
EXECUTIVE SUMMARY

This chapter examines Russia's role in Asia, including to what extent Russia is turning eastward from Europe in its foreign economic and political strategies and what forces are driving Russia's actions.

MAIN ARGUMENT:

- Europe is Russia's principal trade partner. Looking ahead, however, Moscow desires to develop deeper economic ties with Asia, in part because of political differences with its European partners.
- Key to Russia's new Asia strategy is the building of an export pipeline for Siberian oil. With a growing global energy shortage, Russia's Siberian energy resources have a ready market in China, Japan, and South Korea. Further development of Russia's economic integration with Asia will, however, be a long and costly process.

POLICY IMPLICATIONS:

- With Sakhalin and Siberian oil and gas coming on-stream, Russia's economic presence in Asia will substantially increase. This development should lower U.S. anxiety over energy security in China and Japan.
- Moscow seems uninclined to link economic interests tightly with strategic goals. Japanese hopes that increased trade will lead to resolution of the Northern Territories question, therefore, may be misplaced.
- Though chances of sharing in the fruits of this Siberian oil boom are high, U.S. oil companies will need patience, a long-term perspective, and a willingness to play by Russia's rules of the game.
- With high oil prices and strong economic growth, Moscow will not be taking risks nor embarking on radical policy changes. The U.S. should not take too seriously scare scenarios such as the specter of a close Russian-Chinese alliance. The U.S. is a key partner for both Russia and China, and neither country wants to damage its relations with Washington.

Russia's Economic Role in Asia: Toward Deeper Integration

Peter Rutland

Russia is unique in being a country with a presence both in Asia and Europe. Less than eight million Russians, a mere 5% of the population, live in the Russian Far East (RFE)—yet Russia occupies one-fifth of the Asian landmass and holds immense mineral wealth. The country's energy resources are the key to Russia's economic and strategic role in Asia.

Russia sees both threats and opportunities in Asia. Similarly, Western commentary tends to emphasize two extremes. On one side is the vision of a bonanza of Russian resources flooding into energy-starved East Asian markets. On the other side are alarming scenarios—such as the thinly populated RFE being swamped by migrants from China to the south or a Russo-Chinese alliance challenging the United States for global hegemony.

None of these extreme scenarios are likely to come to pass—certainly not within the next five years. The Russian leadership, under no pressure to take any drastic and risky decisions, is most likely to follow a policy of cautious continuity in Russia's relations with Asia in the immediate future.

Rising world oil prices have helped fuel a seven-year economic boom in Russia, during which GDP has grown by more than 50%. As the world's leading natural gas supplier and second largest oil exporter, Moscow is confident that Russia's favorable economic situation will persist into the foreseeable future. As noted by the respected analyst Dmitri Trenin, "The Russian leadership is certain that Russia's energy resources make Russia

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truly ‘irreplaceable’ in the global economy, and consequently in world politics.”¹ This situation gives President Vladimir Putin the luxury of carefully weighing all foreign policy options.

In contrast, Russia in 2006 is definitely feeling embattled politically. The Russian leadership saw the wave of “color revolutions” that swept through Georgia, Ukraine, and Kyrgyzstan between 2003 and 2005 as part of a deliberate U.S. strategy to loosen Moscow’s influence over the “near abroad.” This impression was reinforced when the United States set up military bases in Kyrgyzstan and Uzbekistan to pursue the war in Afghanistan.² At the same time Russia has been berated by the United States and European Union (EU) for the Kremlin’s retreat from democracy and “extortion” of higher gas prices from Ukraine (by cutting deliveries on January 2, 2006). Russia is told by U.S. think-tanks that the country is headed in the “wrong direction”—and even that the Russian military can no longer defend the country from U.S. nuclear attack.³

In response to these challenges, Russia has shed some of its illusions about closer integration with the West and has started to look more seriously for Asian partners to balance U.S. pressure. Dmitri Trenin bluntly states that “Russia’s leaders have given up on becoming part of the West and have started creating their own Moscow-centered system. Russia has a choice between accepting subservience and reasserting its status as a great power, thereby claiming its rightful place in the world alongside the United States and China.”⁴ Germany’s leading Russia expert, Alexander Rahr, argues that Europe is experiencing a “cold peace” and that “Russia feels rejected by the West and pushed off to Asia.”⁵ Andrew Kuchins even argues that 2005 saw the most serious strategic shift in Russian foreign policy since the collapse of the Soviet Union in the form of a reorientation of Russian policy toward the East.⁶

Speaking in Tomsk after talks with German Chancellor Angela Merkel on April 26, 2006, Putin said “We hear statements about a threat of

¹ Dmitri Trenin, “The Post-Imperial Project,” *Nezavisimaya gazeta-dipkurier*, no. 2 (January 2006).

² The United States quit the Uzbekistan base by November 2005.

³ “Russia’s Wrong Direction. What the U.S. Can and Should Do,” Council on Foreign Relations, March 2006; and Keir Lieber and Daryl Press, “The Rise of U.S. Nuclear Primacy,” *Foreign Affairs* 85, no. 2 (March/April 2006). Similar warnings can be found in the report from the London-based Foreign Policy Center, “Russia and the G8: A Summit Scorecard” (June 2006), available on-line at <http://fpc.org.uk/fsblob/796.pdf>. For a reply, see Vitalii Ivanov and Konstantin Simonov, “Russia’s Right Path,” *Nezavisimaya gazeta*, May 2, 2006.

⁴ Dmitri Trenin, “Russia leaves the West,” *Foreign Affairs* 85, no. 4 (July/August 2006).

⁵ “Europe Experiences a ‘Cold Peace,’” *Die Welt*, December 20, 2005.

⁶ Andrew Kuchins, “New Directions in Russian Foreign Policy: Is the East Wind Prevailing Over the West in Moscow?” (paper presented at the Wilton Park conference, November 29, 2005), reprinted in Johnson’s Russian List, no. 9314, December 6, 2005, <http://www.cdi.org/russia/johnson>.

dependence on Russia, about the need to restrict Russian companies' access to European markets. What can we do, when we hear the same thing every day? We are beginning to look for other markets."⁷

At the same time, Russian policy is deeply conflicted. Many Russians are concerned by the growing power of China. They do not want to jump from the frying pan into the fire and aid the rise of a new rival to the East by providing Beijing with energy resources and advanced military hardware.⁸ Dmitri Trenin argues that "Russia lacks an overall political strategy in Asia—something that would outline Russia's multilateral relations with East Asia and bilateral relations with Asian states."⁹

This reorientation away from the West is increasingly connected to energy policy. These changes come at a pivotal time in the evolution of Russia's energy policy. Though having profited from the recent boom in oil prices, Russia is confronting an urgent need for massive investment to develop new fields now that existing oil and gas fields have passed their peak. At the same time, Russia's hydrocarbon export infrastructure is operating at full capacity, and new pipelines are needed to shift the oil and gas currently being used domestically into the more lucrative export market.

The first section of this chapter reviews the general state of the Russian economy and the role of international economic integration in Moscow's development strategy. The next section outlines the existing structure of Russian trade with Asia and examines the two main elements in Russia's Asian trade: energy and arms. The third section examines Russia's role in regional associations, particularly the effort to turn the Shanghai Cooperation Organization into an effective regional body for security cooperation in Central Asia—and one that tries to limit the U.S. role in the region. The chapter continues with a review of Russia's relations with individual Asian countries and concludes with a discussion of the policy debates over Russia's role in Asia.

The Role of Foreign Economic Relations in Russia's National Strategy

Since 1991 Russia has been going through a period of wrenching political and economic transformation. The outcome of this transformation

⁷ Saed Shah, "Putin Rails Against Western 'Double Standards,'" *The Independent*, April 28, 2006.

⁸ Max Verbitz, "Russian-Chinese Military Cooperation: Can a Bear Trust a Dragon?" *Perspective* 26, no. 3 (May 2006). The author is a Russian using a pseudonym.

⁹ Interview with Dmitri Trenin in Rustem Falyakhov "Continuing the Old Dispute Deprives Both Sides of Potential Benefits," *Gazeta*, November 18, 2005.

is still uncertain, though the contours have become clearer since the consolidation of state power under Putin. Russian foreign policy is still heavily influenced by domestic concerns: the need to maintain political and economic stability and the state's struggle both to assert control over warring factions and to implement a coherent policy. These domestic considerations are hindering efforts to deepen Russian engagement with Asia.

Under both Putin and his predecessor, Boris Yeltsin, Russia has been trying to reform its economic structure and adopt market institutions. This strategy has emphasized increased participation in the international economy through trade and investment. Energy is Russia's trump card. Russia produced 459 million tons of crude oil in 2005, 11.9% of global output and second only to Saudi Arabia with 13.1%. Russia was the world leader in natural gas, with 215 billion cubic meters of exports accounting for 27% of the world market, well ahead of Canada (13%) and Norway (9%).¹⁰ Between 1998 and 2004, booming oil exports from Russia satisfied half of global demand growth.¹¹

In the Yeltsin period, Russia's integration into the global economy proceeded at a rapid but uneven pace, with individual corporate leaders (the oligarchs) often playing the leading role. Putin has taken decisive steps to reassert state control over domestic and foreign economic development. Yet companies such as the pipeline operator Transneft and the energy giants Gazprom and Rosneft are still to a degree independent players, despite the fact that the state owns a controlling block of company shares and when necessary forces company leadership to follow the Kremlin line. This situation underscores the need for caution in making generalizations about Russia's "grand strategy," since these debates assume a greater coherence in Russian policy than may in fact be the case.

