

Conference Report

Developing Asia Pacific's Last Frontier:

Fostering International Cooperation in the

Development of Russia's Siberia and Far East

December, 2013



Introduction

This conference is part of a multi-year project organized by a consortium of six leading think tanks and research institutions from Japan, China, Republic of Korea, Norway, Russia, and Singapore. The aim of this project is to address the various dimensions related to Russia's eastern development including geopolitics, developmental bottlenecks, maritime development, energy security and the environment. In partnership with the consortium institutions and the *Valdai International Discussion Club*, this inaugural conference was held at the *Lee Kuan Yew School of Public Policy*, Singapore, on December 16-18, 2013.

Conference Highlights

- *Discussion on the economic and security dimensions of Russia's "Asian Strategy"*
- *Views on the role of multilateral international institutions*
- *Discussion on the institutional and developmental bottlenecks of Russia's eastern region*
- *The "Asian demands" for Russia as viewed from the perspectives of China, Japan, Korea, ASEAN countries, and Australia*
- *Potential for multilateral international cooperation in the development of Russia's eastern region from the views of Korea, Japan, Norway, Russia, China, and Singapore*
- *Views on areas of development such as energy and environment, infrastructure, food security, and the Northern Sea Route*

Conference Introduction

With its rich natural resources, rising geopolitical importance, and untouched beauty, what was once considered as the “hinterland” of Russia is now considered as its “last frontier” toward the Asia-Pacific. Leading this new conception is Moscow’s newly adopted “go-east” strategy aimed at developing Russia’s Siberia and Far East through deeper engagement with interests in the Asia-Pacific.

As the arctic ice continues to melt, the High North sea route also bears new meanings to the “North Strategy” of Norway and other countries in the Arctic Circle. The melting would enable a new route linking Europe with the Asia-Pacific across the vast seas north of Russia. The geopolitical and developmental question to Russia is, therefore, how to combine the development of Russia’s Siberia and Far East with the opportunities offered by Asia’s economic and political rise through multilateral cooperation.

The kind of developmental model that is needed, as fittingly described in the *Valdai Discussion Club* report, amounts to nothing less than a “new globalization of Russia.”¹ Hence, this inaugural conference explores the essential questions: **how to promote multilateral cooperation on Russia’s eastern development? What strengths can Russia draw from its Asian partners to make its development a success?** Leading experts from 12 countries gathered from 16th to 18th of December 2013, at the *Lee Kuan Yew School of Public Policy* in Singapore to start asking and seeking answers to these questions. The perspectives of major players such as China, Japan, Korea, Singapore, Norway, Russia, United States, Australia, and India were presented. Areas of cooperation such as energy, capital, labour, market and technical know-how were discussed.

¹ Karaganov, Sergei, Barabanov, Oleg, and Bordachev, Timofei. (2012) *Toward the Great Ocean, Or the New Globalization of Russia*. Moscow: Valdai Discussion Club.

Panel 1:

Developing Russia’s Siberia and Far East: Assessment of the Last Five Years

Chair

Sergei KARAGANOV (Russia), Dean, School of World Economics and World Politics at the National Research University–Higher School of Economics; Council on Foreign and Defense Policy

Speakers

Victor LARIN (Russia), Director, Institute of History, Archeology, and Ethnology of the Peoples of the Far East, Russian Academy of Sciences

YANG Cheng (China), Associate Professor, School of Advanced International and Area Studies, East China Normal University

Arne MELCHIOR (Norway), Senior Research Fellow, Norwegian Institute of International Affairs

Commentator

Jing HUANG (SINGAPORE), Director, Centre on Asia and Globalisation, Lee Kuan Yew School of Public Policy

Panel Summary:

In the opening remarks, consortium co-chairs **Jing Huang** (Singapore) and **Sergei Karaganov** (Russia) mentioned that domestic factors remain to be one of the major obstacles to Russia’s “comprehensive” strategy of modernizing Siberia and the Far East regions. While the mood in Russia has been changing given President Putin’s campaign on the matter, a strong euro-centrism still predominates in public consciousness.

