prestigious ranking of the richest cities in the country, compiled annually by Finance magazine on the base of per capita expenses, regularly ranks cities in Siberia and the Far East high. In the top ten in 2013 there were six cities located east of the Urals (Tyumen, Novokuznetsk, Krasnoyarsk, Kemerovo, Novosibirsk and Irkutsk).²⁶ And by the rate of motorization four cities in Siberia and the Far East (Vladivostok, Surgut, Tyumen and Krasnoyarsk) are ahead of Moscow, taking fifth place.²⁷



The economic and demographic development of Siberia and the Far East in the last decade follows the development trends observed elsewhere in Russia

No less complicated is the demographic situation in Siberia and the Far East. There is a widespread view that the region sees a population exodus. If one takes 1990 as a base for comparison, the statistics will look really scary: the population of Siberia has decreased by 6.7%, and that of the Far East, by 22.3%. However, most of these values were determined by economic, social and demographic processes of the 1990s. But those processes are long gone and cannot have a significant impact on the prospects of the region today. If the countdown begins in 2000, the corresponding rates will be 3.6% and 8.8%. Siberia's rate is similar to (or even more favorable than) that in other regions: the Northwest, the Urals, and the Volga River area. In the Far East, the population decline is still the highest in Russia, but most of the outflow occurs from northern territories that are hardly suitable for habitation, while in the most densely populated southern areas the region's demographic trend is in line with the national average.²⁸

The economic and demographic development of Siberia and the Far East in the last decade, despite a number of special features, generally follows the development trends observed elsewhere in Russia. The region's demographic problems merely mirror the problems of the whole country. As in Russia on the whole

the working-age, notably young population increasingly tends to migrate out of peripheral territories. In case of Siberia and especially the Russian Far East – often not to the center of Russia, but to other countries of the APR.

In spite of the lack of fundamental difference in economic and demographic performance of Siberia and the Far East and other regions of the country, a considerable part of the Russian elite is sure that the Far East is nearly a scene of humanitarian disaster. The regional authorities are interested in maintaining this myth more than anybody else, for they use it to press for federal transfers. In the meantime, the federal government obviously lacks information about the real state of affairs in the region, succumbs to such fears and ambitions, and takes this myth for truth.²⁹

While brushing off such phantom threats one should by no means turn a blind eye on the development problems that face the region in reality. The deteriorating quality of human capital is the worst of all. Many of the emigrants are people with higher education (one in three of those who left the Far East in 2010). The most educated and dynamic part of the younger generation tends to take to the road (according to opinion polls, one in four Siberian students would like to leave the region). The introduction of the unified state exam has merely increased the outflow of young talent.

Young, skilled and efficient people are being substituted by poorly educated and unskilled migrants, mostly from Central Asia. Currently

the region officially attracts an annual of 160,000 foreign workers (a vast majority of them are unskilled), and tens of thousands of others work semi-legally or illegally.

The demographic trends are very unfavorable for the quality of human capital, too. In terms of natural growth, Siberia and the Far East are inferior to only the North Caucasus and the Urals. However, most of the population growth occurs in the ethnic republics, where the level of education is far behind the advanced territories of the region. The general

The main threat is the deteriorating quality of human capital which is proven by high density of emigrants with higher education

birth rates in Tyva, Altai, Sakha (Yakutia), and the Republic of Buryatia take second, fourth, sixth and seventh places in Russia respectively. Next follow the autonomous districts of the Tyumen Region and the Tyumen Region itself.³⁰ Experts have expressed concern that in many of these territories the introduction of the parent capital in 2007 triggered a baby boom. This is a sure sign that high birth rates prevail among those in the low-income brackets. How this will affect the quality of the human capital in the future is anyone's guess.

Deterioration of the human capital is also seen in the exhaustion of its ideological and moral-psychological resource. Opinion polls reveal low levels of confidence of the Siberian and Far Eastern populations in the authorities in general and the central government in particular, as well as their low motivation for staying in the region. Over the past decade the once firm belief of the inhabitants of Siberia and the Far East in their Russian identity, in belonging to a common historical and cultural space called Russia, has been subject to growing pressures from outside (from both foreign countries and their own capital city) and erosion from inside. The feeling of worthlessness and abandonment adds to the sense of alienation from the European ancestral home. It is not surprising that nearly half of the people in the Amur and

Primorye territories see the main threats to Russia's interests in East Asia not in China's soaring strength, or the conflict in the Korean peninsula, or the dispute with Japan over the Kuril Islands, but in Moscow's wrong policies and inadequate attitude to these remote, troublesome and cost-inefficient areas.³¹

Such sentiments in relations with the federal center lead not to a growth of separatism, which the local elites use as a bugbear to scare the federal authorities (for the sake of worming out more cash transfers), but to an exodus.

Ever more migrants from Siberia and the Far East prefer to leave not for other cities of Russia, but for other countries. The degree of the local population's fatigue is well seen in the mass emigration of retirees (usually less inclined to seek a better fortune elsewhere) to China.

3.1.3. Historical legacy: Siberia as an internal colony

The Valdai Club's report *Toward the Great Ocean, or the New Globalization of Russia*³² paid considerable attention to the role of historical factors in the emergence of Siberian and Far Eastern identities and described the main steps taken in the heroic and tragic development of the region, as well as the interaction of Russian and indigenous cultures in Siberia – from the moment of their first encounter to fairly harmonious integration. For the purpose of this, second report brings the main focus on the key role of private initiative and entrepreneurship in the development of Siberia.

There are different approaches to the understanding of the term "colony." Its dominant understanding, negative and politicized, is at odds with the traditional, more positive view of a colony as a site for applying new forces and implementing new economic projects. This is precisely the way in which the term "colony" was understood by the founding fathers of the Siberian ideology of "regionalism" in the 19th century. The main book authored by one of them, Nikolai Yadrintsev, was called "Siberia as a Colony" – but the term colony bore a positive connotation, it was seen as a point of growth and the driving force



of the nation's development as a whole. It is Russia's great misfortune that the authorities (both under the tsars and especially under Stalin) often preferred to push ahead with economic projects in Siberia with repression and bloodshed. That is the reason why whenever somebody raises the topic of government intervention in the development of the region, Siberian-borne people tend to recall Narym, Kolyma and Krasnokamensk.

But at the same time looking at Siberia only as a place for penal labor and internal exile is wrong and unjust. Siberia, quite paradoxically for its stereotyped image, was very often a land of freedom, beyond the sovereign's reach, where an individual was independent in decision-making (a very rare situation in Russia). It is not accidental that there were many free people among the pioneers of Russian Siberia. First, there were the Pomors and other groups from the Russian North (north and east of Vologda) where there was no serfdom. The Northern merchant cities of Totma and Veliky Ustyug had a great impact on the development of not only Russian Siberia, but Russian America, too. Second, there were the Cossacks, who fled from serfdom to the border areas that were the domain of freebooters. Yermak and his companions were among these.

In Siberia, people sought freedom. But, running away from the state, they nevertheless expanded its borders. Nikolay Przhevalski recorded what local peasants in the Ussuri Territory had been telling him in these words: "What do you find elsewhere? Too little land and too many people. See our vast expanses? Live wherever you want, plough the land

wherever you wish. The forests, the fisheries and wild life abundant. What else do you want? With God's help we shall take root here. Put things on the right track and make this land Russian, too."³³

Siberia has never been a colony of the West European type. Nikolay Danilevsky wrote: "Russia is not small, but the Russian people took over most of its territory by settling in vacant areas and not through conquest by the state. The territory inherited by the Russian people is quite natural, like France, only larger in size – an area surrounded by seas and mountains (except for some western areas). This territory is cut in two by the Ural Mountains, which, as everybody knows, is rather flat in its middle part, so that it does not constitute a natural geographical barrier."³⁴

However, despite the fact that Siberia has never been a classical colony, the Russian empire applied a colonial type policy there. "Siberia is a bear that Russia keeps on tight a leash," Filipp Weigel wrote down after traveling across Eastern Russia in 1805.³⁵ The situation did not change in the second half of the 19th century. Siberia retained its special centralized system administration and finance. The region remained beyond the scope of the judicial reform and rural reform, and other liberal reforms were abridged.³⁶

Even the project to lay the Trans-Siberian Railway, which seemingly was intended to connect Siberia with the European part of Russia, was implemented by the authorities in the worst colonial style possible. The so-called "Chelyabinsk tariff break" was introduced. All



Siberia was very often a land of freedom, beyond the sovereign’s reach, where an individual was independent in decision-making

Siberian goods (and in terms of the production of grain, butter and cheeses Siberia occupied the leading positions in Russia), were liable to a special tax the moment they entered the European part of Russia through Chelyabinsk, which radically reduced competitiveness of goods produced east of the Urals. That was an internal customs office from any standpoint. Such an understanding of the colony obviously had no positive connotations.

All this could not but lead to protests from Siberian society. The growing awareness of its own identity against the background of the Russian authorities’ reluctance to develop and support local private initiative triggered the emergence since the 1860s of the first-ever Siberian ideology in its own right and of a political movement that became known as the Siberian regionalism. The Russia authorities treated it just like any other manifestation of freethinking. With only one difference: there was no way of exiling from Siberia to Siberia, so the arrested leaders of the “regionalists” Grigoriy Potanin and Nikolay Yadrintsev were exiled to Russia’s European North.

It should be noted also that the Russian intelligentsia developed a contemptuous attitude toward Siberia long before the Communists.

The travel diary that Anton Chekhov kept throughout his travel across Siberia to Sakhalin was one of the first monuments of Moscow outright snobbery toward Siberia, a sample of most filthy and offensive epithets celebrated Russian writer used in relation to the Siberians. On the other hand, it is

Chekhov (not Siberian regionalists) who drew a border line between the notions of Siberia and Russia. In his diary he says outright that the moment he crossed the Urals he left Russia to venture into Siberia. Stretching in front of him was a different country, which he ridiculed avowedly³⁷. If Russia (or rather, Muscovy) has ever seen a colonial type of author, then Anton Chekhov should be seen as the brightest and most insulting sample for Siberians.

The development of Russia’s possessions in the East has always been tightly subordinated to the interests of the country as a whole . First and foremost, to the political ones. In the 19th century control of Siberia was seen as an element of peripheral imperial policy. At the beginning of the XX century War Minister Aleksey Kuropatkin described Siberia above all as a reserve of vacant territory. “It is necessary to remember that in 2000 Russia’s population will reach nearly 400 million. We must even now begin preparing vacant land in Siberia, at least, for a fourth part of this number.”³⁸ Even during the construction of the Trans-Siberian the economic development of the region was not considered as a goal – the railway was laid for purely military-political reasons – to enable fast transfer troops to

Vladivostok in the event of a military attack, as well as to enhance Russia's influence in China.

Over time, the political motives of Siberia's development gave way to economic ones. Vladimir Lenin called Siberia a "colony in the economic sense." And the 1930 comprehensive plan for Siberia mentioned such of its functions such as supplying other parts of the country with grain and timber, as well as the production of cereals, timber, oil and furs for export. Moreover, the region had become a national energy hub – a center of coal mining and hydropower production.³⁹ Finally, since the 1960s oil and gas has firmly held the status of Siberia's main wealth.