Development of the energy sector has been the main driver of Russia's economic recovery since the August 1998 financial crisis. The Russian economy has experienced steady growth, 6% a year on average since 1999.¹² (See **Table 1.**) Much of the growth has been led by the surge in exports, which rose from \$72 billion in 1998 to \$183 billion in 2004—and \$245 billion in 2005, when oil and gas accounted for 61% of earnings.¹³ (See

¹⁰ International Monetary Fund World Economic Outlook Database, <http://www.imf.org/external/data.htm> (World Economic Outlook Databases).

¹¹ William Tomson and Rudiger Ahrend, "Realizing the Oil Supply Potential of the CIS," Organization for Economic Cooperation and Development, May 18, 2006, <http://www.oecd.org>.

¹² Organization for Economic Cooperation and Development, *Economic Survey Russian Federation 2004* (Paris: OECD, 2004); World Bank, *From Transition to Development*, April 2004; and World Bank, *Russian Economic Report*, no. 12 (April 2006), <http://www.worldbank.org.ru>.

¹³ "Russian Economic Report #8," World Bank, June 2004. In 2005 imports dropped 25% to \$125 billion, leaving a trade surplus of \$118 billion.

Table 2.) Trade now accounts for 48% of Russia's GDP. The proportion of the population living in poverty has halved from 1999 to 2005, while state revenues have doubled—thanks to more effective taxation of the soaring oil and gas rents. The federal budget ran a surplus equal to 7.5% of GDP in 2005. High oil prices also led to a large trade surplus, the accumulation of capital reserves of \$180 billion, and the paying down of some international debts ahead of schedule (\$15 billion in 2005 alone).

Putin has not rolled back the market reforms laid down by Yeltsin in the 1990s. On the contrary, the Russian leader has pushed ahead with some institutional reforms, especially in regard to codifying Russian law and reducing bureaucratic obstacles to business, though much work remains to be done. For example, liberalization of domestic gas and electricity prices is still blocked by the Kremlin out of fear that such a policy would provoke popular protests.¹⁴ Putin has stripped the oligarchs of their political power by taking over their media empires and by putting the State Duma under the control of a single, pro-presidential party, United Russia. Putin has constructed a system of state corporatism in Russia, displacing the model of independent, private corporations controlled by swashbuckling oligarchs that was the pattern of the 1990s. Though the prime target for this strategy was the energy sector (in the form of the private Yukos oil company) the past year has seen the model extended to the defense industry as well as to aircraft, engineering, and even auto manufacturing. Opinions differ as to whether this state corporatism is compatible with a market economy and whether such corporatism will be able to produce sustainable economic growth in Russia. Within Russia the optimists outnumber the skeptics, while among Western observers the balance of opinion is reversed.

The Kremlin believes that a more market-driven approach would not work given Russia's geographic isolation and resource endowment. The Russian leadership points to the chaotic experiences of the 1990s, which culminated in the financial crash of August 1998, to prove the point that radical market liberalization was ill-suited to Russia's unique circumstances. The state wants to prevent Russia from slipping into dependency on energy exports; the strategy then is to capture the rents from the energy trade and channel them back into investment in high-tech research and manufacturing in order to rebuild Russia's now-outdated industrial base. The rent-capture is taking place both through taxation and through the formation of vertically-integrated state corporations, whose boards are headed by loyal Kremlin appointees.

¹⁴ Gas still retails at \$30 per 1000 cubic meter (cm) for industrial consumers, compared to the \$230 paid by European customers.

TABLE 1 Macroeconomic indicators

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Industrial production (%)	-4.5	2.0	-5.2	11.0	11.9	2.9	3.1	8.9	7.3	4.0
Fixed investments (%)	-18.0	-5.0	-12.0	5.3	17.4	10.0	2.8	12.5	11.7	10.7
Unemployment (%)[†]	9.3	9.0	13.2	12.4	9.9	8.7	9.0	8.7	7.6	7.7
Exports of goods (\$billion)	89.7	86.9	74.4	75.6	105.0	101.9	107.3	135.9	183.5	245.3
Imports of goods (\$billion)	68.1	72.0	58.0	39.5	44.9	53.8	61.0	76.1	96.3	125.1
Current account (\$billion)	10.8	-0.1	0.2	24.6	46.8	33.9	29.1	35.4	58.6	84.2
GDP (%)	-3.6	1.4	-5.3	6.4	10.0	5.1	4.7	7.3	7.2	6.4

SOURCE: Rosstat and Central Bank, as reported in Bank of Finland, *Russia Review*, no. 4 (April 12, 2006), <http://www.bof.fi/bofit/eng/4ruec/index.stm>.

NOTE: In 1995, 76% of Russia's trade was with CIS members; this fell slightly to 72% by 2004.

[†] End of the period.

Uncertainty exists, however, over whether Russia will be able to generate the energy exports that the strategy requires. Most of Russia's network of 49,000 km of oil pipelines and 150,000 km of gas lines was laid down more than 30 years ago. A massive program of investment is needed to upgrade this infrastructure and add new capacity. At the same time, existing oil and gas fields are past their peak and little exploration and development has taken place over the past twenty years. The Organization for Economic Cooperation and Development (OECD) predicts that Russian oil and gas production will plateau for the next fifteen to twenty years.¹⁵

Over the long term, considerable uncertainty remains regarding the cost-effectiveness of investments in Russian energy.¹⁶ If oil stays above \$40 per barrel for ten years, exploiting the oil and gas basins of central Siberia may be not only technically feasible but also cost-effective. Building a 3,000 km pipeline to export these resources to China and Japan might even be

¹⁵ Tomson and Ahrend, "Realizing the Oil Supply Potential of the CIS." The authors cite data from the Institute for Energy Policy and the U.S. Geological Survey: Russia has 72 billion barrels of proven reserves (6.1% of world total); in 2004 Russia produced 9.3 million barrels/day (8.7% of world output) of which 5.1 million were exported.

¹⁶ Leslie Dienes, "Observations on the Problematic Potential of Russian Oil and the Complexities of Siberia," *Eurasian Geography and Economics* 45, no. 4 (July 2004).

TABLE 2 Russia's major trading partners (\$million)

	Exports			Imports		
	1998	2001	2004	1998	2001	2004
Germany	5,697	8,178	13,295	5,404	5,716	10,571
Ukraine	5,531	4,931	10,633	3,219	3,777	6,097
Netherlands	3,930	3,870	15,207	905	840	1,373
PRC	3,144	4,021	10,020	1,146	1,611	4,733
Italy	3,203	6,844	10,271	1,787	1,341	3,197
U.S.	5,995	5,944	8,354	4,052	3,199	3,205
Switzerland	3,216	1,522	7,798	426	394	650
Turkey	1,923	2,980	7,200	512	509	1,225
Finland	2,063	3,032	5,764	1,432	1,275	2,331
Poland	2,173	3,952	5,682	1,032	950	2,302
UK	2,927	3,182	5,645	1,205	980	2,064
Japan	2,171	2,438	3,471	810	813	3,937
Cyprus	375	1,398	5,310	27	28	22
EU total	32,280	46,798	88,325	18,828	17,544	33,967
Total trade	74,884	101,884	183,452	63,817	59,140	105,938

SOURCE: IMF *Direction of Trade Statistics*, 2005 (Washington, D.C.: International Monetary Fund, 2006).

profitable. There are, however, many variables in the mix. With oil at that price, oil shale and tar sands may become competitive rival sources, or a world recession could at any time cause oil prices to plummet.

Western companies understand that they are now facing new rules of the game. Though still welcome as partners, especially for the technology and managerial expertise that they bring, Western companies will be limited to a minority stake in Russian-led companies and joint ventures. Western companies interested in investing in Russia are expected as a quid pro quo to form joint ventures in other countries to help Russian corporations such as Gazprom, Rosneft, and Lukoil gain access to more lucrative downstream markets in Western countries through ownership of refineries and distribution networks.

Russian integration into international economic institutions has lagged behind the increased role for foreign trade in Russia's economy. Although Russia is a member of the Group of Eight (G8), the world's leading industrial countries, that membership is mainly of symbolic value. Russia yielded to EU entreaties and agreed to join the Kyoto Protocol in March

2005—in return for the EU’s backing for Russian entry to the World Trade Organization (WTO) despite EU objections to Russia’s low domestic energy prices. Russia is the only major economy that is not a WTO member, and though Russia began negotiating WTO entry in 1993, hopes for joining in 2006 have not materialized. Putin was unable to realize his goal of securing U.S. support of Russia entering the WTO in time for the G8 summit in St. Petersburg in July 2006. The main obstacles now are U.S. objections to weak intellectual property protections and limited access to banking and insurance markets inside Russia.

The economic and political challenges of forging a new development strategy are slowing down an eastward shift in Russia’s foreign economic policy. Strategic considerations—a desire both to protect Russia from U.S. encirclement and EU exclusion and to assert Russia’s pride as an independent power—are pushing Moscow to speed up the collaboration with new partners in Asia. For the time being, westward integration seems to have reached its natural limits; on the other hand, Asia has vast and growing economies whose demand for resources, arms, and capital machinery suit the Russian economy’s strengths. Asia offers an additional advantage of having political structures more compatible with Russia’s “managed democracy”—and the Asian countries do not have the Western habit of making political criteria a condition for trade.

Russia’s Economic Integration with Asia

Trade

Though still heavily dependent on trade with Europe, Russia has good prospects for a rapid increase in trade with Asia in the next few years. The bulk of Russia’s trade (upwards of 75%) still flows west to Europe. (See **Table 3.**) Russia’s largest trading partners are Germany and Ukraine, with the EU-25 taking 51% of Russian exports and providing 33% of Russia’s imports in 2004.¹⁷ Out of a total trade turnover of \$289 billion, only \$36 billion was with Asia and another \$14 billion with Central Asia.

