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## Russia's Far East Policy: Looking beyond China

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Stephen Blank

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## Summary

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Russian writers like Dmitri Trenin have called developing the Russian Far East (RFE) a civilizational task. At the same time Moscow has acknowledged that developing the RFE is the foundation for any successful Russian claim to an independent great power status in Asia. Yet careful examination of Russian relations with the major Northeast Asian powers: China, Japan, and South Korea, strongly suggests that Russia has failed at this task and that its economic-political system is the primary reason for this failure. Given the stakes involved, this failure has consequences, namely Russia's excessive reliance on China to assist in the development of the RFE. During 2009-10 we saw this growth in Chinese power as China bailed out Russian oil producers on condition that in East Asia they supply China alone with oil. Russia also had to attach its development plans for the RFE to China's regional development plan for Northeast China. Thus Moscow's failure to move forward sufficiently with both Tokyo and Seoul leaves it with no option but to depend on Beijing as the power that will define the nature of its role in northeast Asia.

## Introduction

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Russia considers itself an Asian power and wants Siberia and the Russian Far East (RFE) to be directly involved in Asia and regional organizations like Asia-Pacific Economic Cooperation (APEC).<sup>1</sup> Toward this end it offers its abundant oil and gas, and also its supposedly competitive science, technology, industrial and intellectual potential.<sup>2</sup> While Russia's scientific and technological competitiveness are dubious, energy has long been Russia's Asian calling card. It is the key to the large-scale task of rebuilding Siberia, the RFE, and ensuring Russia's recognition as a great Asian power.<sup>3</sup> Therefore success in developing the RFE is the precondition for a viable Asian policy.

That regional success depends itself on large-scale balanced foreign investment from its Asian neighbors: Japan, South Korea, and especially China. Yet despite rising trade volumes with each of them Russia has done little to make such investment attractive for foreign firms. Consequently, during 2009, Russia was forced into deals with China concerning the RFE that risk mortgaging its development strategy—the precondition for regional success—to China. Through these deals on energy and the RFE, Beijing has begun to consolidate a new Asian order where it will underwrite much of this development and be its primary beneficiary, particularly in energy.<sup>4</sup> By 2010 some 200 projects had been slated for joint Sino-Russian participation in the Russian Far East, China had loaned Rosneft and Transneft 25 billion US dollars at six percent interest to ensure completion of the oil pipeline from Taishet to Skovorodino from where a Chinese

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<sup>1</sup> D. Medvedev, "APEC: Toward a Stable, Safe, and Prosperous Community," 13 November 2009,

<[http://eng.kremlin.ru/speeches/2009/11/13/0005\\_type104017\\_222698.shtml](http://eng.kremlin.ru/speeches/2009/11/13/0005_type104017_222698.shtml)>.

<sup>2</sup> *Ibid.*

<sup>3</sup> S. Lavrov "The Rise of Asia and the Eastern Vector of Russia's Foreign Policy," *Russia in Global Affairs*, Vol. 4, No. 3, July-September 2006, p. 70, 77; S. Lavrov, Speech at Chulalongkorn University of Thailand, Moscow, Ministry of Foreign Affairs of the Russian Federation, 24 July 2009, Open Source Center, Foreign Broadcast Information Service, Central Eurasia (Henceforth FBIS SOV), 24 July 2009; S. Luzyanin, "A Greater East For a Former Superpower," *Nezavisimaya Gazeta*, 22 April 2005, *FBIS SOV*, 22 April 2005.

<sup>4</sup> S. Blank, "Russia's New Gas Deal With China: Background and Implications," *Northeast Asia Energy Forum*, Vol. VI, No. 4, Winter, 2009, p. 16-29; *Idem.*, "China's Russian Far East," *Jamestown China Brief*, Vol. IX, No. 16, 5 August 2009; *Idem.*, "At a Dead End: Russian Policy and the Russian Far East," *Demokratizatsiya*, Vol. XVII, No. 2, Spring 2009, p. 122-144.

pipeline will take the oil to Daqing, and Sino-Russian negotiations over a gas pipeline were in progress.

This paper traces Russia's ultimately unsuccessful efforts to connect with Japan and South Korea. Due to that failure, in 2009 Russia has had to turn more to China and depend upon it for those investments needed to make Russia an Asian power. In other words China has become the gatekeeper to Russia's Asian ambitions.<sup>5</sup> Russia's failure to develop the RFE autonomously through balanced foreign investment thus undermines its larger effort to assert itself as an independent, major Asian power.<sup>6</sup> To avert Chinese dominance Russia must devise comprehensive, large-scale investment cooperation with Japan and South Korea.

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<sup>5</sup> G. Christoffersen, "Russia's Breakthrough into the Asia-Pacific: China's Role," *International Relations of the Asia-Pacific*, Vol. X, No. 1, 2010, p. 61-92.

<sup>6</sup> *Strategiia Natsional'noi Bezopasnosti Rossii do 2020* [National Security Strategy of the Russian Federation], 12 May 2009, <[www.scrf.gov.ru](http://www.scrf.gov.ru)>.