However, in Soviet times the attitude to Siberia as a colony was largely overcome. The construction of large hydropower plants allowed for creating powerful territorial industrial complexes on the basis of energy-intensive industries. There emerged major universities and the Academy of Sciences' center in Novosibirsk – one of the symbols of Siberia's development. A powerful foundation was laid for the build-up of the human resources, especially in Western Siberia.

The accumulated potential was largely defamed with the collapse of the USSR. The industrial regions of Siberia and the Far East in particular were the most vulnerable during the transformational recession (from 1991 to 1998 industrial production in most regions of the Far East slumped by two-thirds), while the raw materials producing regions gained much strength (the Tyumen Region and Yakutia were islands of relative stability amid Russia's crisis).⁴⁰ As a consequence, the quasi-colonial relationship between Siberia and the center was restored.

Despite the fact that a large portion of Russian exports comes from regions lying east of the Ural Mountains (however, as many raw materials companies are registered in Moscow, according to official statistics, the share is only about a quarter – including the Tyumen region, which accounts for half of all exports from Siberia and the Far East), they are still significantly behind the center in terms of economic development, and especially in terms of social security, transport and educational

infrastructure. In the meantime many companies extracting resources in Siberia and the Far East pay taxes to the budget of Moscow. In many aspect relations of Moscow and Siberia resemble relations of an empire and a colony even nowadays.

3.2. Opportunities and capabilities

The major strengths of Siberia and the Far East are their vast territories, resources, nature, and most importantly, their people. The value of this force remained underestimated for a long time. One and a half decades ago (in 1999) a huge area of eastern Russia was openly described in the presidential address to the Federal Assembly as a burden for the country.⁴¹ And now a large part of the elites perceives the natural wealth of Siberia as Russia's curse that does not allow the country to escape from the trap of raw materials export.⁴² Such a position is destructive and simply wrong.

3.2.1. Territory and resources

The vast expanses of Siberia and the Far East, despite their low population density and remoteness from the center of Russia, are of great value for the whole country. In the context of shifts and transformations the world has witnessed over the past decade this value merely tends to grow. The growing shortage of resources (both mineral and renewable – water, forests, fisheries, food, etc.) and aggravating global environmental problems enhance the influence of natural factors on international economic processes again. As a consequence, the importance of territory is bound to soar. Times when many globalization theorists predicted absolute compression of physical space and a decline in the value of territories with the development of transport and information technologies are long gone. Geography does not simply continue to affect international relations. Its role is steady on the ascent. Another (economic) colonization of Africa is underway, the Arctic is a scene of clashing interests, rifts have emerged over Antarctica – a continent previously closed to big politics. Tensions are mounting over key shipping routes. Geopolitics is about to stage a come-back – as a term widely in use among scholars and as a basis for foreign policy strategies of states.⁴³

The growing interest toward Siberia and the Far East, and not only in Russia, but elsewhere, is one of the reflections of this trend. The eastern territories of Russia are the last (to be precise, one of the last) frontiers very many countries would like to co-develop. It is also a bridge connecting Europe and Asia not only ideologically but also spatially. The development of the Northern Sea Route is one of the keys to that bridge.

The development of Russia’s possessions in the East has always been tightly subordinated to the interests of the country: in the 19th century – political, in the 20th century – economic

Siberia and the Far East are regions extremely rich in natural resources. They accounts for 10% of the world’s explored oil, about 25% natural gas and 12% of coal, 9% of gold, 7 % of platinum, 9% lead, 5% iron ore, up to 14% molybdenum, and up to 21% of nickel.⁴⁴ Apparently, the regions have large reserves of shale energy. There are about 16% of the world’s fresh water (excluding groundwater), and about 21% of the world’s forests. In Siberia and the Far East there lies 22% of Russia’s arable land. Finally, the marine bio-resources of the Far East are one of the richest in the world.

With such mammoth wealth at hand reliance on the resources of the region is a natural feature of economic development one should not be

ashamed of. Any proposals for rapid regional reindustrialization⁴⁵ (up to turning it into a “planetary center of industrialization”⁴⁶), based on the development of traditional industries or high-tech, are evidently futile, however appealing they make look. Maybe they are even harmful as they detract attention from using real competitive advantages. Bearing in mind the proximity to the Asian countries, which are now “the world’s factory,” any attempts to launch globally competitive labor- and capital-intensive manufacturing operations will be doomed to failure. In developing high-tech industries (except for some very narrow niches like defense sector) Russia is hopelessly behind not only the industrialized countries, but also China.

Siberia’s opportunities are contained in its resource potential. At the same time, it is necessary to ensure the resource sector should operate to the benefit of the region, not just to generate companies’ profits, some of which would be funneled into the state budget in the form of taxes (or to offshore territories), while the effect for most of Siberia will be close to zero. The resources sector should not only create jobs, but also serve as the nucleus for the development of related high-tech industries concentrated usually in large cities. In developing natural resources extraction and processing-related industries, including research-intense ones, Russia can and must succeed.

The region’s main development driver at the moment is energy, and the situation is unlikely



to change in the near future. However, at present the condition of the region's energy sector is unsatisfactory; in particular, its technological and institutional structure is obsolete. After Rosneft purchased the TNK-BP, public companies gained almost complete control of the Russian energy industry. Their ability to lobby for their interests has created a situation where energy sector keeps expanding primarily due to state support but not because companies improve operations. At the same time

debit (i.e. the return at which the well is no longer used for production) is 250 liters of oil per day, in Russia it is 8 tonnes per day. Russia squanders its own energy resources. And it does nothing to borrow from foreigners: only the most primitive alliances are concluded with them for the development of specific fields, having very little to do with the borrowing of advanced know-how.

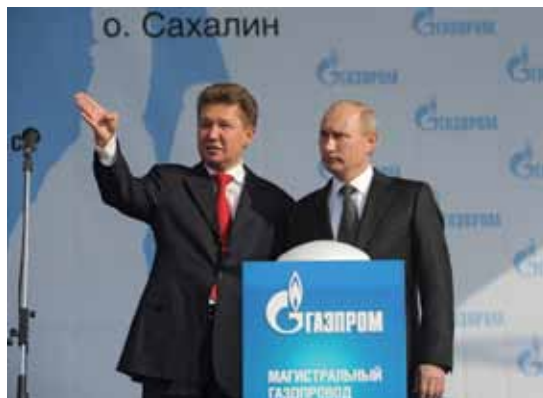
The eastern territories of Russia are a bridge connecting Europe and Asia not only ideologically but also spatially

the rate of return in the oil industry has never fallen below 23–25 percent in recent years. Even when the crisis of 2008 peaked it was at 38 percent. This has prompted some observers to conclude that “the policy of the oil monopolies is essentially colonial.”⁴⁷

A life of abundance does not create incentives for Russian energy companies to follow global development trends, especially the rapid growth of its high-tech component. The problem is not even in ignoring breakthrough technologies, in particular technologies for the extraction of shale gas, but in the inability to step up production through gradual modernization (Gazprom's production in 2002–2012 fell by 7.3%⁴⁸) and increase its efficiency. Whereas in the U.S. the abandonment oil well

Obviously, without a significant change in the institutional environment the energy industry cannot serve as the basis for developing Russia's eastern territories. This will happen only when the licenses to develop new reserves will stop to be distributed for free among public companies and begin to be extended to those who will be able to develop these reserves efficiently. A transparent competitive system of license distribution will not only make companies improve the quality of the technological base and, as a consequence, develop the related research-intensive technologies, but will significantly reduce (with the proper regulatory impact of the state) the energy prices on the domestic market and thereby attract energy-intensive industries from abroad.

In addition to the institutional environment, it is necessary to change the export strategy of the Russian fuel and energy sector. Given the increasing volatility of fuel prices trade under long-term contracts loses its appeal. As a consequence, reliance on pipeline deliveries is gradually becoming out of date. Geographical location, allowing for quick access to the European



and Asian markets, potentially makes Russia the world's most flexible energy supplier.⁴⁹ However, in order to take advantage of this situation, it is necessary to build oil terminals and LNG plants, aimed at both European and Asian markets. Arctic projects, capable of promptly reshuffling regional priorities in response to the changing energy situation, will occupy the intermediate position. The first of these, the Yamal LNG plant, being created by NOVATEK corporation, has already been launched.

Geographical location, allowing for quick access to the European and Asian markets, potentially makes Russia the world's most flexible energy supplier

The energy riches of Siberia and the Far East are not confined to fossil fuels. Russia produces 4.5% of the world's hydropower⁵⁰, and in terms of hydropower reserves (9% of the global index) it is second only to China. As much as 80% of electricity generation is concentrated in Siberia and the Far East. The potential of hydropower in Siberia is used only to 20%, and that of the Far East (with only three hydroelectric power plants operating at the moment), just 4%.⁵¹ The hydropower plants concentrated in the South of Siberia and the Far East, may serve as the nucleus for the development of an energy-intensive industries cluster, from aluminum smelters to centers of storing and processing information (relevant units of the leading IT companies like Google or Facebook consume huge amounts of electricity).

The situation in the diamond industry is very similar to that in the energy sector: Russia is a major supplier of uncut diamonds (28% of global turnover) but hardly uses it for domestic needs. The industry is in bad need of renovation. Priority should be given to the use of technically impact diamonds from the giant Popigai field on the border between Krasnoyarsk Territory and Yakutia (which is believed to contain more diamonds than all world deposits do). These diamonds are ideal for use in high-tech industries -- from drilling equipment to computers -- located in the south of Western and Eastern Siberia.⁵²

Russia has splendid capabilities for extracting and processing rare-earth metals. Their reserves in Russia are unique in terms of both quantity (about 30% of the world reserves) and quality. Almost all of them are located in Siberia and the Far East. There is virtually no rare-earth metal production east of the Urals now. However excellent opportunities have presented themselves lately for changing this situation. In 2010, China, which produces 97% of the world's rare-earth metals, slashed their export, causing severe shortages and price hikes in the market. Russia's reserves could make up for reduced supplies from China to industrialized countries (Japan, Republic of Korea, Europe and North America) and could also be used inside the country. For example, the production of construction and other materials using rare-earth metals in southern Siberia could serve as the basis for creating a new high-tech cluster in the area and developing close cooperation





between northern and southern regions. These products will also be highly marketable abroad owing to their relatively low production costs (due to the closeness of the resource base) and easy transportation (due to small weight).⁵³

Water resources can be used not only as a generator of hydropower. Due to the growing water shortages, worldwide and especially in Asian countries, there are all prospects for water-intensive industries in Siberia and the Far East, in particular, the production of chemical fiber and pulp-and-paper industry. There exist special prospects for agriculture, which, apart from fresh water, needs croplands and pastures. The sole significant unused reserve of these in the entire Eurasian continent still remains only in eastern Russia.⁵⁴

The forests and fish resources of Siberia and the Far East are a unique source of wealth. At the same time, these sectors are currently least transparent. Gross criminality of the exploitation of forests and fishery in some regions does not allow using their potential to the benefit of the country and leads to the overexploitation of resources and their depletion. This is largely due to the legacy of the 1990s, partly, to the complexity of obtaining legal access and lots of bureaucratic barriers. The latter stem mostly from environmental concerns, but against the backdrop of the government's inability to fully control forest-felling and fishing the result of administrative environmental measures is the opposite to the expected one due to the expansion of the illegal sector. In addition, the lack of systemic forest management leads to more frequent forest fires. In 2012 they caused a 10-billion-ruble damage.