This pattern is in no way surprising. Not only does most of the Russian population live in European Russia but the railway and port infrastructure was built for trade with Europe. Oil and gas pipelines, built between the 1960s and 1980s, connected Russia to her socialist bloc partners in East Europe, Germany, and beyond. Russia has a common border with the EU members of Finland, Estonia, Latvia, and Lithuania, and Russia’s

¹⁷ Prior to the ten new members joining the EU in 2004, the EU-15 accounted for only 33% of Russian trade.

TABLE 3 Russian trade with Asia (\$million)

	Exports			Imports		
	1998	2001	2004	1998	2001	2004
PRC	3,144	4,021	10,020	1,146	1,611	4,733
Japan	2,171	2,438	3,471	810	813	3,937
S. Korea	516	842	1,963	1,004	782	2,025
India	580	695	2,461	660	541	643
Taiwan	142	263	1,999	74	163	342
Vietnam	275	164	706	56	79	100
Thailand	32	69	372	61	105	355
Malaysia	117	261	114	120	157	423
Mongolia	133	211	363	50	35	21
Indonesia	13	30	145	88	95	221
Singapore	56	719	186	104	106	162
Hong Kong	144	126	318	8	15	10
Philippines	33	45	217	9	22	50
Pakistan	21	57	227	14	26	25
N. Korea	54	58	205	8	16	5
Afghanistan	14	8	76	7	3	4
Bangladesh	49	24	60	11	4	11
Asia total	7,479	10,060	22,958	4,297	4,640	13,230

SOURCE: IMF *Direction of Trade Statistics*, 2005.

Kaliningrad province is an exclave physically located between Poland and Lithuania. By plane Moscow is three hours from Brussels but seven hours from Beijing. St. Petersburg is a one-hour flight from Helsinki.

Over the past decade Asia has become the powerhouse of the global economy—one whose weight will only increase in future decades. Russia must step up economic cooperation with Asia in order to adapt to this new reality. Energy clearly is the key: Russia has the resources; China, South Korea, and Japan, the demand (and the capital); and Japan, the technology.

Not at all clear is whether Russia fully shares this vision of deeper integration. Some of the Russian political elite still see Asia as a greater source of threat than opportunity. Moscow is aware not only of the huge potential for growth in the export of resources to Asian markets but also of the costs and political implications of such projects as well as the need to strike a good deal.

Energy: The Pipeline Puzzle

Key to Russia's new Asia strategy is the building of an export pipeline for Siberian oil. Substantial new oil and gas reserves found in Siberia amount to an estimated 17% of global oil reserves. Russia's plan is to build a pipeline—known as the East Siberia-Pacific Ocean pipeline (VSTO in Russian)—to carry 600,000 barrels of oil per day (80 million tons per year) across the continent to customers in East Asia. This pipeline, together with the projects on the island of Sakhalin, would increase the proportion of Russia's oil exports to Asia from the current 3% to 30% by 2020.

For China and Japan, securing new energy sources that do not depend on the flow of supplies from the Persian Gulf is a major strategic priority.¹⁸ China is keen to develop secure overland supply routes from Russia and Kazakhstan because the sea routes that bring Persian Gulf oil to East Asia through the Strait of Malacca could easily be blockaded should there be a future confrontation with the United States.

China and Russia have mulled over an oil export pipeline since 1993. The past few years have seen a remarkable back-and-forth between two alternative routes for the pipeline. The original plan was for a 2,500 km line from Angarsk in Siberia directly across Mongolia to Daqing in northeast China. Mikhail Khodorkovsky, the ambitious head of Russia's largest oil company, Yukos, won China's agreement to finance the building of the line; the agreement was signed by President Hu Jintao in the presence of Putin during a state visit to Moscow in May 2003. This line would have been the first privately owned oil export pipeline in Russia. The other Russian pipelines are owned and operated by the state-owned Transneft corporation. The exact track still had not been decided: the Russian government preferred a longer route that would follow around the Russian border rather than cross Mongolia.

In July 2003, however, Putin authorized the arrest of five Yukos executives on charges of fraud and tax evasion; Khodorkovsky himself was arrested in October 2003. The Yukos head was seen as a threat to the Kremlin on several fronts. Khodorkovsky was believed to be preparing to sell Yukos to a foreign oil major (going against the Kremlin policy of keeping natural resources in Russian hands), investing heavily in political representation in the State Duma, and possibly preparing a run for the presidency in 2008. With Khodorkovsky out of the way (in 2005 he began an eight-year jail term), an energetic struggle began for control of Yukos assets. In December 2004 the majority state-owned company Rosneft bought the main Yukos production subsidiary for \$9.5 billion (helped by a \$6 billion loan from

¹⁸ Stephen Blank, "China's Energy Crossroads," *Perspective* 26, no. 3 (May 2006): 2–7.

the Chinese National Petroleum Corporation [CNPC]). Gazprom's plan to absorb Rosneft and form one giant energy conglomerate was blocked after months of backroom maneuvering.¹⁹ In November 2005 Gazprom went on to buy the private oil company Sibneft (owned by oligarch Roman Abramovich) for \$13 billion, bringing 60% of hydrocarbon production back into state hands. This new model of state corporatism poses a distinct challenge to foreign investors. For example, BP-TNK is now under pressure to share its giant Kovykta natural gas field in Siberia with Gazprom. BP-TNK has been lobbying for permission to build an export pipeline to China, but Gazprom has stated a preference for waiting until Sakhalin comes on stream. China got a taste of the new Russian approach in December 2002 when the Chinese were shut out of the bidding for a Russian oil company, Slavneft. A new subsoil resources bill introduced into Russia's parliament in 2006 will bar foreign companies from more than 50% ownership of any field deemed "strategic."

Meanwhile, debate continued over the route of the export pipeline. Much to China's chagrin, in the summer of 2003 Russia backed out of the Angarsk-Daqing deal and started entertaining a Japanese proposal for a 4,000 km pipeline extending down to the port of Nakhodka. Though more costly, this pipeline would enable tankers to ship the oil to Japan or other customers, thus keeping Russia from dependence on a single buyer—China. Both Japan and China offered to lend billions of dollars to finance the project. The start point of the pipeline in Siberia was switched from Angarsk, site of a Yukos oilfield, to Taishet, the location of a Rosneft refinery. The official Russian position as of July 2006 is to favor *both* routes. The first segment of the VSTO will run from Taishet to Skovorodino and will cost an estimated \$6.5 billion. A second phase Skovorodino to Perevoznaya bay (now favored over Nakhodka) will cost another \$5 billion. China is willing to pay for the Skovorodino-Daqing branch. It is not clear if the double line will be commercially viable, or even if there is enough oil to justify the project.

Irkutsk governor Aleksandr Tishanin and other provincial leaders want to have more money spent on developing the infrastructure in Siberia (such as connecting outlying cities to the natural gas grid) rather than to have the region's resources shipped out to China in return for money sent back to Moscow.²⁰ A strong lobby favors investing in the development of the Baikal-Amur railway, a Brezhnev-era extension of the Trans-Siberian railway

¹⁹ Both companies are run by close allies of Putin. Dmitri Medvedev, promoted to first deputy prime minister in November 2005, simultaneously serves as chairman of the Gazprom board, while the deputy head of the Presidential Administration, Igor Sechin, is in charge at Rosneft.

²⁰ V.I. Suslov and A.G. Korzhubaev, "Energy-Transport Routes in Siberia and the Far East," *EKO*, no. 8 (2005): 47–67; and Marina Zabolotskaya, "How to Tame the Asian Tigers," *Rossiiskaya gazeta*, no. 287 (December 2005).

running north of Lake Baikal that can be used as an interim solution for oil exports by rail. President Mikhail Nikolaev, head of the diamond-rich but isolated northern republic of Sakha (Yakutiya) is among those arguing for more investment in Siberian development rather than in resource exports.

For two years Putin has been unable or unwilling to come down with a clear decision on the project, much to the frustration of his Chinese and Japanese interlocutors. In April 2005 Moscow issued an order for the pipeline to be constructed from Taishet to the halfway point at Skovorodino near the Russo-Chinese border. In July 2005 remarks Putin suggested that the first extension of the pipeline will be the branch to China, remarks that he repeated in September 2005. Yet during a visit to Beijing in March 2006 Putin—still unable to give a firm commitment to the Chinese—stated that a final decision must await the result of feasibility studies dealing with environmental and financial issues.²¹ Ground finally was broken on the Taishet-Skovorodino section of the pipeline on April 28, 2006.²²

Why was Moscow being so indecisive about the final destination of the pipeline? Part of the problem is price. The Chinese, notorious hard-bargainers, reportedly were offering low-ball prices: \$25 a barrel for oil and \$40 per cubic meter for gas.²³ These prices are one third and one fifth of what Russia's European customers are currently paying for oil and gas respectively. According to one report, "the breakthrough came [in September 2004] when the Chinese comrades were persuaded to link the price of Russian gas to petroleum product prices in China, which correspond to world prices rather than to the price of coal."²⁴

Russia's leaders occasionally have raised the specter of energy sales to Asia in order to scare European customers into agreeing to Russian

²¹ Zhang Guobao, vice minister of the National Development and Reform Commission, complained "One moment Russia is saying they have made a decision, the next saying that no decision has been made. To date, there has been no correct information. This is regrettable." Quoted in Carl Motished, "Russia Holds the Solution to its Neighbour's Shortage," *Times*, March 21, 2006, <http://timesonline.co.uk/global/>. During Putin's March 2006 visit to Beijing Gazprom did sign a protocol with CNPC expressing intention to build two pipelines to export 80 billion cubic meters of gas to China by 2011 (of which 10% would come from Sakhalin). See Irina Reznik, "The Great Pipeline of China," *Vedomosti*, March 22, 2006.