The first speaker, **Victor Larin** (Russia), observed that Russia’s earlier developmental strategies toward its “Asian parts” of the territory did not work out as expected because the dominant mentality had been

relying on the old model of military strategy of resource extraction to aid its development in western cities. Such model did not provide sustainable economic development of Russia's Siberia and the Far East. In his review on Russia's model of development since the 1990s, he observed two countervailing tendencies. On one hand, there was a general recession of Russia's eastern regions both economically and demographically. On the other, there was a strong emergence of economic interests toward East Asia. Such interests were pursued through measures of "strategic operations." As a result, Russia's trade with APEC countries increased from 17% in 2007 to 24% in 2012. The Russian Far East (RFE) foreign trade increased 1.8 times. Oil and gas pipelines to pacific coast countries have been built, are being built, and are under planning. Federal and state corporation's "programs for development" for RFE and Baikal region have appeared. However, despite this progress, these developments were still more or less "symbolic" and still a far reach to President Putin's claim on the modernization of Siberia and RFE as a national priority for the 21st century. Reflecting the past "three stages of development" since the 1990s, he proposed that a "forth step" is needed. This step now requires developments in three key areas which he called the "Three M":

- *Money - a realistic estimate of the investment needed for development projects;*
- *Management - meeting the developmental goals that were previous set;*
- *Mentality – the need for change: the strong European orientation of Russia political, economic and academican elites and lack of consensus on issues of national and human values and priorities.*

Yang Cheng (China) examined the "Program of Cooperation between China's Northeast and Russia's Far East and Eastern Siberia" initiated by the two governments in 2009. Thus far, as he assessed, this program showed limited progress. From China's point

of view, the hope behind the "Program" was to form an international market in the border regions to take advantage of international resources through the strategic partnership of China's Northeast provinces and Russia's Far East and Eastern Siberia. However, the actual implementation so far did not advance the cross-border trade pattern originated in 1990s, as two of the four northeast provinces (Jilin and Liaoning) continued to have greater trade activities with Japan and South Korea. Reports on the "Program" from the four Northeast provinces in China showed stagnation from Russia's side. While ports and infrastructure has been upgraded by the Chinese, the same progress has not been made by the Russians. Construction of Science Park and high-tech cooperation zones also seemed to show little progress from the Russian side. Other obstacles to progress on the "Program" include managerial problems such as frequent change of officials in charge of Far East development, Chinese local government's underperformance in the midst of loud advertisement, shortage of funding, and the concern that further development would turn Russia into the "resource base" of China, despite it being endorsed by Russia's top leaderships. A possible solution to address such concern, proposed by Yang Cheng, was to enlarge the project to promote cross-regional cooperation to include the non-border regions of Yangzi River of China and Volga River Federal District of Russia. This was already proposed at a meeting between Li Keqiang, the then vice-premier of China and Babich, the president of Russia in Volga River Federal District in April 2012. With more regions being included, wider economic strengths and resource pooling could be leveraged for both countries to initiate new projects with competitive advantages on the world market. Politically, adding non-border regions into the framework of the existing cooperation may also help to allay the sense of "fear of China" from Russia.

Arne Melchior (Norway) showcased his analyses on the trade flows of Russia and Commonwealth of Independent States (CIS) in the context of a rising Asia. The major finding was that extra-regional or international trade is more important than trade

within CIS countries and Russia. Recent trade data (2000-2012) showed a dramatic increase (16%) of imports of machinery and transport equipment from Asia-16 region (ASEAN+6) to CIS and Russia from 2000 to 2012.² Meanwhile, Eurasian trade integration has been *de facto* falling. As for the RFE and parts of Siberia, the result of the presenter's simulation of a world trade model showed a prediction of lowest share of domestic inter-regional trade for Russia compared with India, USA, and China. Further breakdown by Russia's Federal Districts showed that the Far Eastern, Siberian and Southern Federal Districts were most internationally oriented with lower share for domestic and intra-national markets. This implied that for RFE and parts of Siberia, integration with Asia would be an important part of the appropriate policy mix.