Finally, another possibility, which Siberia and the Far East enjoy by virtue of their wild-life is tourism. The endless speculations to the effect the development of tourism in the region will lead to environmental degradation is groundless, of which the experience of many countries, both developed and developing, is convincing proof. New Zealand or Costa Rica attract millions of ecotourists each year, but their nature does not suffer at all. Moreover, there is every reason to believe that tourism can have a healing effect on the natural capital of Siberia and the Far East, because it disciplines the locals – these people are so accustomed to the infinity of Siberian spaces that in many cases they prove the main culprits responsible for the degradation of the unique nature of the region. As an example of how useful tourist flows can be one can mention Kenya and Tanzania, where the influx of tourists and hunters helped preserve the local wildlife of the savannah. Adjusting mass tourism to the major natural features of the region (not entirely, though; it would be enough to open individual sites) would be another important step helping the people (both the Siberians and those in the European part of Russia) develop a sense of belonging to one country. This works pretty well, for example, in the U.S., where natural sites open to the general public have become true national symbols.

The natural capital of Siberia and the Russian Far East is dramatically underused. And this results not in the conservation of resources for future generations, but in their squandering. With the increasing importance of natural factors for the global economy an important condition for the country's competitiveness is

not only the possession of natural resources, but also the ability to manage them. For the time being Russia tends to fail this test more often than not.

3.2.2. The people

Along with the increasing importance of environmental factors international relations these days see another shift: international competition is gradually drifting from the military-political field toward the economic-technological and ideological-informational ones. As a consequence, the main condition for success

the horrors of serfdom and collectivization, they were less affected by Stalinist repression. Here, in contrast to most European regions of Russia, the most active, talented and independent were not eliminated by million. Siberia is a land of descendants of those who once fled from the state. Of free people, not embedded in any hierarchies and not broken by immeasurable misfortune. It is a land of people eager to display initiative and take reasonable risks. It is this kind of people who can lead Russia forward. Who can create a center of revival modern Russian passionarity.

International competition is gradually drifting from the military-political field toward the economic-technological and ideological-informational ones

in the international scene is the ability to generate and articulate ideas and with reliance on them to develop new technologies, impose its tastes and rules, and build a new economy. Only talented and educated people are able to do that – the promotion of human capital becomes the paramount priority of government strategies in many countries. In Russia, human capital still enjoys insufficient attention, and as a result of expanding competition of ideas and technologies it increasingly lags behind other leading nations.⁵⁵

Regrettably, Russia's human capital is degrading. The 70 years of Soviet rule, which systematically destroyed the best; the collapse of the country that had raised hopes for freedom but brought the misery of the 1990s inflicted heavy damage on the people. The need to struggle for survival, glaring injustice and social vulnerability have led to the loss of confidence in the state and other people, disbelief in one's own capacities, total pessimism and reluctance to move forward. Overturning these grave trends will take lifetime of a whole generation.

The population of Siberia and the Far East, too, proved susceptible to these trends. Yet their string of historical traumas was much shorter. The indigenous Siberians escaped

Despite the heavy blow the Siberians suffered in the 1990s, the quality of human capital in Siberia at the moment is at a level never observed in the region's history, possibly except for those tragic times when the best people of the country who were deported to here could work using a pick as their only tool. There are major universities and research centers, both those established in the Soviet era (Novosibirsk's Academy Town research cluster), and new ones (the Siberian Federal University), which receives significant government funding (allowing, among other things, to attract scientists, some of them Nobel laureates, from abroad). In Siberia one finds what is perhaps the country's best Technopark (in Novosibirsk) and a city with the largest student community, except for Moscow and St. Petersburg (Tomsk). Of course, these human resources, like everything else in Siberia, are distributed very unevenly.

People in Siberia and the Far East are entrepreneurially-minded, and despite an unfavorable business climate many have managed to create viable businesses and succeed in an aggressive environment. Their experience is certainly worth sharing.

3.3. A new understanding of the situation in Russia's Arctic

The Arctic territories lying east of the Urals are an integral part of Siberia and the Far East. Reassessment of the risks and opportunities one finds there is an acute need. Throughout the post-Soviet period, the Arctic



has hung on the country's shoulders as a dead weight – these areas were seen as absolutely hopeless in terms of doing business, but the people who had settled there back in the Soviet times could not but be supported. The essential supplies that had to be delivered there during brief Arctic summers in amounts big enough to last throughout long and rigorous Arctic winters was a perfect sample of social responsibility of the state – a measure that was regarded as extremely burdensome, though necessary.

These days the Arctic should be looked at from a different angle. Ice melting in the Arctic Ocean, the unequivocal shift of economic potential to Asia and booming technologies are capable of making the Arctic one of the most dynamic regions on the Earth over next decades. The resource, transport and transit potential of the Arctic territories, ignored or neglected for such a long time, is coming to the fore. Russia can and must use it actively to its benefit.

Progress in science and engineering and soaring oil prices over the past decade have enhanced interest in the development of oil and gas resources in the Arctic basin. At the same time it became clear that the Arctic offshore fossil fuel reserves can be really enormous. According to the U.S. Geological Survey, the amount of yet-to-be discovered oil and gas reserves in the Arctic is about 412 billion barrels of the oil equivalent, roughly 22–25% of the total undiscovered conventional hydrocarbon reserves around in the world. Most of the undiscovered reserves are in offshore areas (about 84% of hydrocarbon

resources), and most of them are on the sea shelf. Moreover, whereas Arctic offshore oil is found mostly in the Western Hemisphere, the predominant portion of natural gas is concentrated on the Russian shelf. The Russian sector of the Arctic theoretically accounts for about 70% of all Arctic natural gas, and 39% of it is in the West Siberian basin.⁵⁶ Moreover, the Russian part of the Arctic shelf is most suitable for development.

Of course, these figures should be interpreted with caution. Any estimates of undiscovered resources will be inevitably speculative, for it is impossible to accurately estimate the available reserves, and more importantly, their recoverability.

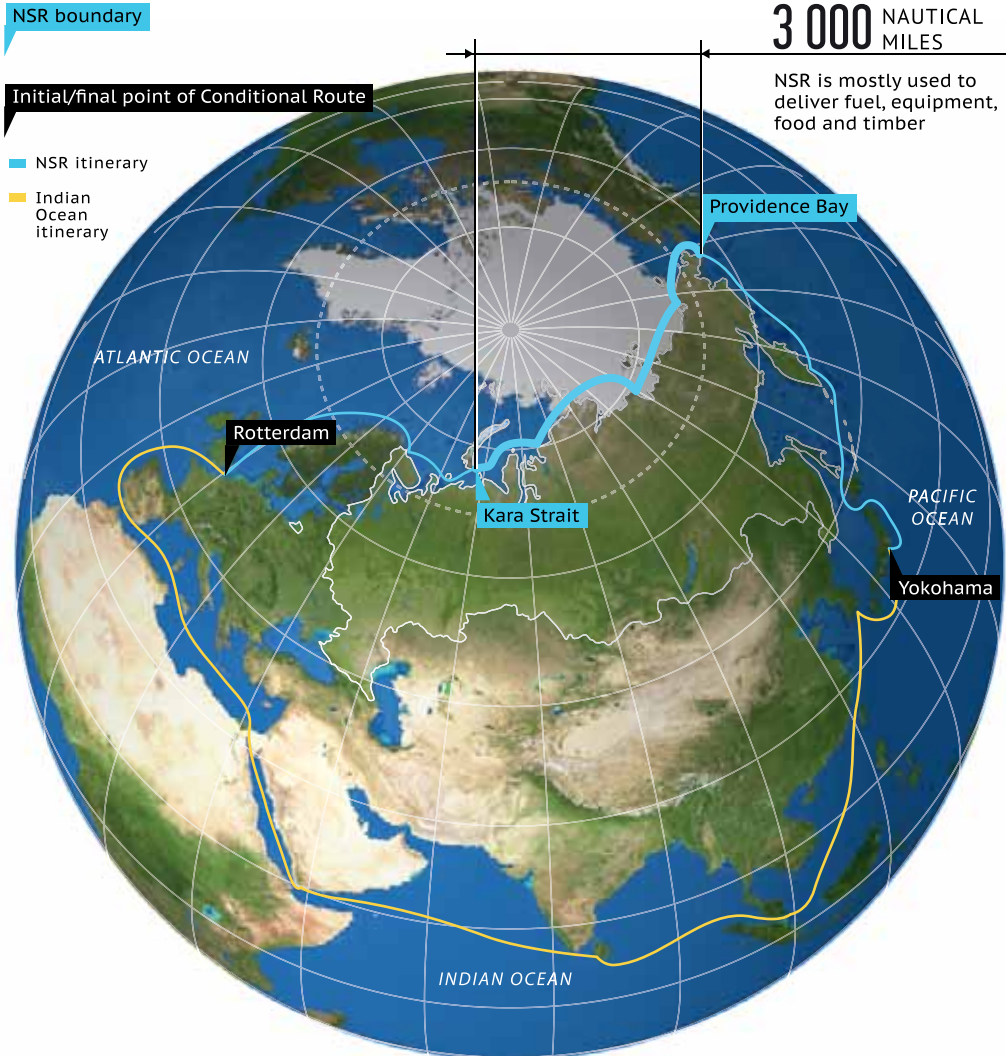
Nevertheless, they have spurred interest in the Arctic, and even sparked truly international struggle for it. Its active phase began in 2007, when two Russian submersibles placed the Russian flag at the North Pole and Moscow declared its claims to about 18% of the Arctic Ocean's floor.

For the time being the struggle for the Arctic is counterproductive. Firstly it looks like a quarrel over a bear's pelt before the bear has been actually shot. Secondly, all potentially recoverable hydrocarbon reserves are found on the shelf and therefore subject to the jurisdiction of this or that country. It is not surprising that over time the tensions in the region significantly subsided.

The main opportunities one may find in the Arctic at the moment are likely to be not its resources, but its transit potential. This poten-

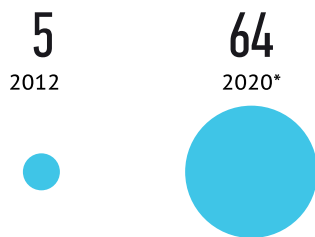
Northern Sea Route

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



NSR development plans

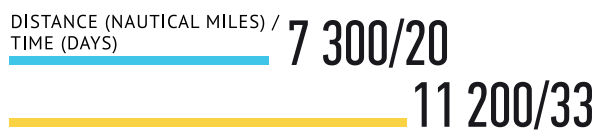
TRAFFIC VOLUME, MILLION TONS



* Preliminary forecast

Main advantages

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



2 Lack of sea piracy threat

Main disadvantages

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



The main opportunities one may find in the Arctic at the moment are likely to be not its resources, but its transit potential

tial lies, above all, in the Northern Sea Route (NSR). In 2009, two merchant ships made the first transit voyage along the NSR. 34 ships used the route for a transit voyage in 2011, 46 – in 2012, more than 70 – in 2013.