²² Speaking at a meeting of Siberian regional leaders in the Siberian city of Tomsk on April 26, Putin ordered that the pipeline be routed 40 kilometers north of Lake Baikal in order to avoid possible pollution. See Sergei Blagov, "Putin Pleases Environmentalists," *Eurasia Daily Monitor*, April 27, 2006. In a subsequent meeting with Putin on May 26, however, Transneft head Semyon Vainshtok said that because of impassable mountains the new pipeline route would in fact have to run 400 km north of Lake Baikal, adding considerably to the cost. Transcript of speech from meeting in Sochi, May 26, 2006, available at <http://www.kremlin.ru/eng/> (Speeches). Vainstok had earlier estimated that the detour would cost \$900 million: see Ekho Moskvy, April 20, 2006.

²³ Vladimir Milov, "How Sustainable is Russia's Future as an Energy Superpower?" Carnegie Endowment, Washington, D.C., March 16, 2006, <http://www.carnegieendowment.org>.

²⁴ Aleksander Chudodeev, "Going East," *Itogi*, no.13 (March 27, 2006).

demands—for example, for ownership of downstream assets. In April 2006 Gazprom's Aleksei Miller told the EU ambassadors in Moscow that “it would be a mistake to forget that we are actively expanding into new markets like North America and China. What if we reroute to the East? Supply will decrease. At first, we plan to reroute 30 million tons of oil there, and that means that Europe will not receive this amount. Prices in Europe will rise.”²⁵ That same month Putin told journalists that “[Russia] should look for sellers’ markets” and “prioritize the Asia-Pacific region.”²⁶

While the struggle continues around the VSTO, the development of the oil and gas fields on the island of Sakhalin is proceeding apace.²⁷ The \$10 billion being invested in oil and gas extraction on Sakhalin represents the largest single foreign investment in Russia ever (and the final total invested may rise to \$50 billion). Exxon's Sakhalin 1 holds about 300 million tons of oil reserves, and Sakhalin 2 about 150 million tons.²⁸ Each project has some 500 billion cubic meters of gas. Sakhalin 1 began pumping oil on a modest scale in 2005. Royal Dutch Shell is managing the challenging offshore development Sakhalin 2, which is 60% complete.²⁹ Ecological concerns, geological difficulties, and some renegotiation of licenses have delayed the projects by several years. Once extracted, the oil and gas will be piped 800 km to ice-free ports at the island's southern tip, where a liquefied natural gas (LNG) facility is being built with a capacity of 10 billion cubic meters per year (8% of current world demand). In January 2004, the Russian government cancelled the license for the development of the Sakhalin 3 field that had been won by ExxonMobil back in 1993. Now Rosneft holds a 75% stake in Sakhalin 3. Shell is under pressure to bring Gazprom into its Sakhalin 2 project. Given the political and ecological uncertainties surrounding both ocean-floor pipeline construction to Japan and land-lines across North Korea, LNG will likely be the main vehicle for natural gas exports from Sakhalin.

²⁵ Nataliya Grib, “Europe's Raised Eyebrows,” *Kommersant*, April 25, 2006.

²⁶ “Putin Blasts West, Siberian Economy at Meeting with Governors,” *RIA-Novosti*, April 26, 2006.

²⁷ Michael Bradshaw, “Sakhalin Projects Show Why Russia Still Needs Foreign Investors,” *Pacific Russia Oil and Gas Report* (Winter 2005).

²⁸ Exxon is the lead operator with a 30% stake; Exxon's partners include India's ONGC (20%), Japan's Sodeco (30%), and Rosneft (20%). <http://www.sakhalin1.com/>.

²⁹ Shell has a 55% stake in Sakhalin 2, along with Mitsui (25%) and Mitsubishi (20%). See <http://www.sakhalin-2.com/>. See also “Make or Break for Shell in Russia,” *Sunday Times*, March 12, 2006.

Arms Trade

The arms trade remains a significant source of revenue for Russia, with China and India as the leading partners. Russian arms sales, which had been lagging, increased from \$2.9 billion in 1998 to \$5.6 billion in 2004. In the 2001 to 2005 period 43% of Russia's deliveries went to China and 25% to India.³⁰ In 2005 Russia sold \$6.13 billion worth of arms, of which 70% went to China and India, and had some \$23 billion in booked orders.³¹ It is important to remember that throughout the 1990s arms sales accounted for a mere 5% of Russia's total exports, with the proportion further shrinking as oil prices boomed. This revenue has, however, been vitally important in keeping Russia's once-proud defense industry afloat, as for most of the 1990s the cash-starved Russian armed forces were not buying new weapons. "The exports of arms to China in the 1990s ensured the survival not just of individual plants, but whole regions."³² Russian defense procurement has doubled since 2000, reaching \$6.5 billion in 2005 and \$8 billion in 2006, but in spring 2006 Russia's defense plants were operating at only 40% of capacity.³³ Hence the sector still needs foreign sales to survive—and to fund the development of next-generation weapons.³⁴

Following a 30-year hiatus, in 1992 China again began buying arms from Russia. China since has received 12 kilo-class submarines, 4 Sovremennyi class destroyers equipped with SS-N-22 Sunburn anti-ship missiles, 12 S-300 and 27 Tor M-1 air-defense complexes, 200 fourth-generation fighters (SU-27 and SU-30) as well as a license to produce 450 more domestically.³⁵ Two of the subs will be built at Komsomol'sk-na-Amur, in Russia's Far East, providing a vital source of revenue for the Amur shipyard.³⁶ Wen Jiabao, Chair of China's State Council, announced a year ago that the practice of buying finished arms supplies from Russia had exhausted itself and called

³⁰ Bjorn Hagelin et al., "International Arms Transfers," in *SIPRI Yearbook 2006: Armaments, Disarmament and International Security* (Stockholm International Peace Research Institute, 2006), chapter 10.

³¹ *Nezavisimaya gazeta*, February 10, 2006; and Konstantin Lantratov, "One Billion in Four Days," *Kommersant*, February 20, 2006.

³² Aleksandr Golts, "Trade Partner, Military Ally. The Evolution of Military-Technical Cooperation Between Russia and China," *Pro et Contra* 9, no. 3 (2005).

³³ Viktor Baranets, "Why Would Russia Equip Foreign Armies?" *Komsomolskaya pravda*, March 9–16 2006; and Viktor Myasnikov, "Military Industry Slides into Bankruptcy," *Nezavisimoe voennoe obozrenie*, no. 14 (April 28, 2006).

³⁴ To date, Russia has been selling mainly 1980s-era technology.

³⁵ Golts, "Trade Partner, Military Ally." See also Stockholm International Peace Research Institute, *Arms Trade Register* (Boston: MIT Press, 1975).

³⁶ Since 1992 the Amur shipyard has not completed a single submarine for the Russian navy, lacking funds to finish the three boats under construction. See "Komsomol'sk-na-Amur," *GlobalSecurity*, <http://www.globalsecurity.org>.

TABLE 4 Russian arms exports (\$million)

	2000	2001	2002	2003	2004	2005
PRC	1,457	2,600	1,943	1,511	1,771	1,350
India	431	463	1,148	1,948	1,377	485
Yemen	53	14	521	–	329	239
Algeria	226	365	84	143	246	103
Greece	245	117	39	20	22	257
Vietnam	–	6	121	12	259	212
Sudan	–	134	55	90	270	–
Iran	84	114	74	162	–	87
Kazakhstan	144	31	83	62	27	68
Eritrea	–	60	–	–	202	276
Ethiopia	72	–	–	193	192	–
Syria	420	–	–	–	–	–
Burma	–	125	185	–	–	–
Total	3,250	4,680	4,545	4,546	4,963	3,581

SOURCE: SIPRI Arms Transfers Database, Stockholm International Peace Research Institute, http://www.sipri.org/contents/armstrad/at_data.html.

NOTE: This total is for all 48 countries reported receiving Russian arms from 2000 to 2005.

for more licensing agreements.³⁷ In the past, aircraft accounted for more than 60% of exports, but in 2005 naval sales accounted for 45% of total Russian arms exports—due in part to \$450 million earned from the delivery to China of two Kilo-class submarines. Future deals with China include the sale of 34 Il-76MD military transport planes and 4 Il-78 refueling tankers worth \$1.2 billion.³⁸

Russia has \$7 billion worth of orders booked with India. The largest deals include a contract to sell 3 frigates (worth \$1.56 billion), 30 MIG-29Ks for the carrier Vikramaditya (\$1.5 billion), 6 Amur-1650 submarines (\$2 billion), and joint development of a transport plane (\$1.5 billion).³⁹ In

³⁷ Interview with Aleksander Denisov, Senior Deputy Director of the Federal Military Technology Cooperation Service in Aleksei Khazbiev, “Arms Reconfiguration,” *Ekspert*, no. 46 (December 5, 2005).

³⁸ Konstantin Lantratov, “One Billion in Four Days.”

³⁹ Konstantin Lantratov, “Russia will Flood India with Military Hardware,” *Kommersant*, February 3, 2006.