## Japan as Counterweight to China

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Russia's recent history justifies investor skepticism about repatriating profits and the safety of their investments. Despite recent high-level ministerial talks with Japanese officials and mutual calls for enhanced cooperation in energy and other sectors, no new deals for specific agreements have been signed with Japan while China's investments are politically targeted and the objects of considerable suspicion.<sup>7</sup> Russian analysts still link Japan's reluctance to invest in Siberia to Kurile Islands—taken by the Soviet Union after World War Two—when it is probably equally due to Russia's inhospitable investment climate.<sup>8</sup> So despite successes Japan's assistance to Russia is limited. Hence stalemate on the islands and on enhanced trade and investment leaves Russia with no alternative but China for its regional development strategy.

### *Energy Issues*

Still, the outstanding recent success story among Russia's deals with other Asian states is the opening of a Liquefied Natural Gas (LNG) plant at the Sakhalin-2 field. This deal supplies Osaka Gas with 200,000 tons LNG annually through 2030 at least.<sup>9</sup> Supposedly this deal also stimulates Russo-Japanese cooperation as gas will also go to Tokyo Electric Power and seven other gas companies. Sakhalin Energy has also signed contracts with South Korean and US companies.<sup>10</sup> There are even reports that Japan will also contribute

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<sup>7</sup> Tokyo, *Kyodo World Service*, in English, 21 October 2008, FBIS SOV, 21 October 2008; Moscow, *ITAR-TASS*, in English, 21 October 2008, FBIS SOV, 21 October 2008.

<sup>8</sup> M.N. Katz, "Exploiting Rivalries for Fun and Profit: An Assessment of Putin's Foreign Policy Approach," *Problems of Post-Communism*, Vol. LII, No. 3, May-June 2005, p. 25-31; S. Blank, *Russo-Chinese Energy Relations: Politics in Command*, London: Global Markets Briefing, 2006; S. Ito, "Sino-Russian Energy Partnership: The Dilemmas of Cooperation and Mutual Distrust," in G. Austin and M-A Schellekens-Gaiffe (eds.), *Energy and Conflict Prevention*, New York: Institute for East-West Studies, 2007, p. 64.

<sup>9</sup> Sakhalin Energy, "Sakhalin-2 Project - Recent Key Milestones," <[http://www.sakhalinenergy.ru/en/ataglance.asp?p=aag\\_main&s=1](http://www.sakhalinenergy.ru/en/ataglance.asp?p=aag_main&s=1)>.

<sup>10</sup> <UPI.com>, 4 March 2009; Moscow, *ITAR-TASS*, in English, 4 March 2009, FBIS SOV, 4 March 2009.

7 billion US dollars to the completion of the East Siberia Pacific Ocean (ESPO) oil pipeline even though projected costs continue to rise.<sup>11</sup> These reports are speculative because such investments are unlikely without resolving the dispute over the Kurile Islands or improving Russian economic practices.

Russia's Ministry of Foreign Affairs also reports that both sides have agreed to reinvigorate bilateral cooperation in energy, specifically the possibility of creating LNG and gas chemical plants in The Maritime Territory (also known as Primorskii Krai) as well as the development of coal fields in Yakutia and Tuva.<sup>12</sup> In early 2009 Japanese Prime Minister Taro Aso also expressed hope that these projects will inspire further efforts at Russo-Japanese cooperation to develop energy and other industries in the RFE and improve bilateral political relations, including the search for innovative and even unorthodox ways of settling the dispute over the Kurile Islands.<sup>13</sup> While Sakhalin gas will be the raw material base for the LNG plant, gas will be supplied through the Sakhalin, Khabarovsk, Vladivostok pipeline that was supposed to begin construction in 2009 and finish in 2011. These projects represent part of the developing Far Eastern energy complex with ESPO, as do the building of LNG tankers, railroads and ports.<sup>14</sup> Yet the future destination of this gas remains quite uncertain at present: it may end up being used for domestic use rather than exports. Gazprom's Deputy Chairman, Alexander Medvedev also expressed his hope to see cooperation with Japan beyond LNG to encompass manufacturing gas chemical products.<sup>15</sup>

We should be cautious concerning reports about Japanese investment in Russia in general and in energy projects in particular; Moscow in 2006 forced the Japanese companies Mitsui and Mitsubishi, to sell their majority stake in the Sakhalin project to Gazprom. Given past history we should also be wary of promises about completing major infrastructural projects on time and at cost. It also is possible, given China's plans or proposals for at least a dozen LNG terminals, that some in Russia hope to sell China gas from Sakhalin-2 or other facilities' future LNG holdings now that Russia has mastered the technology.<sup>16</sup> Finally President Medvedev professes that completion of this project greatly strengthens Russia's position as a global gas supplier.

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<sup>11</sup> Moscow, ITAR-TASS, in English, 5 February 2009, FBIS SOV, 5 February 2009.

<sup>12</sup> "Russian MFA Information and Press Department Commentary in Relation to Media Questions about the Outcomes of the Russian-Japanese Summit Meeting in Yuzhno-Sakhalinsk," <[www.mid.ru](http://www.mid.ru)>, 21 February 2009.