Discussant **Jing Huang** (Singapore) highlighted the development of the RFE and Siberia as a potential "game changer" because of its rich natural resources and geopolitical importance. Development in the region would not only help Russia to become a modern power, but also reshape the landscape of economy and security in the region. Four bottlenecks demand solution as this conference had only begun to address: capital, labor, market and technology. Only through multilateral cooperation could these four bottlenecks be overcome. Inevitably, economic development in the region can also help to integrate Russia into the international order. Realizing the full importance of the strategy, the Russian government has set up the *Ministry for the Development of the Russian Far East*. However, necessary cooperation between local governments and Moscow has not been fully set up. Moreover, there has not been a comprehensive policy with regard to foreign investment and immigration. With all these challenges, much is to be done in terms of policy such as tax deduction and other investment policies, infrastructure and pipeline projects. Only Russia could fulfil these responsibilities. Geopolitically, two

² Asia-16 is ASEAN+6, i.e. Indonesia, Malaysia, Philippines, Singapore, Thailand, Brunei, Myanmar, Cambodia, Laos, Vietnam, China, Japan, Korea, India, Australia, New Zealand.

important regional issues also surround the development: the North Korea issue and the impact of the Arctic routes.

Summary of Discussion:

Regarding the geopolitical dimension of Russia's Asian strategy, **Sergei Karaganov** (Russia) started the discussion by sharing his opinion that the development of Siberia and the RFE should be contained in a "comprehensive" eastern strategy. Locating Russia's Asian strategy within its larger geopolitical context, **Bobo Lo** (UK) asked whether or not Moscow's strategies so far could be perceived more as "tactical responses" toward the major powers. For example, on the Asia-Pacific front, Russia's initiatives at the APEC summit at Vladivostok could be perceived as a symbolic movement to assert geopolitical agency in the Asia-Pacific where China and the USA have been the main contenders, while Russia's geopolitical strategy of a Eurasian project (the Custom Union and Eurasian Union) has also been seen as a top priority vis-à-vis pressure from Western Europe and China's economic reach to Central Asia. In this case, to what extent, he wondered, is Russia's strategy in Asia really a strategy toward a "rising China" rather than the Asia-Pacific as a whole region? Also regarding the role of China, **Gilbert Rozman** (USA) questioned the extent to which it is China that seek a change in the balance in the region and of which the development of RFE shows not Moscow's desire but China's. However, several participants from Russia and elsewhere quickly responded that this hypothesis lacked empirical support as there has been virtually no investment and labour export from China in the development of Siberia and Far East, let alone an intention to change the balance in the region. **Timofey Bordachev** (Russia) rejected the view that Russia cannot go to Asia because of geopolitical games with other global players. Russia cannot make a choice here because Russia is a nuclear superpower to which it has a role to play.

Lee Jae-Young (Korea) asked what China's view would be, if South Korea joined the Russian-led Eurasian Union that is currently expanding. **Yang Cheng** (China) argued that it would be unlikely that Russia would accept South Korea or any other non-CIS countries in the Eurasian Union in the short-term or with full membership. Furthermore, as many Eurasian initiatives have appeared, including Russia, China, Korea, and Turkey, he wondered if a larger and more inclusive Eurasian framework could be discussed to contain all of these initiatives spanning from Western Europe to East Asia. China, for example, has proposed the idea of a Silk Road economic belt. Finally, he echoed concern on the possibility of further slowing down of the Russian economy and its implication to major projects such as the development of Siberia and the RFE.

With regard to Russia's relationship with ASEAN, **Kavi Chongkittavorn** (Thailand) voiced his view that Russia has missed several opportunities to play a balancing role between the United States and China at the East Asian Summit. In terms of engaging ASEAN in the development of Siberia and the RFE, he suggested that one of the best ways is to attract small and medium enterprise projects.