2004 Russia began delivery of parts for 140 SU-30MKI fighters that will be assembled in India and will earn Russia \$3.5 billion.⁴⁰

Russia is striving to find new customers beyond China and India. In 2003 Putin signed a \$900 million contract with Malaysia for 18 SU-30MKM fighters.⁴¹ In 2005 Russia sold 10 Ka-32 helicopters to South Korea and 2 S-300PMU1 air defense systems to Vietnam for a combined price of \$250 million. Russian arms sales dipped in 2005 due to a variety of factors, such as financial problems in Indonesia and Thailand following the tsunami.⁴² Still, Indonesia plans to buy 6 Kilo-class submarines (worth \$1.9 billion) by 2010. In April 2006 Russia hosted a delegation from Myanmar after a three-year hiatus in sales to that country: Russia is interested in selling arms in return for oil and gas concessions.⁴³

In 1995 Russia made a secret agreement with the United States not to sign any new contracts for arms sales to Iran (the “Gore-Chernomyrdin pact”). The Russians withdrew from the arrangement in 2000 but sold only \$300–400 million in arms to Iran over the next five years. In December 2005 Russia signed a contract with Iran for the delivery of 29 Tor-M1 and Pechora-A2 air defense systems (which are less sophisticated than the S-300) worth \$700 million.⁴⁴

The Russians have been wary of selling top-of-the-line technologies (such as airborne radar aircraft or AWACs) to China and India for fear of disturbing the strategic balance in ways that might threaten Russian interests. Academic Viktor Baranets asked “Where are the guarantees that [the Chinese military], enhanced with Russia’s help, will never be turned against Russia itself?”⁴⁵ As a case in point, in November 2005 Igor Reshetin, director of the TsNIIMASH-Export company, was arrested along with two of his deputies for illegally selling space technology to China. When asked about the wisdom of selling advanced weapons to foreigners, Rosoboroneksport Director Sergei Chemezov bluntly replied: “Let’s face it: if we do not do it, somebody else will.”⁴⁶ In April 2006 Defense Minister Sergei Ivanov stated:

⁴⁰ Konstantin Lantratov, “Let Down by the Wings,” *Kommersant*, December 1, 2005.

⁴¹ Dmitri Litovkin, “Russia Dilutes the Military Aircraft Market with Civilian Planes,” *Izvestiya*, December 7, 2005.

⁴² Aleksei Khazbiev, “Arms Reconfiguration.”

⁴³ Konstantin Lantratov, “Air-to-Minerals Missiles,” *Kommersant*, April 4, 2006.

⁴⁴ Aleksei Nikolskii, “Revenue from a Rogue,” *Vedomosti*, December 2, 2005. Russia is happy to sell weapons to countries on the Pentagon’s blacklist, such as Sudan or Venezuela. See Igor Dmitriev, “Hello to Arms,” *Versiya*, no. 19 (May 22–28, 2006).

⁴⁵ Viktor Baranets, “Why Would Russia Equip Foreign Armies?,” *Komsomol’skaya pravda*, March 9–16, 2006.

⁴⁶ Andrei Vandenko, “An Armed Man,” *Itogi*, no. 44 (October 2005): 22–4.

I don't rule out that we might discuss selling the SU-34 [bomber] to China in the future. There are no such negotiations yet. The same is applicable to the fifth-generation fighters. To begin negotiations we need to settle a very important judicial issue, that is to sign an agreement on protection of intellectual property.⁴⁷

In the view of most analysts, Russia's arms trade is driven primarily by the need to generate revenue for the Russian industry rather than by a grand strategy that seeks to build a multipolar alliance with China and India. Separating the strategic from the economic logic behind the arms trade is not easy.

Relations with Countries of the Region

After taking office in 2000 Putin gave repeated signals that he saw Russia as primarily a European power, a view reflecting the realities of geography, history, and culture. Russian foreign policy priorities generally ran in a west-to-east direction: the top priority was Europe, followed by the western former Soviet countries (Ukraine, Belarus, Caucasus), then by Central Asia, then Northeast Asia, and finally South/Southeast Asia. This pattern of priorities has begun to shift over the past two years, however, as Moscow has focused more attention on Central Asia and East Asia. Russia has ambitious plans to boost trade with China and in the past two years has for the first time ever held military exercises with China and India.

China

Russia and China have much in common. China, like Russia, has nuclear weapons, a seat on the UN Security Council, and an authoritarian regime that is the target of frequent Western criticism. The two countries reached agreement in 2004 on the last remaining unresolved issue in their relations—the drawing of their 4,000 km mutual border.⁴⁸

Russia is acutely aware of China's growing role in the world economy and of the business opportunities that are opening up as a result. China's share in world trade rose from 0.8% in 1978 to 7.7% in 2005, while that of Russia fell from 3.4% in 1990 to 1.8% in 2005.⁴⁹ Russia also is somewhat wary of making China stronger and of becoming more economically dependent on this giant Asian neighbor. Moscow sees China as an economic rival in

⁴⁷ Dmitri Litovkin, "The Shanghai Cooperation Organization is Not NATO," *Izvestiya*, May 3, 2006.

⁴⁸ Though delimitation of three islands in the Ussuri river remains to be completed.

⁴⁹ Giorgio Navaretti, "Patterns of Trade and Protection," World Bank, May 2004; and World Trade Organization, "World Trade 2005," April 11, 2006.

developing Central Asian energy but also recognizes Beijing as a strategic partner whose interests include preserving stability in Central Asia and limiting the U.S. presence in the region.

During Hu Jintao's visit to Moscow in July 2005 the two countries' leaders issued a grandiose joint declaration on world order in the 21st century.⁵⁰ The document stressed the role of multipolarity and the importance of non-interference in internal affairs and mutual respect for other nations' sovereignty.

The rhetoric may, however, be running ahead of reality. The distinct gulf that exists between professions of strategic partnership by the nations' leaders and the anemic economic relations between the two countries has been characterized as a "gap between 'hot' contacts at the top and 'cold' contacts further down."⁵¹ Russian-Chinese trade was \$29.1 billion in 2005, up 37% from the previous year and well up from the \$11 billion logged in 2001.⁵² Though the trend is encouraging, this level still pales in comparison to China's annual trade of \$210 billion with the United States or of \$185 billion with Japan. Russia accounts for less than 2% of China's trade, and China provides about 8% of Russia's trade.⁵³

Not all is smooth sailing. In November 2005 Prime Minister Mikhail Fradkov visited Beijing to try to clear up what he diplomatically called "current difficulties" in the trade relationship.⁵⁴ Yevgeny Verlin noted: "Russia's caution in military-technical cooperation or in permitting expansion of Chinese capital into Russian innovation zones and the construction market, all of that irritates Beijing immensely."⁵⁵ In 2003 China, a member of the WTO since 2001, launched four anti-dumping suits against Russia concerning \$500–600 million of steel imports. Russia-China talks regarding Russian entry to the WTO were suspended from January through September of 2003 but concluded in 2004, at which time China agreed to terms for Russian entry.⁵⁶

On the Russian side, the main concern is to diversify exports away from their current dependence on fuel and raw materials. During his March 2006 visit to Beijing, Putin complained that deliveries of machinery and

⁵⁰ Text is available in Russian at: <http://www.kremlin.ru/interdocs/2005/07/01>.

⁵¹ Aleksander Lomanov, "Oil and Gas Mediation," *Vremya novostei*, March 23, 2006.

⁵² In the first three months of 2006 Russia-China trade hit \$12 billion, or up 53% year-on-year. RIA-Novosti, June 15, 2006.

⁵³ At their 2004 meeting Putin and Hu Jintao set the goal of quadrupling trade turnover somewhere between \$60 and 80 billion by 2010.

⁵⁴ Mikhail Vorobiev, "Political Necessity," *Vremya novostei*, November 7, 2005.

⁵⁵ Yevgeny Verlin, "What Kind of China We Need," *Profil*, no. 10 (March 2006).

⁵⁶ *Delovoi Kitai* 4 (2004).

equipment to China almost halved in 2005.⁵⁷ Russia's imports from China are led by electrical equipment (30.4%), consumer durables (23.3%), and shoes (4.9%), while Russian exports consist of oil (33.7%), ships (9.9%), timber (9.5%), weapons (5.5%), fertilizer (5.5%), and ferrous metals (5.2%).⁵⁸ In 2005 Russia delivered 5.18 million tons of oil to China by rail and hopes by 2010 to boost that to 15 million tons (10% of China's import demand).⁵⁹

Chinese businesses have invested about \$2 billion in Russia, and Russian firms have invested some \$500 million in China—although most of these are reportedly run by Chinese returning from Russia. These sums amount to only 1.8% of Chinese investment abroad, 0.8% of all FDI in Russia, 6.3% of Russian investment abroad, and 0.09% of all FDI in China.⁶⁰

Energy and arms remain the two principal elements in Russian exports. Apart from plans to build oil and gas pipelines, Russia is currently building the two reactors at the Tianwan nuclear power station; a tender for two new reactors will be held in 2007. China intends to build 30 new reactors by 2020, and Russia is keen to share in that market. Each year Russia sells to China 500 to 900 million kilowatt/hours of electricity—and ambitious plans are in the works to raise the amount to 18 billion kilowatt/hours per year by 2010.

China's economic rise is causing some anxiety in Moscow. There is a growing realization that "China is well ahead of Russia and India as to the degree of its engagement in the global economy."⁶¹ From 1978 to 2004, China attracted foreign direct investment amounting to \$562 billion, including \$61 billion in 2004, while Russia attracted just \$9.4 billion towards a cumulative total of about \$30 billion. Given China's aggressive policy of deep integration with the global economy, Moscow may no longer have an advantage in R&D from its days as the Soviet superpower. Russia's current

⁵⁷ Dmitri Zhantiyev, "A Bridge to the Celestial Kingdom," *Rossiiskie vesti*, March 23, 2006.