<sup>13</sup> V. Golovnin, "Interview with Japanese Prime Minister Taro Aso," Moscow, *Kommersant*, in Russian, 18 February 2009, FBIS SOV, 18 February 2009.

<sup>14</sup> Moscow, ITAR-TASS, in English, 25 February 2009.

<sup>15</sup> *Daily Yomiuri Online*, Tokyo, in English, FBIS SOV, 16 February 2009.

<sup>16</sup> "Pipeline & Gas Journal's 2008 International Pipeline Construction Report," *Pipeline & Gas Journal*, August 2008, p. 20.

The prospects for a major step forward in LNG globally emerge out of the experience of cooperation with Japan on Sakhalin-2 and may advance with the advent of a new Japanese government. Russian officials believed that the government led by Premier Yukio Hatoyama sought to raise the bilateral relationship to a qualitatively new strategic level.<sup>17</sup> The fall of the Hatoyama government in 2010 has put a question mark over the further development of Russo-Japanese relations; at present we do not know how the government under Prime Minister Naoto Kan will relate to Russia.

Russia's energy strategy to 2030 envisages growth of 12 percent of foreign investment in Russia's fuel and energy sector with an increase of the share of LNG produced to 14-15 percent of its total production. Russia also intends to increase the share of exports to the Asia-Pacific to 26-27 percent. Gazprom has also resumed discussions with Mitsui and Mitsubishi on new LNG projects, possibly Sakhalin-3.<sup>18</sup> Mitsui and other firms like Marubeni-Itochu Steel are looking at energy projects in the RFE. Thus Marubeni-Itochu is discussing with Gazprom projects to construct the gas transportation network linking Sakhalin, Khabarovsk, and Vladivostok, the links in Gazprom's Greater East Asia plan, something that would clearly counter Chinese presence in the RFE.<sup>19</sup>

For such projects to materialize, Russia must regain its credibility as a place where foreign energy investment is welcomed and reverse its record of mistreatment of foreign investors.<sup>20</sup> Second there must be a credible political rapprochement and resolution of the Kurile Islands issue. Otherwise, truly large-scale Japanese investment, about which Moscow has been talking since the 1970s, will not happen. Indeed, Tokyo expressly links investment to this political resolution.<sup>21</sup> Despite both sides' numerous past missteps or obstructive tactics Moscow still will not meet Japanese demands, leading observers to depict its calls for rapprochement as being dictated by a desire to balance China, not deal credibly with Japan. As the Polish analyst Marcin Kaczmarek notes, Russia does not regard Japan as being sufficiently important for it to make major concessions. Russia sees it essentially as a U.S. client bound by their

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<sup>17</sup> Moscow, ITAR-TASS, in English, 29 October 2009, FBIS SOV, 29 October 2009.

<sup>18</sup> Moscow, ITAR-TASS, in English, 26 October 2009, FBIS SOV, 26 October 2009; Moscow, Interfax, in English, 22 October 2009, FBIS SOV, 22 October 2009; Tokyo, Nikkei Telecom, in English, 17 October 2009, FBIS SOV, 17 October 2009.

<sup>19</sup> Moscow, ITAR-TASS, in English, 14 August 2009, FBIS SOV, 14 August 2009; Moscow, ITAR-TASS, in English, 16 September 2009, FBIS SOV, 16 September 2009.

<sup>20</sup> M. Bradshaw, "The Changing Political Economy of Foreign Investment in the Russian Oil and Gas Industry," *Northeast Asia Energy Focus*, Vol. VI, No. 3, Fall, 2009, p. 10-17.

<sup>21</sup> Moscow, Interfax, in English, 28 December 2009, FBIS SOV, 28 December 2009.

alliance. Therefore the key motive for approaching Japan is to balance China in Asia.<sup>22</sup>

For a major political restructuring of relationships in Northeast Asia to occur, new energy in the Russo-Japanese relationship should be generated. Russia might want to reduce the number of exercises and patrols by the Pacific Fleet and strategic bomber patrols, most notably by TU-95 bombers, in Japan's vicinity. These activities have raised concerns about a revival of Russian military power and threatening behavior against Japan and surprised the Japanese military, forcing Japan's national security community to advocate enhanced monitoring of Russia.<sup>23</sup>

In February 2009, Moscow professed its "strong hopes" of engaging Japan politically to resolve the Kurile Islands issue and secure Japanese funding for future energy projects in Asia as Japan now claims that "Russia has become a constructive partner in the Asia Pacific region."<sup>24</sup> Thus Medvedev insisted that Gazprom will be a reliable long-term supplier to Japan. This is important for Japan since the Sakhalin-2 project will account for 7.2 percent of Japan's LNG imports.<sup>25</sup> Indeed, in 2007 Russia approved its Eastern Gas Program that calls for spending 28 billion US dollars to link the Krasnoyarsk, Irkutsk, Yakutsk, and Sakhalin gas fields into a unified gas supply system (UGSS) that could be used with LNG facilities to sell gas to Japan, South Korea and even the United States.<sup>26</sup> Nonetheless it is clear that extraordinary efforts must be made to regenerate political cooperation due to the Kurile Islands issue since both countries have strong, politically well-connected, domestic factions with equally powerfully developed and inflexible views on it. Yet Moscow refuses to entertain even the question that the islands might not belong to Russia, a stance that limits progress on this issue from the outset.<sup>27</sup>

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<sup>22</sup> M. Kaczmarek, *An Asian Alternative? Russia's Chances of Making Asia an Alternative to Relations with the West*, Centre for Eastern Studies, Warsaw, <[www.osw.waw.pl](http://www.osw.waw.pl)>, 2008, p. 41.