Timothy Colton (USA) and **Donald Hellmann** (USA) also commented on the geopolitical implication of Russia's Asian strategy but each focused on the limit of Russia's domestic economic dynamic on its geopolitics and the role of multilateral cooperation to promote growth. Given Russia's current scenario of limited budgets and low growth rate, Timothy Colton proposed a further discussion over establishing a mechanism to which economic growth can be promoted in the eastern regions where the issue of trade and investment can be addressed collectively. On this question, **Indra Overland** (Norway) brought in the dimension of international oil price. If the oil price falls, the logical consequence is that Russia's oil projects in the Far East would also drop out of profitability and investments would cease to continue. **Donald Hellmann** (USA) stated that multilateral cooperation and institutional framework ought to promote common interests, long-term economic and

geopolitical solutions that transcend dividing and short-term perturbations. Regarding the role of regional institution surrounding the development of Siberia and the RFE, Japanese ambassador **Yukio Satoh** (Japan) further suggested three conditions of its formation: it should be driven by Russia; function-oriented toward socio-economic development of the region; and the coordination and facilitation of Russia's bilateral relations with Asian-Pacific countries.

Oleg Barabanov (Russia) furthered the economic dimension of the discussion. He posed question to Victor Larin about impressions of the activity of the *Ministry for the Development of the RFE* after its establishment a year and half ago. **Victor Larin** (Russia) responded that the Ministry had no money or power and the new administration would hardly result in any change unless Moscow realizes the risk of losing an overall strategy towards the east. **Alexander Gabuev** (Russia) also expressed a sense of scepticism about the functioning and policy reasoning of the new Ministry. This included the hosting of the *APEC Summit* in Vladivostok. He pointed out that the competitive advantage of Russia's Siberia and Far East would not be realized through becoming an exporter of Hi-Tech goods to which South Korea, Japan and China were already leading players. Instead, it should play the role of Australia or Canada — to be "efficient resource suppliers." Responding to Gabuev's comment, **Victor Larin** (Russia) rejected the simplistic view that the hosting of *APEC Summit* in Vladivostok was a "foolish" project as implied by Gabuev. He argued that while the immediate economic consequences of the *APEC Summit* were limited, it accomplished the goal of attracting international attention. That said, Victor Larin pessimistically predicted that by 2015, Russia will stop its Asia-Pacific policies, given greater attention and security risks perceived by the administration regarding its Eurasia front. However, it will be wrong and even dangerous, in his view, if the administration were to ignore developing the RFE. Finally, regarding the "common misperception" about the lack of human resource in RFE, Victor Larin contended that the issue really depends on what type of industry is

to be developed there. The generalization that there are only natural resources but not high quality people in RFE amounts to the “traditional Moscow-led colonial approach to the region” that must be steered away from.

With reference to Arne Melchior’s presentation, **Igor Makarov** (Russia) wondered if his model predicting low level of intra-regional trade in Russia sufficiently accounts for Russia’s case. Many of the companies that trade oil and gas with international buyers are registered in Moscow, while the source of traded goods originates in Siberia. As a result, the statistics could be misleadingly including intra-regional trade flow (e.g. Siberia to Moscow) as international trade flow (e.g. Moscow-to-exporting destination). This might produce inaccurate results of higher level of international trade and lower level of intra-regional trade. He wondered if and how this problem could be addressed. **Arne Melchior** (Norway) acknowledged the limitation of data, hence the reliance on simulation instead. He also pointed out that the trend of globalization would drive Russia into shifting further from a national production system to an international network of production. As a *de facto* integrated region economically, Asia is more distinctive in its heavier trade in production inputs such as capital goods and intermediate goods instead of consumer goods. For Russia, taking advantage of an economic integration with Asia would mean finding a place in its global value chain. To diversify and strengthen service sectors situated in this value chain would be one major task.