⁵⁸ "Rossiiskaya federatsiya i strana mir. Kitai [Russian Federation and the Countries of the World. China] 2005 October–December," retrieved via ISI Emerging Markets database. The data, presumably from the State Customs Service, is for the fourth quarter 2005. The proportions were roughly the same in previous quarters, though ferrous metals dropped from 17% in the first half of the year to 8% in the second.

⁵⁹ The main companies handling Russian exports as of the fourth quarter 2005 were Rosneft (31.4%), Tomskneft (8.6%), and Rosoboroneksport (8.0%). In the first quarter 2005 the three leaders were Lukoil (7.4%), Yukos 7.4%, and the steelmaker Magnitogorsk MK (8.5%). The city of Moscow books 34.0% of the exports, followed by Arkhangelsk (30.3%), the Siberian provinces of Tomsk (5.8%), and Irkutsk (4.2%). See Tselyanin, "Regional Cooperation of China and Russia," *EKO*, no. 10 (2005): 126–33.

⁶⁰ Li Tseyan'min, "China as Investor," *EKO*, no. 9 (2005): 105–11.

⁶¹ Vladimir Portyakov, "Russia, China and India in the World Economy," *Russia in Global Affairs*, no. 2, April 2006; Kseniya Yudaeva, "How Can We Diversify Our Exports?" *Pro et Contra* 9, no. 3 (2005).

share on the global innovations market stands at 0.5% versus China's share of 6%.⁶² In the World Economic Forum Competitiveness index, Russia ranks 75 out of 117 countries, lagging behind China (49) and India (50).⁶³

Given Russia's low birth rate and high male mortality, World Bank projections are that Russia's population will fall from the current 144 million to 119 million by 2050. This population decline likely will lead Russia to rely increasingly on immigrant workers, with China as a likely source. Public opinion is not reconciled to this idea. In a recent poll of the Russian public, negative opinion was greatest toward immigrants from the Caucasus (50% of respondents), with those from China in the second place of opprobrium (46%), followed by Vietnam (42%) and Central Asia (31%).⁶⁴ Although many Russians see China as Russia's strategic partner (34%) and even ally (22%), most favor restrictions on Chinese imports (61%), businesses (66%), and immigrant labor (69%).⁶⁵ Only 8% said that trade between the two countries was more advantageous for Russia, whereas more than 50% said China benefited most.

Since the Soviet collapse, there has been a revival of informal cross-border trade with China, with exports of commodities such as fish and timber matched by imports of consumer goods from clothing to cars. This border trade accounts for an estimated \$10–12 billion a year, much of which goes unreported and untaxed.⁶⁶ The transportation infrastructure between the two countries is being expanded, and Chinese entrepreneurs are leasing Russian forests, farmland, and factories. Not clear is how willing Russian officials at the national or local level are to accelerate this process. Cross-border relations were damaged by the December 2005 benzene spill from a Chinese factory into the Sungari river that threatened the water supply of Khabarovsk and triggered anti-Chinese protests.⁶⁷

A startling reminder of the illegal dimensions of the cross-border trade came with the May 2006 dismissal of a dozen senior officials from the State Customs Service and their alleged high-level "protectors" in the procuracy, Interior Ministry, and Federal Security Service. The scandal also forced the resignation of four members of the Federation Council (the upper house of the national parliament), including Igor Ivanov from Primore. The affair

⁶² Yudaeva, "How Can We Diversify Our Exports?"

⁶³ Augusto Lopez-Claros, "Russia: Competitiveness, Economic Growth and the Next Stage of Development," World Economic Forum, Global Competitiveness Report 2005, September 28, 2005, chapter 2.6, <http://www.weforum.org/>.

⁶⁴ Vasily Zubkov, "Immigration to Russia, a Boon or a Curse?" RIAN, November 16, 2005.

⁶⁵ Interfax, August 15, 2005. According to a VTsIOM poll.

⁶⁶ *Delovoi Kitai* 4 (2004).

⁶⁷ Igor Verba, "Campaign Chemotherapy," *Nezavisimaya gazeta*, November 30, 2005.

was the result of a sting operation involving boxcars of unregistered Chinese goods.⁶⁸

Japan

Russo-Japanese relations remain stymied by Japan's refusal to accept the Russian occupation of the four southern Kurile islands (what the Japanese call the "Northern Territories") seized by Stalin in 1945. In the absence of an agreement, no peace treaty yet exists between the two countries. The Japanese assumption is that Russia eventually will be obliged to return all four islands.

Russia at various points has hinted at possible openness to a compromise. For example, a November 2004 statement by Foreign Minister Sergei Lavrov affirmed Moscow's recognition of the Soviet-Japanese Joint Declaration of 1956, in which the Soviet Union expressed willingness to negotiate with Japan the handing over of the two southern islands of Shikotan and Habomai. Due, however, to a 2002 political scandal over a possible backdoor compromise deal with Russia, Japan has reverted to insistence on the eventual return of all four islands. Given Russia's increasing political and economic strength, it seems unlikely that Russia will return any of the islands. During a 2005 visit to the Kuriles, Defense Minister Sergei Ivanov stressed that the Russians "do not intend to make any territorial concessions; we do not intend to leave."⁶⁹ Putin is keen to resolve the issue and move on.⁷⁰

Moscow is puzzled by Japan's obstinance over the Kuriles. Japan's view apparently is that economic involvement with Russia—such as Japanese investments in Sakhalin and the VSTO pipeline—will bind Moscow closer to Tokyo and increase the likelihood of Putin compromising. Russia, however, regards these as mutually beneficial projects that do not require a political quid pro quo.

Despite a Japanese-Russian Action Plan signed in 2003, the relationship has been marked by a distinct lack of progress. During a November 2005 visit to Japan Putin signed a package of agreements that included LNG purchases from Sakhalin and confirmation of the Taishet-Perevoznaya oil pipeline. Koizumi also achieved his objective: a public assurance from Putin that the search for a solution to the territorial dispute will continue.⁷¹

⁶⁸ Maksim Agarkov, "Resignations," *Profil*, no. 19 (May 2006).

⁶⁹ *Taipei Times*, July 31, 2005.

⁷⁰ Marat Khairullin, "Purely Business, Nothing Personal. Japan Gives Russia Some Lessons in Diplomacy," *Gazeta*, February 8, 2006.

⁷¹ Aleksander Sadchikov, "Gas Today, Islands Tomorrow," *Izvestiya*, November 23, 2005.

Meanwhile, Japan's trade with Russia rose from \$3.2 billion in 2001 to \$7.4 billion in 2005. Japanese investment in Russia also increased sharply, from \$117 million in 2000 to around \$1 billion in 2003. Contributing to this increased investment, for example, is Toyota's planned opening of a \$150 million assembly plant in Petersburg.

Moscow was not thrilled by the April 2006 conclusion of a U.S.-Japanese agreement to relocate U.S. military bases in Japan and increase military cooperation. As Andrei Fesyun has written: "The United States is drawing Japan into its policy of global dominance in all regions of the world—with the intention of using Japan as a shield to absorb a first strike."⁷² In contrast, however, to the Russian public's ambiguity regarding China the public does not see Japan as a threat. According to a VTsIOM survey, 61% of respondents had a positive view of Japan (as a friend or partner) while only 12% saw Japan as a rival and 6% as an enemy. Nevertheless, 73% felt the time had come for Russia to stop discussing the territorial problem.⁷³

India

The Soviet Union enjoyed good but somewhat distant relations with India. Both countries were wary of the United States and China, and India was a regular purchaser of Soviet weapons. India has purchased more than \$7 billion worth of weapons from Russia in the last five years; in the Indian armed forces, up to 70% of the military hardware was made in Russia or the former Soviet Union.⁷⁴ Between 1992 and 2004 Russia sold India 60 fighters (MIG-29s, SU-30MKIs, and SU-30Ks) and upgraded 125 previously delivered MIG-21s. Components for the assembly of 140 SU-30MKI aircraft are being delivered. India also bought six IL-78MKI flying tankers and three A-50 AWACS-type planes and is in discussion with Russia for the joint development of a transport aircraft.⁷⁵ The visit of President George W. Bush to India in March 2006 sparked Russian fears that the United States might take over as a primary military supplier (for example of F-16 fighters). The India-United States accord on nuclear cooperation that was signed during that visit puts into question future Russian nuclear sales. Russia is currently building two reactors at a nuclear power plant in Kudankulam.

⁷² Andrei Fesyun, "Will Japan and the U.S. Go to War Together?" *Vremya novostei*, May 4, 2006.

⁷³ Dmitri Polikanov, "Japan As an Important Alternative Power," *Nezavisimaya gazeta*, November 21, 2005.

⁷⁴ Interview on Russian-Indian military technology cooperation with Defense Minister Pranab Mukherjee by Aleksander Lomanov, *Vremya novostei*, November 18, 2005.

⁷⁵ Arthur Blinov, "Cold War with a Trade Subtext," *Nezavisimaya gazeta*, April 7, 2006.