<sup>23</sup> *The Defence of Japan 2008* cited in C. Taylor, *Russia's Military Posture*, London: House of Commons Library International Affairs and Defence Section, 2009, p. 52; J. Ryall, "Japanese Alarm at Rise in Russian Military Activity," <[www.telegraph.co.uk](http://www.telegraph.co.uk)>, 5 September 2008.

<sup>24</sup> S. Bierman and L. Pronina, "Russia, Japan Should Boost Trade Ties," *Bloomberg*, 18 February 2009; Moscow, Interfax, in English, 18 February 2009, FBIS SOV, 18 February 2009.

<sup>25</sup> *Kyodo World Service* Tokyo, in English, 6 February 2009, FBIS SOV, 6 February 2009; "Russia Unveils its First LNG Plant in Sakhalin-2," RIA Novosti, 8 February 2009, <<http://en.rian.ru/Russia/20090218/120196973.html>>.

<sup>26</sup> *Yonhap*, Seoul, in English, 18 February 2009, FBIS SOV, 18 February 2009.

<sup>27</sup> ITAR-TASS, Moscow, in English, 6 March 2009, FBIS SOV, 6 March 2009.

## Territorial Issues

Russia also warns Japan against raising the issue lest it disrupt bilateral relations including energy deals.<sup>28</sup> Likewise, Japan has been equally intransigent insisting that all four islands be returned as a condition of major economic deals.<sup>29</sup> This mutual stubbornness naturally produces a standoff that may limit future economic cooperation.<sup>30</sup>

Nonetheless, upon taking power in August 2009, the Hatoyama government immediately announced its serious intention of making progress on the issue, and Moscow reciprocated that intention.<sup>31</sup> At their September 2009 meeting in New York at the UN General Assembly, Hatoyama and Medvedev agreed to hold regular foreign ministers' meetings on territorial and other bilateral issues, promote economic and technological cooperation, including on developing resources in eastern Siberia, and Hatoyama reiterated his hope of resolving the territorial question during the present generation's lifetime.<sup>32</sup> Indeed, he wanted to make discernible progress by the beginning of 2010.<sup>33</sup> Hatoyama also clearly envisioned a win-win strategy for both sides regarding Siberia's development which would certainly redound to Russia's benefit vis-à-vis China.<sup>34</sup>

Nevertheless, Russia appears to be hesitant. Foreign Ministry spokesman, Andrei Nesterenko welcomed Hatoyama's initiative but cautioned that while both sides want to solve this problem as soon as possible, "it is rather difficult to determine any concrete terms." He also stated that both sides need to have common views on how to

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<sup>28</sup> Interfax-AVN Online, Moscow, in English, 6 March 2009, FBIS SOV, 6 March 2009.

<sup>29</sup> A. Tannai, "Aso Tells Putin That '1956 Declaration Will Never Resolve' Northern Territories Dispute," Tokyo, Ashai Shimbun Online, in Japanese, 22 May 2009, FBIS SOV, 22 May 2009.

<sup>30</sup> *Daily Yomiuri Online*, Tokyo, in English, 16 February 2009, FBIS SOV, 16 February 2009.

<sup>31</sup> ITAR-TASS, Moscow, in English, 29 October 2009, FBIS SOV, 29 October 2009; see also Hatoyama's Speech of 26 October 2009 to the Japanese Diet, Tokyo, Kyodo World Service, in English, 26 October 2009, FBIS SOV, 26 October 2009.

<sup>32</sup> Kyodo World Service, Tokyo, in English, 23 September 2009, FBIS SOV, 23 September 2009.

<sup>33</sup> Interfax, Moscow, in English, 17 September 2009, FBIS SOV, 17 September 2009.

<sup>34</sup> Ashai Shimbun Online, Tokyo, in English, 25 September 2009, FBIS SOV, 25 September 2009.

break the deadlock.<sup>35</sup> Similarly Medvedev called on Hatoyama to “avoid extreme positions,” i.e., demanding all four islands back.<sup>36</sup>

But Japan’s government turned out to be equally adamant in its approach toward Russia. Seiji Maehara, the Minister for Okinawa and the Northern Territories (Japan’s name for the islands) said on October 17, 2009 that Russia’s occupation of those islands was illegal and Japan should keep saying so and demand all four islands’ return to Japan.<sup>37</sup> These entrenched positions led to a stalemate by early 2010.

The December 2009 talks between Ministers of Foreign Affairs did not resolve the situation despite Russian talk of unconventional solutions. Indeed, Japanese Foreign Minister Katsuya Okada expressed Japanese distrust of Russia, saying that without a territorial settlement, partnership is fictive.<sup>38</sup> Accordingly Russia will encounter obstacles in developing a Japanese option as an alternative to its increasing dependence upon China.