Mark Zavadskiy (Russia), a Russian journalist and writer based in Hong Kong, called attention to the role of culture in Russia’s integration with Asia. He mentioned the annual music festival in Vladivostok held in August includes a mix of Russian and Asian bands.

Panel 2:

Challenges of Development or Underdevelopment of Siberia and Far East

from Geostrategic and International Perspective

Chair

Jing HUANG (SINGAPORE), Director, Centre on Asia and Globalisation, Lee Kuan Yew School of Public Policy, National University of Singapore

Speakers

Evgeny KANAEV (Russia), Professor, Department of International Affairs, National Research University Higher School of Economics

YU Nanping (China), Professor, School of Advanced International and Area Studies, East China Normal University

Yukio SATOH (Japan), Vice Chairman, Japan Institute of International Affairs

Paul DIBB (Australia), Emeritus Professor, Strategic Studies, Australian National University

Commentator

KIM Seok Hwan (KOREA), Professor, Hankuk University of Foreign Studies

Panel Summary:

Evgeny Kanaev (Russia) observed a steady and accelerating trend on “Asia’s demand for Russia.” He categorized three sets of Asian demands from Russia:

- Promoting connectivity; which was a priority of APEC under Indonesian chairmanship. This corresponds to a proposal on “Eurasia-Pacific Connectivity Initiative” that emphasizes on infrastructure building;
- Strengthening of Asia-Pacific’s food security as a priority of Russia’s APEC chairmanship, given that in many countries the population is growing while arable lands and possibilities to cultivate them are reducing;

- Russia has the possibilities and institutional mechanisms to influence regional security challenges. For instance, Russia could chair the Northeast Asian peace and Security Mechanism, a working group established by the participants of the Six-Party Talks.

However, in meeting these demands, Russia needs to respond adequately. One of the key challenges preventing more Russian contribution is that the borders it shares with a thriving and dynamic Asia-Pacific are economically underdeveloped. Effective cargo delivery from Europe to East Asia is hampered by inefficient transport infrastructure. In spite of solemn declarations and statements made for many years, the Far Eastern Federal District (FEFD) still lags far behind in terms of industrial and social infrastructure development. The poor level of economic development makes it difficult for Russia to increase its contribution to Asia-Pacific food security. A highly developed Siberia and the RFE can meet these demands and reduce the “asymmetry” between Russia and its Pacific neighbours. If Asia-Pacific economic processes continue to occur without leveraging Russia’s development of Siberia and the RFE, consequences will affect all. If Russia misses the opportunity to further its own socio-economic progress, it will not only undermine Russia’s position in Asia-Pacific, it would also reduce the chance for a truly polycentric regional and global order.

YU Nanping (China) mentioned that historically, the strategic value of a region is based on its economic success. Since the end of 2008 financial crisis, the Asia Pacific economy remains to be one of the fastest growing in the world. In this light, the US changed its strategy to rebalance to Asia, making the need to share the latter’s economic growth in Asia-Pacific region as one of its national interests. As an emerging power, China is realising the importance of engaging with neighbours. The region possesses a complex structure of trade, within which the Trans-Pacific Partnership (TPP) is believed to bear the largest potential and influence on the traditional trade structure. Russia does not have a prominent Asia-Pacific strategy. Its export to Asia peaked in 2008 and

2011 respectively. As China and the US establish their presence in the region, the likelihood of having to “choose sides” by the Asia-Pacific is inevitable. In this case, Russia faces severe challenges. Russia needs to develop a pragmatic Asia Pacific strategy. A viable option is to cooperate with China closely and to collaborate in order to create mutual interests.

Yukio Satoh (Japan) advised Russia to develop an overall “economy-led” Asian-Pacific diplomacy with regard to its development of Eastern Siberia and the RFE. He noted that the socio-economic development of Eastern Siberia and the Far East is critically important for the future of Russia economically as well as in terms of the country’s geopolitical and economic position in the Asia-Pacific region. He advised that an “anti-West” or “anti-U.S.” foreign policy posture would not help improve its position in Asia-Pacific diplomacy.