The main advantage of the NSR is the voyage time saving it can reach six to nineteen days depending on the route. It provides also significant cost savings. An analysis made for the route Melkoya-Yokohama shows that annual savings on the freight costs and fuel consumption may reach (on the condition of three shuttle voyages a year) about 18–20 million dollars (up to 21 days saved on each one-way voyage). Savings on fuel costs per one-way voyage alone are estimated at 800 thousand dollars.⁵⁷ Calculations for the route Yokohama-Hamburg show that in summer time the costs of shipping containers along the NSR can be 30%-35% lower than the costs of shipping through the Suez Canal, and in winter time, on the contrary, 25%-27% higher. Over time, the escort costs may go down with better experience and greater technological efficiency. Infrastructure development will also contribute to reducing the cost of transportation along the NSR.

The Northern Sea Route has many competitive advantages over alternative routes for carrying goods from northern Europe to Asia. In addition to saved time and cash, one may also

recall absolute security against piracy, as well as the absence of bottlenecks. The NSR, unlike the Straits of Malacca or the Suez Canal, will hardly ever run the risk of being overloaded.

Of course, expecting the NSR will become a transit route of world importance even in the medium term is premature. So far it lets through less goods and cargoes in one year than the Suez Canal transits in one day. But even amid the growing interest in the Arctic resources and the wish of Asian countries to diversify fuel supply sources and the routes of transporting export goods the importance of the NSR will inevitably increase. It will have a stable cargo base, including⁵⁸:

- in the east-west direction: liquefied natural gas (Sabetta, Hammerfest), iron ore (Murmansk, Narvik), crude oil (Primorsk), and condensate (Ust-Luga, Vitino etc.);
- in the east-west direction: coal (Prince Rupert, Vancouver); fish (Petropavlovsk-Kamchatsky, Hokkaido); light oil (Pusan, Inchon); seasonal containerized cargoes (Busan, Hokkaido); and liquefied natural gas (Sabetta).

Transit as a major opportunity provided by the Arctic region requires the prevention and peaceful resolution of conflicts as well as multilateral cooperation. The militarization of the Arctic must be stopped before it begins in earnest. It must give way to an era of peaceful cooperation. In fact, it has already begun. In 2008, the Arctic countries signed the Ilulissat Declaration, containing the obligation to resolve conflicts peacefully, and in the fol-

lowing years, using the mechanisms of the UN Convention on the Law of the Sea and the Arctic Council, they settled almost all border conflicts, established cooperation in search and rescue work, in the control of fishing, in responding to oil spills, etc.⁵⁹

Peace and cooperation in the region are a key condition for Russia to fully be able to use its positions in the Arctic. At the same time the development of gas resources in the region (for beginning LNG supplies to Europe and Asia) for the purpose of turning

Russia into “the world’s most flexible energy supplier” (see above) should be complemented by the development of transit potential and the best possible use of the opportunities for international cooperation. The two main values must remain immutable: Russia’s sovereignty over its offshore zone and the maximum environmental safety. These two values are closely interrelated: Novaya Zemlya is a typical example of how an ecological disaster devalues sovereignty: the archipelago, although it belongs to Russia, is utterly unsuitable for any use.

4. International Cooperation for the Development of Siberia and the Far East

4.1. *Siberia and the Far East as room for compromise*

Opening up Siberia and the Far East to foreign partners is a key prerequisite for successful development of the region. It is fundamentally important for Russia's cooperation with the APR countries to gain not only a geopolitical but also an economic dimension. Optimal use of the resources in Russia's east (not only mineral but also human, intellectual, land, water and biological resources) will make it possible to turn Siberia and the Far East into a developed region closely integrated into economic ties within the Asia-Pacific Region, on the one hand, and to boost the slackening economic, political and spiritual development of Russia, on the other hand.

As has been noted above, the APR countries are interested in the development of Siberia and the Far East, albeit not as much as Russia should wish. Foreign partners have several points of interest:

- They seek to get access to the region's natural resources. Siberia and the Russian Far East are rich in natural resources that are in increasingly short supply in neighboring countries. These are not only hydrocarbons and other minerals but also enormous land, water, forest and fish resources in Siberia and the Far East, the joint development of which may benefit both Russia and the APR countries.
- They seek to use the transit potential of the region, mainly the Northern Sea Route and, to some extent, the Trans-Siberian Railway. The latter's joint modernization and the development of the Northern Sea Route by countries of the region is of big interest not only for Russia but also for its Asian partners.
- They seek to fill the geopolitical vacuum in the east of Russia. The vast expanses of Siberia and the Russian Far East are probably one of the last masses of land in the world, the "last frontier" that is barely engaged in economic activities. Now that land and natu-



ral resources become increasingly valuable in the world, this mass of land will inevitably become more and more attractive. All Asian countries would like the rivalry for Siberia to assume the form of fair economic competition with clear and equal rules for all. This can be achieved only if Russia exercises sovereign control over the development of Siberia and the Far East. China's dominance in the rivalry for Russian resources, which seemed quite plausible several years ago, is unacceptable for all other countries in the region which are not willing to see their main competitor gain so much strength. However, China-oriented development of Siberia under Russia's patronage would be the best scenario for China. China does not want to expand to the Pacific part of Russia as it would only increase tensions in the region. In fact, it can get access to its resources avoiding that. As a result, cooperation in the development of Siberia and the Far East with the participation of all APR countries, with Russia playing a leading role (more active than now), would be the best solution for all countries.

4.2. Economic interests of foreign partners in Siberia and the Far East

Energy resources are clearly number one object of interest for foreign partners in Siberia and the Far East. The growing demand of Asian countries for fossil fuel forces them to increase its import. At the same time, persisting instability (which has even increased in 2013 in the wake of crises in the Middle East) in the energy markets prompts these coun-

tries to look for ways to diversify their import operations. These two trends have spurred interest in Russian hydrocarbons among Asian countries.

As a result, Russian and Asian energy companies made a number of major transactions in 2013. Rosneft signed a 25-year contract with China National Petroleum Corporation (CNPC) for oil supplies to China. NOVATEK and CNPC agreed that the latter would acquire a 20% stake in the Yamal LNG project, which may also be joined by a consortium of Japanese Mitsui and Mitsubishi or Indian ONGC Videsh, Indian Oil Corp and Petronet LNG. NOVATEK signed a naphtha supply contract with Korean YNCC. Rosneft made several contracts with Indian and Japanese companies which intend to participate in the construction of an LNG plant in Sakhalin and an agreement on gas supplies from this plant to Japan. Gazprom signed a memorandum of cooperation with several Japanese companies under the Vladivostok LNG project. In addition, negotiations between Gazprom and CNPC on pipeline gas supplies to China are nearing completion.

To assess prospects for Russia's access to the Asian energy market, one has to understand the specific aspects of its possible role there. Russia will not become a key supplier for Asia as the competition is too tough and many contracts have been signed well in advance. What makes Russian hydrocarbons essential is that they will allow Asian countries to diversify their import operations. From this point of view, oil and especially LNG supplies by sea appear to be most promising for Asian coun-



tries. Pipeline supplies to China will increase but their potential is limited despite the enormous size of the market. The main limitations are the China's plans to develop its own shale gas resources and, that is more important, its reluctance to rely entirely on any one supplier (especially under long-term contracts). Developing flexible modes of fossil fuel transportation, primarily for LNG, is the main, and so far unused, energy trump card to be played by Siberia and the Far East.

way: the Korean corporation Hyundai has taken over the agricultural company Khorol Zerno in the Primorye Territory and now wants to lease at least 40,000 ha of plow land in Russia; the administration of the Khabarovsk Territory has leased 426,000 ha of land in border-lying areas to the Chinese province of Heilongjiang. Also, a large acreage of land in the Russian Far East is tilled by Chinese farmers illegally. Moreover Russia-Japan agricultural cooperation develops rapidly (see below).

Production and processing of fossil fuel, agriculture, fish farming and transit by the Northern Sea Route are key areas of Russia's cooperation with Asian countries in Siberia and the Far East

Russia's energy resources are not the only reason for fostering international cooperation in the Pacific part of the country. Another vital resource, which in the future may even outweigh oil, is fresh water. The report *Toward the Great Ocean or the New Globalization of Russia* names water-intensive sectors – and mainly agriculture – as the principal potential driver of economic growth in Siberia and the Far East. The eighteen months that have passed since the publication of the report have proved the correctness of these assessments.

The agricultural potential of the Pacific part of Russia is beginning to attract foreigners. For the time being only minor projects are under-

In 2012, ahead of the APEC Summit in Vladivostok, an attempt was made to put Russian-Asian agricultural cooperation on an entirely new basis. Then Deputy Minister of Economic Development Andrei Slepnev suggested leasing millions of hectares of land in the Primorye and Khabarovsk territories and Amur

Region to partners from Singapore, Taiwan, Vietnam, Japan, and the Republic of Korea to grow rice and soy. According to the ministry's plans, each investor could have received up to 200,000 hectares of land for a token fee of 50 rubles per hectare. The initiative was to be presented at the summit but was not supported by other blocs of the Government.

Agrarian cooperation with Japan can help boost the development of agriculture in the Russian Far East. Japan is very much interested in such cooperation. First, by using Hokkaido's agriculture model in the Russian Far East that has a similar climate, Japan will get access to land, the lack of which is a serious problem of its own





agricultural producers. Second, agricultural production in Russia and subsequent export of products to Japan would provide a simple and at the same elegant solution to the persisting problem of Japan's food security.

For Russia, agricultural cooperation with Japan would be just as beneficial. Japanese producers will not only boost tax revenue and create new jobs. The use of modern technologies and proven land use practices will keep plow land from lying fallow or being used illegally, both of which lead to its degradation. In addition, the development of agriculture can gradually spread over to the entire agricultural sector in the region. In fact, Japan has stated its readiness to invest not only in land cultivation but also in the production of agricultural equipment, modernization of infrastructure and the development of food industry.

Under the agreement signed by the Bank of Hokkaido and Russia's Amur Region, Japanese farmers sowed 500 hectares of land with buckwheat, soy and corn in 2012 and plan to double this amount in 2014. Yet the potential for cooperation is much bigger and may cover, inter alia, neighboring regions – the Primorye Territory and the Jewish Autonomous Region.

A Russian-Japanese agricultural project is being seriously studied in Sakhalin. It calls for building and modernizing potato and vegetable warehouses, developing broiler farming and poultry processing, expanding greenhouse vegetable production, conducting seed variety trials and supplying agricultural machinery and equipment to companies in the Sakhalin Region.

Another area of close cooperation could be fish farming. Experts say that coastal marine water in Sakhalin, Primorye and Khabarovsk territories can produce up to 3.5 million tons of seafood. This potential has largely been unused so far: combined fish farming production of all Far Eastern farms has been less than 1,000 tons a year. The main difficulty in the development of fish farming in the Far East is the lack of large investments estimated at dozens of billions of rubles. Regional budgets cannot afford such expenditures, but foreign investors could be willing to contribute, especially Japan. The Republic of Korea and Norway, which have long-standing fish farming traditions, necessary technologies and personnel, are ready to share them with the Russian Far East. If a biotechnology cluster is created around Vladivostok using advanced foreign technologies, with a focus on fish farming (and possibly agriculture), this would mark the emergence of a markedly new high-tech growth point in Russia.