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<sup>35</sup> Moscow, ITAR-TASS, in English, 17 September 2009, FBIS SOV, 17 September 2009.

<sup>36</sup> Interfax, Moscow, in Russian, 15 September 2009.

<sup>37</sup> Kyodo World Service, Tokyo, in English, 17 October 2009, FBIS SOV, 17 October 2009; Tokyo, Kyodo World Service, in English, 19 October 2009, FBIS SOV, 19 October 2009; Tokyo, Kyodo World Service, in English, 20 October 2009, FBIS SOV, 20 October 2009.

<sup>38</sup> Interfax-AVN Online, Moscow, 25 December 2009, FBIS SOV, 25 December 2009.

# The Korean Peninsula as another option

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## *Energy Issues*

For Russia, 2009 was a difficult year as regards Korea. Russia has primarily sought to ensure its inclusion in the six-party talks on North Korean nuclear proliferation with both Korean states, the US, China and Japan and to establish itself as a reliable partner for both Koreas. It also has repeatedly expressed interest in a concert of great powers in Asia.<sup>39</sup> Moscow intends to supply both Koreas with energy, this will ensure its place in the settlement, and unite them with Russia in an enduring economic-political association. Once the six-party agreement took shape in February 2007, ITAR-TASS reported comments by a foreign policy expert that Russia could create the conditions needed to implement “a series of major multilateral projects with the participation of both North Korea and Russia,” including oil and gas transit, electricity transfers, and the so-called TKR-TSR project connecting a Trans-Korean railway with Russia’s Trans-Siberian railway, the centerpiece of Russian transport policy for Asia.<sup>40</sup> Significantly this source saw these projects as benefiting not just Moscow and Pyongyang, but also Seoul.<sup>41</sup>

Both the Republic of Korea (ROK) and Russia also eagerly wish to consummate a Russian gas pipeline through both Koreas, complete with a petrochemical industrial park and an LNG plant. Construction should begin in 2010 to be completed in 2015. It would ship 7.5 million tons of gas (measured in LNG) annually for 30 years, 20 percent of the ROK’s annual natural gas imports.<sup>42</sup> The cost of this Natural Gas Pipeline (NGP) project is enormous. If it succeeds, this will be a super-size economic cooperation project worth over 100 billion US dollars, covering the purchasing price of natural gas (90 billion US dollars), construction costs for the petrochemical

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<sup>39</sup> B. Lo, *Axis of Convenience: Moscow, Beijing, and the New Geopolitics*, Washington DC, Brookings Institution Press, 2008, p. 123-125.

<sup>40</sup> Moscow, *ITAR-TASS*, in Russian, 13 February 2007, FBIS SOV, 13 February 2007.

<sup>41</sup> *Ibid.*

<sup>42</sup> J-N. Ko, “Review of Korea-Russia Summit Talks and Future Prospects,” *Korea and World Affairs*, Vol. XXXII, No. 4, Winter 2008, p. 442.

industrial park (9 billion US dollars), and for the NGP through North Korea (3 billion US dollars) and is typical of the energy development projects promoted by the Lee-Myung Bak government.<sup>43</sup>

The opportunity to provide both Koreas with reliable energy supplies is essential if Russia is to be a meaningful presence in the Korean peninsula and Northeast Asia's regional security order. Indeed, energy might be the only way Russia can play a major role in any Korean peace process; although even that might not suffice. Foreign diplomats have privately ridiculed Russia's contribution to the process as being "more nuisance than value," demonstrating its low standing in Asia and on the Korea problem.<sup>44</sup> In 2007-08 there was even speculation that Russia is wearying of the Six-Party talks due both to North Korea's obstreperous behavior but also because bilateral talks between the US and North Korea had sidelined it and Japan relegating them to a lower status in the talks.<sup>45</sup> In the Russo-Japanese foreign ministers talks in December 2009, Foreign Minister Lavrov dismissed such talk. Lavrov's raising this issue gratuitously only to deny it suggests Moscow's real concern.<sup>46</sup>

## **Territorial Issues**

Consequently the collapse of the six-party process is a major loss for Russia. It delays and minimizes Russia's chances to be a serious factor in the Korean security equation. Not surprisingly it has consistently counseled moderation towards North Korea. Even though Medvedev considers North Korea a greater threat than Iran, Russia has been very cautious about sanctions and has steadfastly argued for resuming the six-party talks despite North Korea's provocative nuclear and missile tests. Moscow has steadily argued against military action, hinted that sanctions might be lifted if the Democratic People's Republic of Korea (DPRK) rejoined the talks, suggested that the International Atomic Energy Agency (IAEA) become involved with this issue, and proclaimed its willingness to

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<sup>43</sup> *Ibid.*

<sup>44</sup> B. Lo, *op. cit.* [39], p. 240.

<sup>45</sup> J. Ferguson, "U.S.-Russia Relations: Weathering the Storm," *Comparative Connections*, April 2008.