Weapons aside, India-Russia mutual trade—at just \$3.1 billion in 2004—is anemic. In March 2006 Fradkov visited India to discuss the \$2.3 billion in Soviet-era debt still owed by India. India is repaying the debt at a rate of about \$100 million per year in goods (such as tea and textiles) that Russian firms do not want to take.⁷⁶

Russia held military exercises in India for the first time ever in October 2005, and Moscow is helping New Delhi build India's presence at the Aini airbase in Tajikistan. India has been training the Tajik airforce under an April 2002 agreement and in 2005 began construction work at the disused airport. In December 2005 the two countries began to discuss plans for basing Indian military aircraft in Tajikistan.⁷⁷

Korea

Putin took office in 2000 with hopes that Russia could play the role of an honest broker in resolving the dispute over North Korea's nuclear program and to that end proposed Six-Party Talks with Pyongyang. After finding that Russia had no special influence over Kim Jong-il, however, Beijing effectively marginalized the Russian role in the negotiations.⁷⁸ The diplomatic standoff over North Korea has dashed ambitious plans to build new railways and oil and gas pipelines from Russia to South Korea.⁷⁹ Despite some expectations, Putin failed to come away from the November 2005 APEC summit in Pusan with a commitment from South Korea to buy Sakhalin gas, either by building a pipeline across North Korea or through LNG deliveries.⁸⁰

Central Asia

Tending to take Central Asia for granted, Moscow expended scant effort toward improving relations with Russia's Eastern "near neighbors."⁸¹ This

⁷⁶ *Kommersant*, March 20, 2006.

⁷⁷ Vladimir Ivanov, "Moscow Style Triple-Shot," *Nezavisimaya gazeta*, December 7, 2005; "IAF to station MIG 29s in Tajikistan," April 20, 2006, <http://www.defenceindia.com/17-apr-2k6/news17.html>; and Viktor Myasnikov, "New Delhi Is Elbowing Russia Out," *Nezavisimaya gazeta*, April 25, 2006.

⁷⁸ "China-Russia: Underwater Reefs in their Relations," Center for Political Information (Moscow), *Information-Analytical Bulletin*, no. 10, 2005.

⁷⁹ Hiroshi Kimura, "Putin's policy towards the Korean Peninsula: Why Has Russia Been Losing Its Influence?" (paper presented to the international conference Comparing Different Approaches to Conflict Prevention and Management: Korean Peninsula and the Taiwan Strait, Uppsala, Sweden, December 16–17, 2005).

⁸⁰ Anna Nikolaeva, "No Gas Deal," *Vedomosti*, November 21, 2005.

⁸¹ This is now the preferred formula for referring to the former Soviet states, replacing the imperial-sounding "near abroad."

tendency has begun to change over the past two years, however, as Russia's dealings with the Western members of the Commonwealth of Independent States encountered a multitude of problems: democratic revolutions in Georgia and Ukraine; unsolved conflicts in Moldova, Georgia, and Azerbaijan; and a recalcitrant dictator in Belarus. Russian policy toward Central Asia has focused on three main elements: energy trade, fighting terrorism, and preserving political stability through support for incumbent dictators. Russia's strategic goal is to preserve the status quo; Moscow sees rebuilding hegemonic control over the region as neither feasible nor particularly desirable.

Islamist terrorism has been a serious threat to the regimes in the region. Russia (alongside Iran) played a fairly positive role in negotiating an end to the Tajik civil war in 1997. Following September 11th, Kyrgyzstan and Uzbekistan welcomed the introduction of U.S. military bases, hoping to distance themselves from Moscow. Due to the poor human rights and democracy records of Kyrgyzstan and Uzbekistan, however, the U.S. relationship with both countries soured and each gravitated back into a closer relationship with Moscow. The switch in Uzbekistan's orientation over the past year has been particularly dramatic.

Thanks to Russia's location astride the main export routes for Central Asian oil and gas to Western markets, Moscow can extract rents in the form of transit fees. As the main victim of such policies, Turkmenistan has been forced to sell natural gas to Ukraine through Russian intermediaries at a steep discount. In April 2006 Turkmenistan's president, Saparmurat Niyazov, traveled to China, inking a deal to build a pipeline that will supply 40 billion cubic meters of gas per year.⁸²

Russia's most important partner in Central Asia is Kazakhstan. Kazakhstan's trade with Russia hit \$10 billion in 2005, and the country currently ships 16 million tons of oil a year across Russia via the Chevron-led Caspian Pipeline Consortium. The official line in Moscow and Astana is that there are "almost no difficult unresolved questions" in relations between the two countries.⁸³ Meanwhile, Kazakh ties with China are growing apace. Mutual trade reached \$6 billion in 2005, and in December of the same year China completed construction of the \$700 million, 988-km long Atasu-Alashankou pipeline (with an initial capacity of 10 million tons per year).⁸⁴ The oil will come from Kumkol fields in south Kazakhstan, which China gained after the acquisition of the PetroKazakhstan oil company; but with

⁸² *Kommersant*, April 3, 2006.

⁸³ Dmitri Yermolaev, "A Snow Leopard in Bear's Clothing," *Rossiiskie vesti*, April 6, 2006; and *Nezavisimaya gazeta*, January 11, 2006.

⁸⁴ Andrew Neff, *Oil and Gas Journal* 104, no. 9 (March 6, 2006): 41.

TABLE 5 Russian trade with Central Asia (\$million)

	Exports			Imports		
	1998	2001	2004	1998	2001	2004
Kazakhstan	1,881	2,544	4,648	1,877	1,834	3,457
Iran	489	894	1,892	28	34	111
Uzbekistan	485	364	767	521	580	612
Kyrgyzstan	131	83	265	129	61	150
Turkmenistan	94	139	242	43	39	43
Tajikistan	77	69	183	59	129	76
Central Asia total	3,157	4,093	7,997	2,657	2,677	4,449

SOURCE: IMF *Direction of Trade Statistics*, 2005.

the Kumkol fields producing less oil than needed Kazakhstan is looking to Russia for oil to fill the pipe in the interim. In 2003 the Western consortium operating the super-giant Kashagan oilfield on the Caspian blocked the bid to acquire a stake made by the Chinese state-owned company Sinopec.

Russia joined China in a common cause of sorts with regard to Iran's program to acquire nuclear weapons. Russia's abstention during the September 24, 2005 meeting of the International Atomic Energy Agency made it possible for the agency to refer Iran to the UN Security Council, though Russia and China consistently have opposed the threat of UN sanctions. An October 2005 visit to Moscow by U.S. Secretary of State Condoleezza Rice failed to dislodge Russia and China from this position. Foreign Minister Sergei Lavrov explained that "sanctions against Iran are not going to solve the problem of its nuclear program."⁸⁵ As an alternative, Moscow floated the idea of a joint venture in Russia that will enrich uranium for Iran's power plants. In February 2005 Russia signed a nuclear fuel supply agreement for the Bushehr nuclear plant that Russia is building for Iran, a project that is close to completion. Under the deal Iran must return to Russia spent nuclear fuel from the reactor.

Regional Cooperation

Putin has been a frequent visitor to Asia and an enthusiastic participant in multilateral bodies such as the Asia Pacific Economic Cooperation (APEC) forum. The most important vehicle for promoting Russia-China

⁸⁵ *Nezavisimaya gazeta*, February 16, 2006.

cooperation is the Shanghai Cooperation Organization (SCO).⁸⁶ Created in 2001, the SCO grew out of meetings that led to a border agreement in 1996 between the “Shanghai Five” (Russia, China, Kazakhstan, Kyrgyzstan, and Tajikistan).⁸⁷ Although Russia’s presumed preference would have been exclusive leadership of security efforts in the former Soviet Union, Russia seems reconciled to cooperating with China via the SCO.

One of the main goals of the SCO is to fight terrorism and separatism. Along these lines China is particularly interested in suppressing the Uighur separatist movement in Xinjiang.⁸⁸ The SCO has created a Regional Anti-Terrorism Structure headquartered in Tashkent. The agreement allows members of organizations that are banned in one SCO country to be arrested in any other SCO country and extradited back to face charges. For example nineteen Hizb-ut-Tahrir activists were extradited from Russia to Uzbekistan.⁸⁹

Commentator Aleksandr Gabuev wrote in May 2006 that “the last twelve months have probably been the most productive period in the development of the SCO. This activation peaked at the SCO summit in Astana on July 5, 2005, where the heads of state issued a resolution all but demanding withdrawal of U.S. military bases from Central Asia.”⁹⁰ In response to Western criticism over the handling of the Andijan uprising in May 2005, Uzbekistan ordered the United States to quit the Karshi-Khanabad airbase in July. Kyrgyzstan managed to persuade the United States to increase the rent paid for the Manas airbase by hinting that it would otherwise follow the Uzbek example.

The first SCO joint exercise—which involved a scenario of a hijacked airliner—took place in Kazakhstan and China in 2003.⁹¹ August 2005 saw large-scale military exercises between Russia and China for the first time in history. The “Peace Mission” program, which was not part of the SCO framework, involved 70 ships and 10,000 Chinese and 1,800 Russian troops.

⁸⁶ Huasheng Zhao, “China’s Interest in Central Asia and the Future of the Shanghai Cooperation Organization,” Center for Strategic and International Studies, August 16, 2005; and Konstantin Lantratov, “Transforming the Six into a Bloc,” *Kommersant*, April 27, 2006.

⁸⁷ Chzhao Khuashen, “China, Central Asia and the Shanghai Cooperation Organization,” Carnegie Center, Moscow, Working Paper, no. 5, June 2005.

⁸⁸ Uzbekistan joined in 2001; Mongolia, Iran, India, and Pakistan have observer status.

⁸⁹ Mikhail Vinogradov, “Fighters Wwith Terrorism Agree to Cooperate,” *Izvestiya*, April 4, 2006.

⁹⁰ Aleksander Gabuyev, “The Wall of Shanghai,” *Kommersant*, May 16, 2006.