Production and processing of fossil fuel, agriculture, fish farming and transit by the Northern Sea Route (see below) are apparently key areas of Russia's cooperation with Asian countries in Siberia and the Far East. But, as was mentioned, they are not the only ones. There are good prospects for the development of wood processing, cellulose and paper, chemical, renewable energy and other industries. And there are also narrow sectors where single projects can be implemented jointly with Asian partners.

For example, Japan is willing to introduce environmentally friendly waste incineration

technologies in Russia where large cities are running out of landfill space, primarily in Moscow, but possibly also in major West Siberian cities such as Novosibirsk and Omsk.

Chinese investments can be used to create joint energy-intensive facilities, primarily in non-ferrous metallurgy. There are excellent prospects for using Siberian territories and cheap electricity for providing energy-intensive services to store and process data for Chinese, American, Japanese and Korean information companies. There is such interest

Energy, transit and diplomatic aspects of China's presence in the Arctic are important for Beijing only in the long term

but problems with obtaining state guarantees for information security are a major hindrance at this point.

The abovementioned areas of cooperation are quite impressive. Several dozen large and medium-size projects implemented in these spheres in Siberia and the Far East and the development of export-oriented infrastructure closely integrate the region into the Asia-Pacific economic system and give a powerful boost to the development of the region, comparable only to that generated by major railway projects in the late 19th century.

4.3. Foreign partners' interests in the development of Russia's Arctic regions

In 2013, five Asian countries – China, Japan, India, the Republic of Korea, and Singapore – were granted the status of permanent observer in the Arctic Council. This may seem strange at first sight as none of them has access to the Arctic Ocean, and such countries as India and Singapore are much closer to the equator than to the Arctic Circle. Nevertheless, their Arctic aspirations have certain economic and

political motives which need to be understood in order to build full-fledged and mutually advantageous cooperation with them. There is no such understanding in Russia yet, and it is not surprising therefore that the country was quite lukewarm about their appearance in the Arctic Council as permanent observers even though it did not oppose

it openly. However, Russia can fully use the advantages of its Arctic location only by cooperating with the Asia-Pacific countries.

China

China views the Arctic mainly as an area of commercial interests, especially in terms of mineral production. China's CNPC participates in the Yamal LNG project (see above). Chinese companies are also actively engaged in the development of Greenland's offshore fields.

China is undoubtedly interested in the development of the Northern Sea Route. According



to some estimates, up to 15% of Chinese export may be transported by this route by 2020–2025. This is likely to be an overstatement, but there can be no doubt about the seriousness of China’s plans for the region’s transit capacities. Its key motives stem from the need to save funds and solve problems associated with the Strait of Malacca, as China is too dependent on it (in both importing fuel and exporting its industrial products), especially in view of congestion and piracy risks. In the long term, China will give priority to the development of transit cooperation with Iceland. In fact, Reykjavik can become a world-class port if polar navigation increases.

China’s positions in the Arctic strengthened after it had acquired the status of permanent observer in the Arctic Council. But it paid a dear price for it having encountered serious objections from Norway following a diplomatic crisis between the two countries after the Norwegian Nobel Committee had awarded the Nobel Peace Prize to Chinese dissident Liu Xiaobo in 2010.

However, the importance of China’s new status in the Arctic Council should not be overestimated. This status does not give China any new powers. Moreover, it requires it to respect the sovereign rights of Arctic states and sort of smother its own voice since Beijing has long and consistently been calling for internationalizing the region and giving equal rights to the Arctic and non-Arctic states. Now China’s official task in the Arctic Council is to try to convey to the Arctic states its own position on key issues and help make this organization “more open, prestigious and credible.”

Energy, transit and diplomatic aspects of China’s presence in the Arctic are important for Beijing only in the long term. For the time being, the Arctic is not among China’s foreign policy priorities. In fact, research is the only activity the country carries out in the Arctic on a regular basis now. China’s research program is one of the most extensive in the world and includes a research station in Spitsbergen, a research icebreaker and regular (every two year) Arctic expeditions. The program aims not only to conduct geological exploration, with a view to potential mineral extraction among others, but also to study the climate in the Arctic. China constantly emphasizes its need in climate research in order to assess relevant climate change tendencies within the country that are important for developing agriculture, ensuring food security, and monitoring and forecasting natural disasters.

Japan

Japan started showing interest in international processes in the Arctic in the 1980s long before other Asian countries did, focusing mainly on the Northern Sea Route. In fact, being closest to the Northern Sea Route, Japan is interested in its development much more than any other Asian country. The distance from Yokohama to Rotterdam along the Northern Sea Route is almost 3,400 miles (43%) shorter than via the Suez Canal. Nevertheless, Japan has no initiatives regarding the Arctic, and its policy in this respect is quite passive. Critics say that having joined the Arctic Council as a permanent observer together with other Asian countries, Japan took too much time to get engaged in the political processes in the Arctic





Korea undertakes active Arctic Ocean exploration efforts being keenly interested in ecologically sustainable development of the Arctic

even though it could have done it much faster and got strategic advantages over its competing neighbors. But having changed its status, Japan did not step up its policy in the Arctic. In fact, the Arctic is not even mentioned in Japan's National Security Strategy adopted in December 2013.

The national Arctic strategy to be released in 2014 may define Japan's ambitions in the region. Japan will most likely focus on climate studies (Arctic climate affects oceanic currents near Japan, which makes it a point of special interest) and protection of the rights of indigenous peoples of the North.

South Korea

The Republic of Korea's interest in the development of the Arctic is closely associated with the Northern Sea Route. It is regarded, first, as a possible route for energy supplies to the country and export to Europe; and second, as an area of special interest to Korean shipbuilding companies.

In September 2013, the Korean shipping company Hyundai Glovis' tanker with naphtha sailed along the Northern Sea Route from the port of Ust Luga, saving 13 days of travel time,

compared to alternative routes, and \$100,000 worth of operating expenses. The company Hyundai Heavy Industries in 2011 started testing a new ice-class vessel, the largest in the world, specially designed for navigation in the Arctic.

The Republic of Korea undertakes active Arctic Ocean exploration efforts using a research station in Spitsbergen, the research icebreaker Araon, and large-scale high-tech research programs launched by the Korea Polar Research Institute, Korea Maritime Institute and Korean Institute of Ocean Science and Technology. Since Green Growth is one of the country's long-term priorities, Korea is keenly interested in ecologically sustainable development of the Arctic. Climate change is of special interest to Korea. This interest was stated best of all by the Korean ambassador to Norway, who described the Arctic as "a barometer of global climate change."

Korea's position on the governing Arctic territories is much more moderate than that of China. Korea does not insist on the equality of rights for the Arctic and non-Arctic countries but wants to be confident that the regime to be created by the Arctic states will allow it to pursue its interests in a cooperative environment. This is what prompted Korea to join the Arctic Council as a permanent observer.

On the whole, Korea's interests in the Arctic are stated quite clearly in its Arctic strategy. Research objectives are at the top alongside humanitarian ones (peace in the region, envi-

ronmental sustainability and protection of the rights of indigenous people), while economic goals are declared with caution. Korea will gladly join in the development of the Northern Sea Route but will hardly lead the way due to both uncertainty about future cargo traffic and barriers to foreign investments in Russia.

India

India is probably the most unexpected Arctic advocate among Asian countries. Many experts say that this is the only country where geopolitical interests prevail over economic ones. India is competing with China for control over energy resources in different parts of the world and considers its participation in the Arctic a means of holding back the rival.

India is competing with China for control over energy resources in different parts of the world and considers its participation in the Arctic a means of holding back the rival

This explains why India sought to receive the status of permanent observer in the Arctic Council, why a consortium of Indian companies (see above) may acquire a stake in the Yamal LNG project and why the country is planning to build a \$166 million icebreaker. The opening of India's research station in Spitsbergen and its most active (among all countries) research activity in the Arctic (expeditions go to the region at least twice a year since 2011) are sometimes said to be motivated by political reasons.

At the same time, one cannot deny the fact that India badly needs to diversify energy supplies and is vitally interested in studying climate change that may affect it more than other countries.

But India has no clear-cut plan for going into the Arctic. Political debates on this issue vary. On one hand, some say that the Arctic needs to be internationalized and should have an international regime similar to that in Ant-

arctica. Others insist that India should play a more active role in the Arctic Council and try to advance its positions (primarily on environmental issues) under the existing institutional regulations. For the time being, one can say that India's activities in the Arctic are mainly reactive in nature, and the country is still undecided about its Arctic ambitions.

Singapore

Unlike China, the Republic of Korea and Japan, Singapore will get no obvious benefits from redirecting a part of its commercial flows to the Northern Sea Route. Moreover, theoretically, this could even weaken Singapore's positions in the Strait of Malacca, the main trade route under its sole control.

But the Singaporean leadership believes that these concerns are unfounded. The Northern Sea Route's capacity is too low to have any perceptible impact on the traffic in the Strait of Malacca. Moreover, the Northern Sea Route can focus entirely on bulk shipping in the near future, while Singapore deals mainly with container vessels. The development

of the northern route not only does not endanger Singapore's positions, but it can actually be useful under certain circumstances by helping reduce traffic in the Strait of Malacca, albeit just slightly. In fact, 1.7 km wide at its narrowest point, the strait can hardly handle growing traffic flows, and there is no solution anywhere in sight.

Potentially, the Arctic can become a source of oil supply to Singapore for both domestic needs and, most importantly, for oil processing, which is one of the key industries in the country. Finally, should the Northern Sea Route active development plans get underway, Singapore is prepared to contribute to the creation of its infrastructure. Its experience in planning, creating port and navigation infrastructure, and managing maritime processes will enable Singapore to become one of the potential key actors in this respect. It can also supply ships designed to operate in the Arctic.



Climate change was the main factor behind Singapore's decision to join the Arctic Council

Other competitive advantages of Singapore may be the world's best HR management (including immigration flows) experience when implementing infrastructure projects and its ability to act as an arbiter in any dispute – Singapore is nearly the only (except Russia) country in the Asia-Pacific Region which has even relations with all other nations in this part of the world. So Singapore may as well play this role in the Arctic, acting as some kind of buffer between other Asian economies.

Like other Asian countries, Singapore pays special attention to climate research in the Arctic. Because of its insular and tropical location, Singapore is particularly vulnerable to sea level rise. While for the majority of other countries climate change is an issue of economic losses, for Singapore it is a matter of survival. This is why climate change was the main factor behind Singapore's decision to join the Arctic Council. And it may step up its Arctic research programs in the years to come.

Norway

Unlike the majority of Asian countries, Norway has long had obvious interests in the Arctic associated with the production of mineral resources, fishing, research, and transit. However, its genuine interest in the Russian sector developed only recently.

The company Statoil is the world's leader in developing technologies for oil production in the Arctic, and Russia can offer it vast opportunities for using its competitive advantages. Statoil was a member of the consortium

formed by Gazprom to develop the Shtokman field but, like other foreign participants, eventually dropped out. Cooperation with Rosneft may prove more successful for Statoil. In 2012, the two companies signed a joint venture agreement for the development of four Arctic fields: one in the Barents Sea and three in the Sea of Okhotsk. The Norwegians will have a 33.33% stake in the joint venture.