<sup>46</sup> *Stenogramma vystupleniya i otvetov ministra inostrannykh del Rossii S.V. Lavrova na voprosy SMI v khode sovmestsnoy press-konferentsii po itogam peregovorov s ministrom inostrannykh del Yaponii K. Okadoy*, [Stenogram of the Speech and Answers of S.V. Lavrov, Minister of Foreign Affairs of the Russian Federation to the Questions of SMEs in the course of a Press Conference on the Results of the Negotiations with the Foreign Minister of Japan K. Okada], Moscow, 28 December 2009, <[www.mid.ru/brp\\_4.nsf/0/A4B0E5CBD7934B02C325769A004DD828](http://www.mid.ru/brp_4.nsf/0/A4B0E5CBD7934B02C325769A004DD828)>.



provide economic assistance.<sup>47</sup> But Washington and Beijing, not Moscow will decide the issue of the talks for Pyongyang, signifying Russia's limited power to influence events here.

The breakdown of those talks also nullifies the discussions that Moscow sponsored about creating a multilateral security mechanism for Northeast Asia as part of the 2007 agreements. Absent that mechanism, Moscow finds it harder to play a role in Northeast Asia as an independent, competitive actor. Nonetheless, Moscow keeps devising formulas for regional conflict resolution because it now displays anxiety about the future security equation. Deputy Foreign Minister Alexei Borodavkin, Moscow's representative to the six-party talks, announced that Russia's discussions with the other five parties led it to formulate a draft on "Guiding Principles for Peace and Security in Northeast Asia." Borodavkin admitted that existing conflicts in Korea and Afghanistan worsened in 2009. Consequently, "We proceed from the assumption that one of the most important prerequisites and components of the denuclearization process is the formation of regional common security institutions which would be based on the principle of equal security to all parties."<sup>48</sup> Such calls underscore Moscow's unequal status here.

Borodavkin further emphasized Russia's genuine alarm about Korea by stating that the aggravation of Asian conflicts, together with the global economic crisis has created a situation where, "peace and security in the region is a priority task because we believe that neither nuclear deterrence nor military deterrence may ensure security in this sub-region and in the entire world."<sup>49</sup> Indeed, Moscow even deployed its new S-400 SAM to the RFE from fears that North Korea might launch more missiles that either go awry or worse, provoke a major conflict in Northeast Asia.<sup>50</sup> According to Borodavkin this danger means Russia must participate more actively in the region, and its activity has become more substantive, focusing on economic integration.<sup>51</sup>

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<sup>47</sup> J. Kee Baik, "Medvedev's Russia, a 'Revisionist Power' or an 'Architect of a New World Order'? The Evolution of Ideational Factors and Its Cases," *Korean Journal of Defense Analysis*, Vol. XXI, No. 4, December 2009, p. 477-481; Moscow, *Interfax-AVN Online*, in English, 17 December 2009, FBIS SOV, 17 December 2009; CEP20091223950097, Beijing, *Xinhua*, in English, 23 December 0837 GMT 2009, FBIS SOV, 23 December 2009; Interfax, Moscow, in English, 11 December 2009, FBIS SOV, 11 December 2009; Moscow, ITAR-TASS, in Russian, 23 December 2009, FBIS SOV, 23 December 2009.

<sup>48</sup> ITAR-TASS, Moscow, in English, 18 December 2009, FBIS SOV, 18 December 2009.

<sup>49</sup> CEP20091223950184, ITAR-TASS, Moscow, in English, 23 December 2009, 1325 GMT, FBIS SOV, 23 December 2009.

<sup>50</sup> "Russia Deploys S-400 Air Defense Systems in Far East" RIA Novosti, 26 August 2009, <[http://en.rian.ru/military\\_news/20090826/155930246.html](http://en.rian.ru/military_news/20090826/155930246.html)>.

<sup>51</sup> CEP20091223950194, ITAR-TASS, Moscow, in English, 1339 GMT, 23 December 2009, FBIS SOV, 23 December 2009.

Finally the breakdown of talks also inhibits Moscow from contending with the US, China, and South Korea for economic access to—and thus influence upon—North Korea. All these states, despite the gyrations concerning the six-power talks, are investing in or transferring substantial amounts of money to North Korea with the clear expectation of obtaining influence in the future.<sup>52</sup>

Although Russia clearly wants to supply energy to both Koreas, it also had to concede that Japan, China, and/or South Korea could join with it in providing nuclear power to North Korea.<sup>53</sup> Similarly, at various times South Korea has both offered and delivered energy to North Korea. It remains unclear if these earlier offers of energy deliveries involve the ROK shipping Russian gas or gas from elsewhere.<sup>54</sup> There also is abundant talk that China and/or America might follow suit and give more energy to North Korea.<sup>55</sup> Meanwhile China remains the DPRK's largest supplier. These moves demonstrate the conscious rivalry among the parties to be the DPRK's main energy provider and trade partner even as they work out the modalities of doing so. Indeed, Russia's political motives of finding a partner in Asia besides China and of ensuring Russia's prominence in a Korean settlement are not far from the surface here. Thus, if Moscow's energy project to supply both Koreas goes through, Korea's gas pipe will be connected to the Eastern Gas Supply system (UGSS) that Russia operates. This not only means that Korea will gain an advantage in future competition over East Siberian energy resources, but also that Korean companies will have the upper hand in development projects in the RFE and Siberia.<sup>56</sup>