⁹¹ Golts, “Trade Partner, Military Ally”

They practiced amphibious landings on Shandong peninsula, a hypothetical peacekeeping intervention in an ethnic conflict.⁹²

Domestic Political Debates

No strong “Asia lobby” is to be discerned in Russia’s foreign policymaking. The most easily identified influence group would be the arms exporters that depend on sales to China and India. More broadly argued is that the *siloviki*—the security clan in the presidential entourage—can strengthen their domestic political position by pursuing closer ties with China rather than with the West.⁹³ Such arguments, however, are quite speculative.

In trade and investment, the key players are the large state-owned corporations (such as Gazprom, Transneft, and Russian Railways) and private companies (such as Lukoil). These companies currently are locked into the European market and are still recuperating from the bitter political struggles surrounding the dismemberment of Yukos and Gazprom’s absorption of Sibneft. These key players are, however, actively seeking to establish a global presence and in due course will become more engaged with Asian partners.

Lively debate and deep division exist amongst geopolitical thinkers in Russia over whether closer ties with China serve Russia’s long-term national interests. Beijing clearly was a major beneficiary of the Soviet power collapse, as was the United States. Some Russian thinkers want Moscow to continue the policy of the 1990s—that is, to effectively bandwagon with the U.S. superpower. Others encourage Russia to move in the direction of balancing against the United States by allying with China.

Sinophiles range from the right to the left of the political spectrum.⁹⁴ Thus the liberal former Yabloko deputy Vyacheslav Igrunov writes that “the West depicts China as a horrible communist monster that jeopardizes democracy. As a corollary, the West urges Russia to sell oil to Japan and not to China.”⁹⁵ In response to the Council on Foreign Relations report “Russia’s Wrong Direction,” Konstantin Simonov and Vitalii Ivanov argue that the United States will try to block the VSTO pipeline. They point out

⁹² The fifth anniversary SCO summit took place in Shanghai on June 15, 2006. To Washington’s chagrin, Iranian President Mahmoud Ahmadinejad attended the summit as an observer and broached the idea of Russian-Iranian cooperation to stabilize international prices of natural gas.

⁹³ Konstantin Simonov, “Property as Key to Success,” *Vedomosti*, July 14, 2005.

⁹⁴ Alexander Anisimov, “Teeth of the Dragon,” *Zavtra*, March 21, 2006.

⁹⁵ Vyacheslav Igrunov, “What Is Happening in the Triangle Formed by Moscow, New Delhi and Beijing?” *Izvestiya*, November 1, 2005.

that “China is considered the United States’ main opponent in the medium term. How could Uncle Sam beat the dragon? That is very simple—by depriving it of fuel.”⁹⁶

These voices are echoed by those of other strategists who see China as a greater threat in the long term than the United States. These strategists cite China’s growing economic power, massive population (including a surplus of young males), and sustained military build-up as evidence of this threat.⁹⁷ These writers also play into Russian racist stereotypes about the “yellow peril.”⁹⁸ Adding to distrust of China is the uncomfortable fact that Russia’s far eastern territories were expropriated from the Chinese empire in the 18th and 19th centuries.⁹⁹ Though Chinese officials never mention the question of these territorial claims to Russia, their silence on the issue does not reassure the Russians. United Russia Duma deputy Nikolai Bezborodov pointedly noted that in the Trans-Baikal area China has 109 divisions, while Russia has but a single division.¹⁰⁰ Sometimes liberals are the ones who play up the China threat in order to justify closer cooperation with Washington.¹⁰¹ A reporter asked Nikolai Bordyuzha, the Secretary General of the CIS Collective Security Treaty Organization (CSTO), “Do you think that China is our strategic ally or a potential opponent?” Bordyuzha replied: “Nothing in this world lasts forever.”¹⁰² Similarly, Vladimir Portyakov argues that blueprints for the creation of a Russia-India-China axis “will continue to gather dust” unless a major crisis transforms these existing relationships.¹⁰³

As for the Russian public, most seem to identify more with Europe than with Asia but few see China as a serious threat. According to a November 2005 VTsIOM poll, 58% think Russia is closer to Europe in culture and way of life; Russia was seen as closer to the East by only 13% and to the United States by only 7%. The United States was seen as a threat by 30% of respondents, followed by China (17%), and Japan a distant third

⁹⁶ Vitalii Ivanov and Konstantin Simonov, “Russia’s Right Path.”

⁹⁷ Andrei Milovzorov, “China Versus the Rest of the World,” <http://www.utro.ru>, August 17, 2005.

⁹⁸ For example, B. Fedortsev quotes a 19th century traveler, Aleksandr Maksimov, on China’s “phenomenal evil, hidden behind a smile.” See B. Fedortsev, “Russia and the China Syndrome,” *EKO*, no. 10 (2005): 134–9.

⁹⁹ “China-Russia: Underwater Reefs in their Relations,” *Information-Analytical Bulletin*, no. 10 (Moscow: Center for Political Information, 2005).

¹⁰⁰ Vladimir Mukhin, “United Russia Starts Fighting for the Military Vote,” *Nezavisimaya gazeta*, December 15, 2005.

¹⁰¹ Vasilii Mikheev, “The Chinese Riddle,” *Pro et Contra* 9, no. 3 (November 2005).

¹⁰² Stepan Sidorchuk, “People Remember the CSTO when a Threat Arises,” *Rossiiskie vesti*, no. 3 (January 2006); and Sergei Permyakov, “NATO Reluctant to Cooperate with CSTO,” *Voenna-promyshlennyi kurier*, no. 2 (January 18, 2006).

¹⁰³ Portyakov, “Russia, China and India in the World Economy.”

(6%).¹⁰⁴ According to a November 2004 VTsIOM poll, 40% of respondents regarded relations with China as normal and 34% saw relations as friendly, but only 4% saw China as an enemy. In the event of a conflict between the United States and China, 36% would support China and 21% the United States.¹⁰⁵ Similarly, a U.S.-sponsored international poll found that Russian respondents had a favorable attitude toward China's economic system (67% favorable to 12% unfavorable) and political system (56% favorable to 14% unfavorable).¹⁰⁶

In the 1990s there was much talk in the West about Russian foreign policy being driven by regional leaders. For example, there was a perceived rift between the federal authorities favoring ties with Beijing and regional leaders in the RFE favoring ties with the United States, Japan, and Korea. Such views led to the hope that outside countries and corporations could deal directly with the regions in the RFE, and thereby bypass Moscow; these speculations proved, however, to be largely wishful thinking. Putin's centralizing reforms, the creation of the federal districts, the reform of the Federation Council, and the taming of the State Duma all have gone a long way toward restoring federal control over the regions. Still, the leaders of mineral-rich regions in Siberia—such as Yakutiya and Krasnoyarsk—are powerful political and economic actors whose views Moscow must take into account.¹⁰⁷

Conclusion

Economic and strategic trends over the past few years are pushing Russia toward deeper integration with the countries of Asia. This change raises political and even psychological challenges for the Russians, who still see Russia as a European power. Russia's experience with Europe over the past decade, however, has been that an increase in trade does not necessarily bring an end to all political tension and disagreement. Rather than counting on economic integration with either the West or the East to guarantee Russian national security, Russia is using economic ties to boost the Russian economy while maneuvering between the various sides.

¹⁰⁴ "Russia Between East and West," VTsIOM press release 361, December 2005, <http://www.vciom.ru>; and Petr Grinev, "Russians See America as the Enemy," December 22, 2005, <http://www.utro.ru>.

¹⁰⁵ Dmitri Polikanov and Valeri Fedorov, "Public Opinion and Russian Foreign Policy," *Politika*, no. 1 (2005): 22-40.

¹⁰⁶ Stephen J. Weber, "How Russians and Americans View Each Other, Themselves, China and Iran," Carnegie Endowment for International Peace, May 31, 2006.

¹⁰⁷ Elizabeth Wishnick, "One Asia Policy or Two? Moscow and the Russian Far East Debate," *NBR Analysis* 13, no. 1 (March 2002).

Even as Russia moves toward closer integration—by pushing ahead with building oil and gas pipelines to bring Siberian resources to China and Japan—many economic and political barriers remain to be overcome. With Russian political and economic institutions still in the process of transition, shifts in the balance of power between rival factions could delay if not derail ambitious energy export projects. The major focus of this uncertainty is finding a replacement for Putin, who will step down in 2008. The leadership succession may open up divisions within the ruling elite between the “statist” lobby of security officials and the heads of state corporations. For the past six years the powerful presence of Putin has kept these rival actors in check as well as subordinated regional leaders to the wishes of Moscow. The post-2008 period could conceivably see a return to the political fragmentation of the 1990s, a development that would complicate the prospects for multi-year, multi-billion dollar investment projects. Nonetheless, with oil and gas flowing from Sakhalin and work having begun on an oil export pipeline from Siberia, Russia will become a growing presence in the East Asian energy market over the next several years.

Some Western observers have sounded an alarm that Russia is turning its back on the West and seeking to project power over neighboring former Soviet states. They see increased Russian energy exports to Asia and strategic cooperation with China as further evidence for this trend. The new emphasis on trade and investment in Russian foreign policy, however, should signal that Russia will be a more cooperative and predictable partner. In expanding ties with Asia, Russia need not be severing relations with the United States and Europe. Given that Russia is currently dependent on Europe for three-quarters of its current trade, the EU will remain Russia’s principal trade partner for the foreseeable future. Recognizing that the United States is the dominant world power, Russia sees that maintaining good relations with Washington is in Russia’s national interests.