Norway is one of the countries that are most interested in using the Northern Sea Route. In fact, the first foreign partner that was allowed to navigate along the NSR was a Norwegian company that supplied iron ore to China using the Danish ship *Nordic Barents*.

Norway's interest is quite logical. The route can change its geopolitical position by actually giving it control over access to Asia from Northern Europe. In addition, the Northern Sea Route opens up new opportunities for Statoil in developing offshore resources and exporting products to Asia. Norway's High North Strategy calls for using the advantages of Northern Sea Route to increase the country's presence in the Asian markets as a key priority goal. Norway is also motivated by the efforts to "push" new Russian energy resources (primarily LNG) farther east or otherwise limit competition for its energy supplies to Europe.

4.4. Barriers to international cooperation in the development of Siberia and the Far East

There are several obstacles making it hard to open up Siberia and the Far East to foreign investments and make it prosper from integration into the Asia-Pacific Region.

First, the idea of turning the region into an area of international cooperation still remains unclear and unpopular in Russian society and, in part, among elites. In their opinion, the

reduce the “Chinese threat” if it ever existed. Competition between investors from different countries will exclude the dominance of any one external force.

Second, not only the population but also the Russian business community, including Siberia and the Far East, are barely aware of the opportunities that lie in the Asia-Pacific Region. Being, as a rule, unable to tap the advantages of Asian growth on their own, Russian entrepreneurs often react quite lukewarmly to foreign investors and consider

them nothing short of a foreign invasion. Some local companies (and government agencies too) are used to the wild practices of doing business and sometimes even live off them. It is necessary to build local business into the industrial chains being created by foreigners, improve coordination when implementing joint projects, and ensure fair competition.

But these issues have to be addressed and handled by specialized government agencies (see below).

Third, labor shortage is also a hindrance for the development of Siberia and the Russian Far East, primarily for implementation of infrastructure and agricultural projects. Some 6.3 million people live in the Russian Far East, but since they are spread over such a vast territory, this would not be enough for its intensive development, even taking into account that unemployment rates stay high. Relatively large and highly skilled sections of Western Siberia’s population live far away from places

Norway’s High North Strategy calls for using the advantages of Northern Sea Route to increase the country’s presence in the Asian markets as a key priority goal

main threat to the Russian east comes from China and can be averted by closing up the region. They believe that the opening of the borders would make Russian eastern regions flooded by the Chinese and eventually lead to Moscow’s loss of control over these territories de facto and probably even de jure.

Russian society remains Sinophobic and this sentiment cannot be soothed by numerous facts indicating that the Chinese threat is largely exaggerated. It’s hard to eradicate this feeling. It might be easier to explain to Russians that the purpose of opening up the region for international cooperation is to



where most of the proposed projects are to be implemented. Therefore, hiring foreign workers will be unavoidable.

Assessments of foreign labor demand differ, with a minimum amounting to one million people. It may be several times larger in the initial years of major projects, when more personnel are needed to build infrastructure.

There are many potential sources of foreign

The idea of turning Siberia and the Far East into an area of international cooperation still remains unclear and unpopular in Russian society and, in part, among elites

labor. The easiest way would be hiring workers in China, but that is hardly acceptable as it will lead to real, not potential, “Chinaization” of Siberia and the Far East and, before that, to resentment from a considerable part of Russian society. An obvious alternative would be bringing in labor from Central Asia, which appears to be a more attractive solution but probably not the best one. First of all, Central Asian workers have lower qualifications than even Chinese ones. Second, this solution would also meet with a negative reaction in society, even though it will partly help redirect migration flows from central parts of Russia to other regions. Third, Central Asian workers will stay in Russia in large numbers rather than go back home, which will create numerous assimilation problems for them.

Hiring labor from South Asian countries, primarily India and Bangladesh, may at first glance seem an exotic but actually more realistic option. These overpopulated countries are quite interested in sending their workers to Russia. Indians are already employed in the agricultural sector of several regions in the European part of Russia. The only discouraging factor that may scare them away from its Asian part is cold weather. However, this is a myth that can be dispelled: the climate in southern Siberia and the Far East is not much

harsher than that in Central Russia. Besides, cold weather does not stop Indian agrarian labour force from migrating to Canada where climatic conditions for doing business (including in agriculture) are comparable to those in Siberia and the Far East. Prospects for hiring labor from Southeast Asian countries such as Vietnam and the Philippines are similar.

Finally, the Democratic People’s Republic of Korea could be another and probably most promising source of labor for the Pacific part of Russia. That country with a population of 24.5 million has only a few efficient workplaces. Its opening up to the rest of the world will result in mass labor migration from the country, a great part of which may be directed to Russia much for the benefit of all the other APR states (primarily the Republic of Korea), which have no extra jobs

to offer to North Korean migrants. The flow of relatively skilled and much disciplined workers from the DPRK who can work fairly well in the construction industry and agriculture can help solve the problem of labor shortages in Russia without breeding any painful side effects that are associated with migration from China or even Central Asia.

The main obstacle to hiring labor in the DPRK is its isolation from the world and this makes further progress in solving the Korean issue quite crucial. Given the severity of the humanitarian crisis in the DPRK, most specialists tend to think that the Korean conflict may be resolved (and the two Koreas may even start moving toward reunification) within the next decade. Their reunification or at least partial opening of the DPRK to the world will dramatically change the system of international relations in the region, but all APR countries can benefit from this only if the North Korean labor potential is tapped constructively for the development of Russia’s Siberia and the Far East.

It is impossible to make a clear choice in favor of any one source of foreign labor in advance. Workers should be hired for concrete projects, and the terms of hiring would depend on that. And yet, possible options need to be explored



The lack of transport infrastructure is a significant hindrance to the development of Siberia and the Russian Far East

already now, using the experience of Persian Gulf countries and especially Singapore, which efficiently receive large numbers of temporary migrants without creating serious problems.

Fourth, the lack of transport infrastructure is a significant hindrance to the development of Siberia and the Russian Far East. It can be overcome by investing budget funds in key transport projects (see below). Local infrastructure can be developed by the regional and federal authorities in cooperation with foreign and Russian private investors for specific projects.

Fifth, institutional barriers are a key group. There is a variety of them: unfriendly legislation for foreign investors (which specifically bans them from owning controlling interest in many industries of the resource sector), excessive public regulation (especially in the infrastructure sector which is largely off limits

to private business), and bureaucracy (for example, in order to obtain permission from the Northern Sea Route Administration to sail along the way, one has to apply at least fifteen days before the ship enters the area. Just for comparison, passage through the Suez Canal requires application no less than 48 hours prior).

The most significant institutional barrier is insufficient protection of investors. This is a particularly painful issue for the Japanese who still remember their experience with the Sakhalin 2 project. The issue of protecting private property goes beyond Siberia and the Far East and is relevant for the whole country. It cannot be solved in any given region, even though special inter-governmental agreements should be signed in some cases to give additional state guarantees to foreign investors. And yet, the main strategy should be creating such conditions for investment that would make it profitable enough to compensate investors for the relatively high risks. And this will require firstly the overall improvement of investment climate and institutional environment, and secondly a mechanism of special economic zones (see below).

5. Toward a New Development Strategy for Siberia and the Russian Far East

5.1. A philosophy for the region's development

Russia needs a new strategy for the development of Siberia and the Far East, but this strategy should not repeat the mistakes of the previous one: artificial division of the historically, culturally and even economically consolidated region into separate parts; orientation toward politically-motivated but economically unjustified infrastructure mega projects; reliance on paternalism as the basis for relations between the region and the federal government; and isolation from the needs of the rest of the world. A new strategy should take into account specific features of the political and economic processes in the Asia-Pacific Region, rest on the understanding of real threats and development opportunities in the region, aim to use international cooperation while eliminating the barriers that hamper it. But most importantly, a new strategy should be based on a new philosophy, a philosophy of development, not state support, a philosophy of inte-

gration into the Pacific region, not retention under counterproductive control. All the more so since only integration like this can ensure real Russian sovereignty in the region.

Economic growth in Russia has slowed down critically. In 2013, the economy grew by a mere 1.4%. The previous economic model based on oil revenues and accelerated development of Moscow, which sucks in intellectual, financial and labor resources from the rest of the country, can no longer work. The Russian economy needs a new impetus. It can get it only by joining the growing Asian economies. Siberia and the Far East should become Russia's window on rising Asia and a source of growth for the whole of Russia and should stop being viewed as a colony that services the interests of the empire or demanding cash transfers from it. Moreover, one must understand clearly that the strategy of Russia's pivot to the East can be implemented only through integration of Siberia and the Russian Far East into the world economic system.



These regions should no longer be considered solely in terms of defense capabilities. The east of Russia is not the rear in its confrontation with the West or a “safety cushion” from the Asian or American threat.

False threats associated with Siberian separatism must also be dismissed. Separatism can be possible in a distant future only if Moscow continues to treat Siberia as a “colony.”

A new strategy for the development of Siberia and the Far East should aim to tap the region’s potential as a center of economic growth and driver for the development of the rest of the country. It’s not a periphery or a burden; it’s

It is projects like this that marked the main milestones in the development of Russia since pre-imperial times: a national project to develop the Urals implemented in the 17th century; a new capital and the Russian fleet built in the 18th century; the Trans-Siberian Railway launched in the 19th century under the “Toward the Great Ocean” motto; mass relocation of people to Siberia initiated by Pyotr Stolypin in the early 20th century. The latter two endeavors led to accelerated development of territories east of the Urals. Since Soviet times, the country developed consistently from one achievement to another, from mega construction projects in the era of industrialization, the Virgin Lands Campaign and space exploration to the restoration of the Cathedral of Christ the Savior in Moscow. One cannot and should not forget the spiritual uplift of the Siberian pioneers or those people who built the Trans-Siberian Railway. In fact, Russia must revive it and capitalize the core strengths of the Russian national character.

A new strategy of the development of Siberia and the Far East should be based on a new philosophy of development of the region, not on the state support

a region of opportunities. Siberia and the Far East are an indigenous and inalienable part of Russia that perceives itself as such. And the future of the whole country will depend to the huge extent on the future of this part.

Siberia and the Far East should become a new “big project” for Russia. One may or may not like this rhetoric, but it’s hard to deny the fact that affection for enormous and ambitious accomplishments is Russians’ national trait.

The Olympic Games and the FIFA World Cup proposed now as such big projects hardly match this role. These are just a show, not a heroic exploit. Different infrastructure projects (like the railroad from Moscow to Kazan, a bridge in Sakhalin and the like) are too local and, as a rule, are not economically substantiated.

The development of Siberia and the Far East is a fundamentally greater task. Developing vast territories east of the Urals would be not



a mega- but a meta-project. Symbolically and philosophically, the development of eastern territories is a key step toward fulfilling the mission of serving as a bridge between Europe and Asia, a mission Russia has long associated itself with but never accomplished.

Russians' love for large projects has been borne out by sociological polls. VTsIOM surveys conducted in 2012 indicate that people living in the European part of the country see no potential in Siberia and the Far East and put them at the bottom in the list of Russian regions. But if an ambitious project like the Baikal-Amur Mainline (BAM) were commenced, one-third of respondents said they would be prepared to move eastward (and only

that each individual can play a role in building the future of his Motherland, not utopian (as with communism) but real. In this respect, participation in the development of Siberia and the Far East is something much more inspiring than volunteering in Sochi.