This is an enticing vision, but Russia's energy companies cannot afford it. It is difficult to see who will pay for this pipeline and infrastructure, since the pipeline gives an advantage in the rivalry to influence North Korea, nobody will want to benefit Russia more than necessary. So this grandiose decade-long vision may continue to languish for several years, leading to the failure of Russia's main economic-political objective in Korea. Indeed, Russia has long since admitted that someone has to pay it for it to be able to supply energy to North Korea.<sup>57</sup> Moreover, North Korea has, obstructed this and every other initiative by its insistence upon testing nuclear missiles, as in April 2009. Today neither Seoul nor Moscow can meet these objectives and it is unclear who will pay with his own money for Russia's objectives.

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<sup>52</sup> This is the subject of a future article by the author.

<sup>53</sup> *Interfax*, Moscow, in English, 10 April 2007, FBIS SOV, 10 April 2007.

<sup>54</sup> *Yonhap*, Seoul, in English, 31 March 2003, FBIS SOV, 31 March 2003; A. Ward, "Deal for Gas Pipeline Could Solve Korean Nuclear Crisis," *Financial Times*, 31 March 2003; and more recently *Hankoyreh*, *Internet Version*, Seoul, in English, 17 April 2007, FBIS SOV, 17 April 2007.

<sup>55</sup> *Yonhap*, Seoul, in English, 15 April 2007, FBIS SOV, 15 April 2007.

<sup>56</sup> J-N. Ko, *op. cit.* [42], p. 442.

<sup>57</sup> S.S. Kim, *The Two Koreas and the Great Powers*, Cambridge, Cambridge University Press, 2006, p. 149.

Sakhalin-2 is also important for South Korea as it too will receive LNG that will be much cheaper and more reliable than Middle Eastern gas. Second, when the gas from Sakhalin-2 is added to other gas pipeline projects under Russo-South Korean discussion the total size of South Korea's imports could become quite substantial, a major benefit from its and Russia's perspective.<sup>58</sup> Indeed, Seoul, building upon deals signed with Russia in 2008, is clearly angling for a pipeline connection from Siberia to its territory. Samsung pursues cooperation with Gazprom in the latter's projects on the Yamal peninsula and the Shtokman field in Northern Russia and Russia offered Samsung technologies in the projects even though most analysts believe those fields are earmarked for Europe.<sup>59</sup> Seoul is also, interested in importing oil through the ESPO.<sup>60</sup> So Gazprom and Kogas, South Korea's national gas company are continuing discussions based upon agreements from 2008.<sup>61</sup> Hyundai is looking to participate in building energy infrastructure from the RFE to South Korea and has signed a memorandum of understanding with a Russian private equity firm, Industrial Investors to participate with it in energy development and infrastructure, shipping and logistics projects.<sup>62</sup> Obviously even major success with South Korea (and that is hardly proven on the basis of this record) cannot overcome the dependence upon China and the failure to come to terms with Japan.

Failure to play a major role in the Korean peninsula's future economic and political direction severely diminishes Russian hopes for a lasting position in Asia. Some observers argue that if Russia cannot play such a role in Northeast Asia, its proposals for a multilateral regional order will also fall by the wayside.<sup>63</sup>

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<sup>58</sup> *Yonhap*, Seoul, in English, 18 February 2009, FBIS SOV, 18 February 2009.

<sup>59</sup> Interfax, Moscow, in English, 19 February 2009, FBIS SOV, 19 February 2009; Interfax, Moscow, in English, 20 February 2009, FBIS SOV, 20 February 2009; Interfax, Moscow, in English, 11 September 2008, FBIS SOV, 22 September 2008; S. Blank, "Recent Trends in Russian-South Korean Economic Relations," *Northeast Asia Energy Focus*, Vol. V, No. 4, Winter 2008, p. 12-16.

<sup>60</sup> "South Korea Eyes Grater Pipeline Opportunities with Russia," *Pipeline & Gas Journal*, December 2008, p. 18.

<sup>61</sup> Moscow, in English, 17 November 2008, FBIS SOV, 17 November 2008.

<sup>62</sup> Kim-Yoon-mi, "Hyundai to Tap Energy, Shipping Business in Russia," *Korea Herald* Internet Version, in English, 11 November 2008, FBIS SOV, 11 November 2008.

<sup>63</sup> K. Choi, "Six-Party Talks and Multilateral Security Cooperation," The 15<sup>th</sup> IFANS-IMEMO Conference on the Current Situation in Northeast Asia and Russian-Korean Relations, Seoul: Institute of Foreign Relations and National Security, 2005, p. 12.

## Conclusion

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Moscow's failure to realize successful economic cooperation with Japan or meaningfully advance its interests regarding North Korea leaves it with no choice but to emphasize China as its primary partner. Consequently it is becoming increasingly dependent upon China.<sup>64</sup> The fact that Russia must coordinate so much with China on Korea, the RFE, and even Central Asia attests to its continuing inability to play the role of a great power. This validates the argument that Moscow's failure to develop its Asian capabilities has opened the door to a new Chinese-led security order in Asia, including the RFE. Although Russia has extraordinarily ambitious objectives for developing a unified Far Eastern energy system comprising, oil, gas, electricity and nuclear power; it also knows that can only reach fruition through large-scale cooperation with other neighboring states.<sup>65</sup> However, it is failing to obtain that cooperation to the degree that it needs to counterbalance China and therefore must turn to China which is becoming dominant in the RFE. This policy failure is the direct outcome of previous economic and foreign policy decisions that hinder Russia's ability to develop the RFE and integrate with Northeast Asia.

In May 2009, President Medvedev admitted that unless China invested in large-scale projects in the RFE, Moscow could not realize its grandiose development plans. Medvedev frankly acknowledged that the RFE's economic development depends not on Russia's ties to Europe but rather on the development of its ties with Russia's main Asia-Pacific partners. Therefore the RFE's regional development strategy must be coordinated with China's regional strategy of rejuvenating its old industrial base in Heilongjiang province.<sup>66</sup> Since Medvedev's announcement, further developments have confirmed that Russia's development plan for the RFE failed to provide for self-

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<sup>64</sup> B. Lo, *op. cit.* [39], passim; A. Tsygankov, *What Is China to Us? Westernizers and Sinophiles in Russian Foreign Policy*, *Russie.Nei.Visions*, No. 45, December 2009.

<sup>65</sup> A.N. Gulkov, "Basic Concepts of Cooperation in North-East Asia in the Oil and Gas Sector for the Period 2010-2030," *Northeast Asia Energy Focus*, Vol. VII, No. 1, Spring 2010, p. 10-15; V. Kulagin, "The East as the New Priority of the Russian Energy Policy," *Northeast Asia Energy Focus*, Vol. VII, No. 1, Spring 2010, p. 36-43.

<sup>66</sup> "Russian President Urges Coordination with China on Regional Development," *People's Daily Online*, 21 May 2009; "Medvedev: Russia Should Interest China In Investing in Far East," *People's Daily Online*, 21 May 2009; "Excerpts From Transcript of Meeting With Students From Pacific National University, Khabarovsk," <[www.kremlin.ru](http://www.kremlin.ru)>, 21 May 2009.

sufficient development and therefore is being increasingly tightly bound to China's regional developmental strategy. First of all, the verdict of the last two decades is clear.

The rapidity of China's economic growth—and the challenge it poses to Russia—is evident from the following World Bank data: while the Russian and Chinese economies were roughly the same size in 1993, China's was over three times larger than Russia's in 2008. Moreover, even since 1998, when Russia began a rapid economic recovery, China has grown at a faster rate. The current economic crisis is only widening the gap, as China's economy continues to grow and Russia's falters. Finally the quality of China's growth has been superior, leading to the creation of new production capacity, whereas Russia's recovery has been based largely on reutilizing Soviet-era capacity that had been idled during the economic crisis of the 1990s.<sup>67</sup>

The growth of Chinese power in Northeast Asia has serious consequences for Russia and not only via China's rising influence over developments in the RFE. It is not just a question of the failure of Russia to develop the RFE but also failures in its Korea and Japan policy, e.g. the failure to prevent North Korea from going nuclear. A nuclear North Korea remains dangerous in Northeast Asia, freezes the region into blocs and forces Russia to extensively remilitarize its positions there when it can hardly afford to do so. Although Russia knows that ultimately it depends on the maintenance of a balance between the US alliance system and China, in such a case it would lose its freedom of maneuver and have to lean to one side, i.e. to China. Then it would become China's junior partner even as Moscow tried to compete unsuccessfully with Beijing for influence over Pyongyang. China's greater ability to influence North Korea by economic means not only blocks plans for developing the Russian Far East, it also deters Japan and South Korea from investing in Russia that would necessarily be less than responsive to their security dilemmas. In turn their avoidance of investment in Russia leads to Russia's even greater dependence upon China to develop the Russian Far East. In effect that development consigns Russia to being China's "junior partner," exactly the position it seeks to avoid.<sup>68</sup>

In light of the looming crisis of North Korea's nuclearization Russia's failure to implement a viable development policy involving South Korea and Japan in the RFE thus "overdetermines" the primacy of China with regard to influence over Pyongyang and in the RFE. As long as Russo-Japanese normalization is blocked and as long as the Korea issue retains its saliency, China is the only power

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<sup>67</sup> T. Graham, "The Sources of Russia's Insecurity," *Survival*, Vol. LII, No. 1, 2010, p. 63.

<sup>68</sup> G. Rozman, "Russian Repositioning in Northeast Asia: Putin's Impact and Current Prospects," Paper Presented to the Conference on Contemporary Issues In International Security, Russian, European, and American Views, Washington DC, 25-26 January 2010.

that gains while Russia loses both the capacity and means to influence developments in Asia. Development of the RFE then becomes not just the precondition for an effective assertion of Russian power in Asia but also an essential precondition for the assertion of an equal balance of power in Northeast Asia. Without that development not only is Russia deprived of the means to assert itself fully, but that balance is also impossible. It is beyond the capability of both Tokyo and Seoul, even if they acted together, to restore it.