Changing development priorities for the Russian eastern territories is a key condition for success. The ideology of development based on resource extraction and bordering on colonial exploitation must give way to an ideology of human resource development. It is the people living in Siberia and the Far East, not the government, who should become the main driving force for the region's development when appropriate conditions are created. Nat-

urally, the state should make the first step, but this step should aim to encourage initiative and motivate private entrepreneurs to do business in the region. After that the state will no longer have to play a dominating role in its development.

The east of Russia is not the rear in its confrontation with the West or a "safety cushion" from the Asian or American threat

20% conditioned their relocation on a higher salary, purchase of housing, etc.).⁶⁰

At the same time, the development of Siberia and the Far East is not just a show of Russia's ambitions designed to fill the ideological vacuum in the country but a vital necessity and almost the only opportunity for Russia to become fully engaged in global economic processes as a leading player. From this point of view, the development of Siberia and the Far East is not only a romantic but also a pragmatic task.

Russia needs a fashion for Siberia and the Far East. And this would mean creating a brand for the region and its major landmarks (primarily natural ones like Lake Baikal, Altai, Kamchatka geysers, Lena Pillars, etc.) and promoting tourism. But, most importantly, it would be fashion for the development of the region and the people involved in it. New development of Siberia and the Far East should become a national sport in Russia, based on fervor, on the one hand, and on pride for the country, on the other. And there must also be a third component: an understanding

5.2. Toward new management practices for Siberia and the Far East

A combination of natural riches and relatively high-quality human resources coupled with a favorable situation in the international markets (Asian growth that allows Russia to use the competitive advantages of Siberia and the Far East) opens up new opportunities the region has never had before. The main challenge is to use them properly and in good time. And this will require new practices of governing the region.

A new governance system should be based on a clear understanding of the need for differentiated approaches. Despite their shared historical past, Siberia and the Far East are extremely heterogeneous. Some regions (such as the south of Western Siberia) have high-quality human resources, others (such as the Altai Territory or the Amur Region) have a good climate for farming, still others (eastern Siberia) have huge and untapped energy and mineral reserves, some (like regions on the Pacific coast and along the Northern Sea Route) are endowed with a strategically valu-



able geographic position, while others lack obvious advantages.

should focus on the processing of natural resources and creation of large industrial and service clusters at the main logistical hubs.

Russia needs a fashion for Siberia and the Far East

Siberia and the Far East are not one geopolitical area. Western Siberia is largely oriented toward the European part of Russia; the south of Eastern Siberia and the Trans-Baikal area, toward China; maritime territories, toward Japan; and parts of northern regions remain unexplored. Therefore, it would be pointless to manage all of them in the same way.

Likewise, it would be senseless to aspire for socioeconomic development of the entire eastern part of Russia. It is a utopian idea that is not economically viable and will only disperse funds and resources. Instead, it would be advisable to opt for a totally new spatial and geographic model of development that singles out several zones for solving strategic tasks. Depending on the type of such tasks, these zones should be divided into two groups: zones of economic growth and zones of geopolitical stability. Their borders should coincide with the administrative borders of districts or regions so as to use existing government bodies for managing these zones rather than create new ones.

Economic zones should involve regions that have the biggest economic development potential. The Primorye and Khabarovsk Territories

An agricultural belt geared toward making the best of the agrarian and climatic resources of the region should be created in the area between the Amur and Zeya rivers in the Amur Region and in the Daurian Steppes in the south of Buryatia and the Chita Region. Another special agricultural zone should be created in the Altai Territory, where crop and animal farming are already widely presented, but the lack of access to markets puts a brake on its further development. A series of industrial zones should appear along the Trans-Siberian Railway around major cities such as Krasnoyarsk, Tomsk, Omsk, and Novosibirsk. The purpose is to create science-intensive industries making a wide range of products from modern equipment for oil production to biotechnologies for agriculture to meet the needs of the natural resource sector. The academic base for the development of such industries should be provided by Siberian science cities ('naukograds'), both existing like Biysk or Koltsovo and new, as well as leading universities. The development of local universities should be the key objective, which priority is even larger than the priority of developing universities in Moscow and St. Petersburg.

Special economic zones should offer tax preferences (for example, profit tax exemptions with subsequent reimbursement of the shortfall in regional tax revenue from the federal budget) and even greater privileges for companies that



Siberia and the Far East do not need millions of Russian-speaking newcomers, but they need conditions for decent life of those Russian citizens who consider them their native land

operate in the region's core industries (for example, exemption from all taxes for a certain period: 5 years for industrial enterprises, 10 years for innovation companies, and two years for agricultural producers). In addition, special economic zones should gradually be rid of all barriers that complicate connection to power lines or transport infrastructure. To some extent, this approach copies the experience of Chinese special economic zones that have been the main driver of economic growth in the country over the past decades.

Special geopolitical zones should be located in areas that have no potential for high economic growth but still are important for achieving the country's geostrategic goals. These are strongholds on the Pacific coast (Magadan, Anadyr, Nakhodka, Petropavlovsk Kamchatsky), along the Northern Sea Route (Provideniya, Pevek, Tiksi, Dikson, Dudinka), and alongside navigable waterways (Igarka and Zhigansk). The purpose is to stop the outflow of people from strategic towns and attract high-skilled specialists (primarily engineers and technicians) for maintaining infrastructure. The principal goal of the State in the geopolitical belt is to develop social infrastructure and create special conditions for people who have necessary specialties and skills.

Access to resources should be provided on a highly competitive basis. Small companies and foreign corporations should be allowed to produce energy resources, the latter on the basis of concession agreements. The State should only distribute licenses to companies on the basis of their efficiency analysis, and exercise environmental control – without using it for pressure out of some personal interests.

In addressing the demographic problem, it would be highly advisable to stop persistent, abortive and costly attempts to organize mass relocation of “compatriots” to the east. Nor should this be done with regard to special economic zones. The only exception may be assistance to their relocation to the agricultural belt by offering land free of charge on condition that it will be cultivated or developed (with no right to sell or lease), accompanied by low-interest loans for housing construction and acquisition of fixed capital. These measures will not incur heavy expenditures (land is not used anyway) but can produce significant results. However, this will benefit not so much the people living in the European part of the country as those who live in the north of Siberia and the Far East as they will be able to move to more populated localities.

Siberia and the Far East do not need millions of Russian-speaking newcomers, but they need conditions for decent life of those Russian citizens who consider them their native land. Therefore, priority should be given to



keeping the local population and creating special conditions for attracting creative and high-performance personnel, as well as young people, not only Russians, who want to get settled in life.

This will require the authorities to create life conditions that will ensure an increase of life expectancy in the region and improve the quality of life, give people life strategies connected with the Far East, form a stable group of people with middle income (according to the established norms, standards and values), harmonize public relations, and ensure that people feel part of the common socio-cultural space in Russia. Most of these tasks can be solved by facilitating rapid development of special economic zones and maintaining geopolitical ones.

Naturally, an organizational body will be needed for creating a system of special zones. A ministry cannot perform this function, even if its area of responsibility expands to include not only the Far East but also Siberia. The idea of creating a state corporation for the development of Siberia and the Far East is also questionable. State-owned companies are not effective, as a rule. This was true in tsarist times and it still is true now. Siberia was developed mainly by private entrepreneurs. It might be sensible to create a separate state agency for the development of Siberia and the Far East, independent from the Government and subordinated directly to the President, to organize the work of the special zones and distribute licenses and concessions for the production of natural resources. The essence of this body will be reflected by the words “state

agency” not “state corporation” and its purpose will be to provide intermediary services based on an approved strategy, not its own interests (a corporation has its own economic interest by definition).

With time, after the mechanism of special zones has been set in motion, the functions of state agency can gradually be transferred to regions. However, they will need sufficient funding for that. This cannot be done under the present tax system. The only available means of tax decentralization now allows regions to keep all profit tax revenues (now 18 percent out of 20 are held at the regional budgets while residuary 2 percent are directed to the federal budget) , but this measure, while necessary, will have little effect. In the long term, it will be essential to create a stable system for redistributing tax revenue (primarily from VAT) so as to encourage leading regions to collect taxes and at the same time avoid excessive divergence of regions in terms of fiscal capacity. West European countries (Great Britain, Germany) have the experience of building such systems, but this is very complex work that may take decades, especially since many of the budget expenditures have been pre-funded for years ahead. In the short term, it may be advisable to create stimuli (which will eventually become an obligation) for registering companies at the place where their main production facilities are located. This will redirect to Siberia a part of tax revenues generated by its resources but paid to the Moscow budget.

Another necessary measure is a transfer of some capital city functions to Siberia and the

Far East. The Ministry of Natural Resources and Environment and the central offices of major resource companies should be located in Siberia (for example, in Krasnoyarsk) and the Ministry of Transport should move to the Far East. The Ministry for the Development of the Far East (if it is not dissolved) should also be located at that part of the country. Establishing a third capital on the Pacific and moving several ministries over there would be an even more radical but very attractive solution. Let us repeat our idea from the previous report: if Peter the Great were alive in present-day Russia, he would build the capital where Vladivostok stands, not on the Neva River. In modern Russian history, the positions once taken by Peter the Great, Aleksander Menshikov and other Peter's associates still remain vacant.

The Trans-Siberian Railway is the central axis of major economic operations in Siberia and the Far East

Placing state agencies in different cities may not be quite practical, but it has an important symbolic meaning that goes far beyond an attempt to draw attention to a certain city or region. A ministry working in Krasnoyarsk, Vladivostok or Khabarovsk will send a signal to the people in those regions, and especially to young people, that not all decisions are made in Moscow. This will allow them to regain the feeling of being part of the country, which is the best safeguard against estrange-

ment and fatalism resulting from infrastructure isolation and low mobility.

The transfer of offices of major resource companies to Siberia will not only redistribute tax revenues but will also show that one can make a successful career living in his home region. Ministries and company offices can be followed by ambitious young people from central regions of the country and abroad.

5.3. A transport framework for Siberia and the Far East

Apart from supporting and developing institutional and social infrastructure in the region, primarily within special zones, one of the most important objectives of the state is to support and develop the part of transport infrastructure that cannot be maintained by private businesses. Using federal budget funding or public-private partnership, the State should heavily build up the transport framework in the region in order to reduce the economic distance and eliminate the isolation of eastern territories, primarily those where the majority of population lives.

This framework is formed by the Trans-Siberian Railway, high-speed railroads which will have to be built in the very near future in the south of Western Siberia and in the Pacific territories, Pacific seaports, aviation network, the Northern Sea Route, and north-south navigable rivers.



The Trans-Siberian Railway

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



Regions covered by the railway



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



produce over 65% of the nation's coal



and refine almost 20% of Russian crude oil



They produce 25% of commercial timber

Railway specifications

Actual length: **9,288.2** kilometers

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

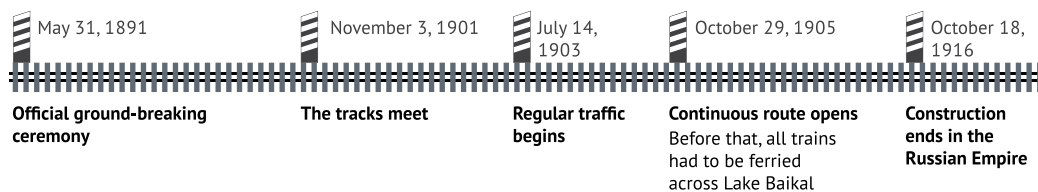
Starting point: **Moscow's Yaroslavl Station**

Final destination: **Vladivostok**

Capacity:



Construction timeline



The Trans-Siberian Railway is the central axis of major economic operations in Siberia and the Far East. The state program “Socio-economic Development of the Far East and Trans-Baikal Region” calls for modernizing the railway within the next couple of years to increase its capacity. This may also increase the amount of transit traffic. Russian Railways plans to triple it in order to receive substantial economic benefits. However, this objective seems blundering and may take us away from truly essential goals.

Today, the Trans-Siberian Railway accounts for less than 1% of Eurasian trade turnover⁶¹. This share is unlikely to be increased significantly given that China is building the alternative route to Europe (New Silk Road) bypassing Russia, and Russia itself seeks to develop the Northern Sea Route.

The Trans-Siberian Railway needs to be modernized not so much to increase transit as to overcome Siberia’s worst curse – the world’s biggest continentality. The south of Siberia, which has good chances to become a strong industrial and agrarian region due to its natural resources and proper institutional infrastructure in the form of special economic zones, has no access to world markets. The biggest problem for the development of agriculture in Altai is the lack of export possibilities. So providing export, not transit, services will be the main priority for the Trans-Siberian Railway, and its modernization should aim at fulfilling this priority task. There is no urgent need for the Trans-Siberian Railway to be linked with the Chinese and Korean railways (connection to the Chinese Eastern Railway and construction of the trans-Korean railway may be possible and expedient but only if private investors show interest and initiative), but there is an urgent need to transport Russian cargoes to different Pacific seaports, which are not prepared to handle increased export volumes and therefore also need modernization.

The modernization of the Trans-Siberian Railway can and should be supplemented with a network of high-speed railways between major cities in Western Siberia. Yet the high-speed railway service program proposed by Russian Railways surprisingly stops in Chelyabinsk.⁶² For some unknown reason it is believed that

linking Saransk with Ulyanovsk by a high-speed railroad is more important than linking Tomsk and Barnaul with Novosibirsk. In the meantime, the creation of a high-speed rail network in the south of Western Siberia (with a possible extension to Krasnoyarsk) could spur the development of the region using its human resources and industrial capacities.

Another task is to build a high-speed rail line between Khabarovsk and Vladivostok. South Korean companies are willing to invest in this project, but things are moving slowly partly because of the Soviet habit to see enemies everywhere. This leads one to the conclusion that it is better not to develop this strategic border-lying region at all than to let foreigners in, partly because of the kickbacks, which have become customary, and attempts to extrapolate them to cooperation with the international business community.

Another possible project is the creation of united transport infrastructure network for developing the rare earth metals deposits in the North-West of Zabaikalye Territory (Chinei, Noyon-Todogoy, Udokan fields) and North-West of Yakutia (Tomtor) as well as Popigai field of impact diamonds. Connecting these fields with cities of South Siberia should have a purpose to stimulate the development of high-tech processing industries there.

The Trans-Siberian Railway and adjacent high-speed rail lines form the southern latitudinal transport axis in the region. Its main functions are to compress the economic space of the region; overcome the popular feeling of isolation from the rest of the country; create more opportunities for the development of human resources; make business activities in the region more competitive and provide access to export markets via Pacific seaports.

Air service should be developed in key populated localities (including those where fly-in fly-out method is used) that are not reached out by railways. There are twice as many airports in Alaska alone than in the whole of Russia. The government is not eager to develop this sector, nor does it let private business into it. However, the construction of small airports and support for airline routes inside regions and between them can be commercially lucra-



tive,⁶³ but the State has to remove regulatory barriers for private business (including foreign companies) and limit government interference to safety control. Since Siberia and the Russian Far East cannot be covered with a dense railway network, air transportation is the only way to deal with low passenger traffic and long distances.

5.4. Northern Sea Route as the heart of Russia's Arctic regions

The second – northern – latitudinal axis should aim to provide more flexible access to external markets by allowing export flows to go both ways to Europe and Asia; enable Russia to serve as a bridge between Europe and Asia; and build a high-capacity transit channel that could spur the development of neighboring territories and the rest of the country. The Northern Sea Route should become the central element of the second latitudinal axis.

Unlike the Trans-Siberian Railway, where the pace of modernization is critical (it is already impermissibly far behind the needs), the Northern Sea Route should be developed gradually as there are big uncertainties associated with climate change and especially projected freight traffic. And yet, with more attention from the state and with growing infrastructure, the Northern Sea Route will become more attractive to business and investors. More opportunities will present themselves for the development of the Northern Sea Route with the help of public-private partnership and foreign investments, without exerting critical pressure on the federal budget.

The Northern Sea Route will boost the development of surrounding regions, but at the same time its own development will depend on Arctic activities. At the initial stage, the rate of return on investment in the Northern Sea Route will largely hinge on the production of energy resources in Yamal and the development of its export infrastructure (primarily at the Sabetta seaport).

The transport system in the North should be developed comprehensively and include modernization of internal water transportation capacities by both regions (for example, Yakutia is already doing so) and the federal authorities. Creation of a well-developed internal water transportation system would be another step toward overcoming the continentality of Siberian inland territories. This should be accompanied by the establishment of multimodal hubs at the major junctions of the comprehensive water transportation system.

Theoretically, the infrastructure of the Northern Sea Route can be harmoniously supplemented with a rail network, primarily the Northern Latitudinal Railway that runs through Chum (Komi Republic), Obskaya (Labytnangi, Yamalo-Nenets Autonomous Area), Salekhard (located on the opposite bank of the River Ob from Labytnangi), Nadym, Pangody, Korotchayevo (Novy Urengoi), and Igarka (Krasnoyarsk Territory) forming a transpolar mainline. It should become a part of the access way to the Sabetta port in Yamal and help increase freight traffic going through it. In addition, the link with Novy Urengoi will provide access to Yamburg on the Tazovsky Peninsula and to



The second – northern – latitudinal axis should aim to serve as a bridge between Europe and Asia

Surgut, which, in turn, stands on the Tobolsk-Surgut-Nizhnevartovsk railway.

However, the implementation of such ambitious projects solely at the expense of the budget cannot be justified at this point, just as the construction of north-south rail lines connecting the Northern Latitudinal Railway and the Northern Sea Route with the Trans-Siberian Railway cannot. The necessary rail network can eventually be created by private business using concessions to build private railways that will then be connected to the state-owned Trans-Siberian Railway.

The speed of delivery is a key factor for the Northern Sea Route's competitiveness. Therefore, when developing infrastructure, the focus should be placed on making the travel time along the route predictable. This will require the development of not only port and navigation infrastructure but also the icebreaking fleet. Since it takes time and money to build icebreakers, the current surplus of such vessels (Russia has 6 nuclear-powered and 9 diesel icebreakers) may turn into their shortage if the fleet is not upgraded, and this will seriously undermine the route's competitiveness. At the same time provision of icebreaking services is a major economic advantage Russia may enjoy from the use of the Northern Sea Route for transit purposes.

One of the frequently voiced concerns about the Northern Sea Route is its environmental impact. However, contrary to the general opinion, stricter environmental requirements are unlikely to seriously impair the route's potential. Compared to other

routes, the Northern Sea Route helps not only save fuel, supply and risk insurance costs, but also reduce emissions and discharges. The Northern Sea Route is the world's most environmentally friendly waterway that links Europe with Asia.

In terms of social psychology, it is important that the Northern Sea Route links two regions of Russia – the European part of the North and Siberia – which have similar history and identity: neither had serfdom; both measured economic success by private initiative; the Russian Pomors settled in an area from Spitsbergen to Alaska, their Arctic navigation and wintering experience and shipbuilding skills are quite unique. The shared history of Siberia and the Russian North can become an important symbolic stimulus for the development of the Northern Sea Route, in addition to considerations of economic and political expediency.

Russia should use existing opportunities for implementing joint projects to develop the Northern Sea Route in cooperation with foreign partners. Norway's Arctic navigation technologies, the Republic of Korea's shipbuilding capabilities, Singapore's infrastructure development expertise can all be used as part of international partnership. At the same time, when developing relations with other

countries, Russia should defend its own key interests: indisputable sovereign control over the Northern Sea Route, priority right in providing icebreaking services, and development of the NSR along with the adjacent territories.

The government will have to exert serious efforts in order to motivate foreign partners to engage in the development of the Northern Sea Route. Removing institutional barriers is necessary (see above) but not enough. Since investment in the Route's infrastructure is associated with big uncertainty, special mech-

cism which is shared by both research institutions (and to a large extent by the Arctic and Antarctic Research Institute, among others) and political elites. According to the theory of climate cycles, which is widely applied to the Arctic, temperatures will soon start falling in the region. However this theory runs counter to the conclusions made by the Intergovernmental Panel on Climate Change, the most authoritative organization operating under the U.N. auspices, which holds that if cycles exist, they simply overlap with long-term warming trends but do not rule them out.

Russia should use existing opportunities for implementing joint projects to develop the Northern Sea Route in cooperation with foreign partners

anisms of government guarantees will have to be created to divide responsibility between investors and the State. Since there is only a limited number of potential foreign investors (large shipping, shipbuilding, logistics and engineering companies with the experience of work in the Arctic), it would therefore be necessary to attract investors "manually." A key role in this process will have to be played by the Northern Sea Route Administration that currently serves as a bureaucratic barrier rather than an agency that attracts investment.

Even if only a few global actors are engaged, cargo traffic will increase immediately as major shipping companies have a broad network of strong ties, which is based on long-term contracts, and if a big shipping company takes its business to the Northern Sea Route, its partners from related sectors will follow it automatically.

In order to encourage international cooperation in the Arctic, Russia has to stop ignoring problems that are vital for foreign partners, primarily climate change. While Asian countries (and the world as a whole) blame it on human activities and recognize the Arctic's key role in responding to this challenge, Russian experts demonstrate climate change skepti-

Russia's skepticism about the anthropogenic causes of climate change put climate research in the Arctic on the back burner. It also leads political elites to believe that Asian countries use the issue of climate change as a pretext for joining regional processes to become their full-fledged participants. This, in

turn, fuels mistrust, which is further exacerbated by the die-hard habit to view foreign countries' activities as attempts to intrude on Russia's sovereignty and by the "Chinese threat" that is deeply rooted in the minds of politicians.

So integrating Russian climate studies into global climate science is vitally important as this will not only improve their quality but, as we have said above, will also remove political contradictions. Disagreements in the assessment of climate change and its cause should stimulate scientific collaboration, not hamper it. Such collaboration will undoubtedly benefit Russian science and help bring in financial resources from abroad. Joint funding for upgrading Russian weather stations, satellites and climate data monitoring system will create entirely new scientific infrastructure. This, in turn, will help resolve many scientific contradictions and, most importantly, turn the Arctic into a huge research laboratory it should be, considering the importance and intricacy of its ecosystem. Intensified research will facilitate not only fundamental but also applied studies and thus promote further development of information support for the Northern Sea Route.

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