Furthermore, he emphasized that it would be important for Russia to engage more earnestly than before in a complex set of multilateral mechanisms for regional cooperation. Although Moscow has been advocating new security architecture for the Asia-Pacific region since Soviet era, it should participate in regional efforts before advocating alternatives. The newly agreed “Two Plus Two” consultations between Japan and Russia, which involve foreign and defense ministers of the two countries, were particularly significant in this context. Russia is the third country after the United States and Australia (and before France) with which Japan holds such security consultations. At the meeting last April, between Prime Minister Shinzo Abe and President Putin, it was agreed that trade and economic cooperation with Eastern Siberia and the Far East, with particular focus on “energy, agriculture, infrastructure and transportation” should be vitalised.

Paul Dibb (Australia) compared Russia to Australia as the latter also face the common challenge of having to develop large, resource rich continents that are sparsely populated, possibly making them geo-strategically vulnerable in the resource and energy hungry 21st century. He noted that Russia has been

correct to realize the changing security and economic dynamics in the Asia-Pacific region.

What the region experiences, he articulated, are several uncertainties including the rise of China and India as major regional powers, the possible resurgence of Japan, and the relative decline of the US. Militarily, there emerges what appears to be an arms race in Northeast Asia.

It was asserted that Moscow is mistaken to believe that its membership of the *Shanghai Cooperation Organisation* (SCO) founded in 2001 carries any real weight in regional security deliberations compared with the *East Asia Summit* or the *ASEAN Regional Forum*. From his view, the Sino-Russian relationship is firmly based on a converging strategic calculus and resistance to Western powers, at least for the time being.

As for the development of Siberia and the RFE, he noted the re-emergence of a vibrant Siberian and Far Eastern economy requires moving away from its heavy reliance on the petro-state economy to tackling the problems of rapidly contracting demographics in the region. The powerful emergence of China as a potential superpower and the probable resurgence of Japan may cast a long shadow over Siberia and the RFE. The looming geopolitical threat on Russia's distant eastern flank is also a concern. The solution is to much more rapidly develop the economy of Siberia and the RFE and to demonstrate more emphatically the Russian people's occupation of this distant land and its capacity to defend it in the event of future geopolitical challenges.

KIM Seok Hwan (Korea) characterized the RFE as the poorer region of Russia and commented that it is important to acknowledge that geopolitics can no longer be separated from geo-economics today. Discussion needs to include issues not only about development and extraction of resources, but also issues regarding settlement of people in the arctic civilisation and cultural coexistence of different people in Asia. Zones of economic growth and development have existed for a long time. As new

technology arises, new leadership and new philosophy are needed, not just development.

While new institutions can be established, existing ones should not be dismissed. The creation of a new institution could perhaps involve Asian Pacific countries with regard to the Arctic routes, given that several have observer status in the Arctic Council. The other concern is labour force creation. In this case, building ties with North Korea should be considered. Russia is already building its ties with South Korea and Vietnam through bilateral Free Trade Agreements.

Summary of Discussion:

As the preceding panels and discussion already presented, **Sergei Karaganov** (Russia) called further discussion on the question of how Russia should integrate itself on security issues in the region. This was furthered by **Bobo Lo** (UK) who plainly asked "what is expected of Russia in the Asia-Pacific?" He raised caution over Russia-Japan relations and advised that their expectations of each other should be reduced given that the relationship has been prone to fluctuations. He also questioned whether Paul Dibb's reflection on the SCO was too critical. **Donald Hellman** (USA) made an important observation with regard to the challenges involved in creating multilateral institutions today. Unlike the post-World War II period, countries that have to succumb to a multilateral order are not losers in a war but in fact, are prosperous, hence making the multilateral institutions reluctant to change and difficult to impose. **Indra Overland** (Norway) commented that inequality in Russia has fallen substantially over the years and Russia is not as poor as perceived. Lastly, **Gilbert Rozman** (USA) asked whether China's "assertive foreign policy" aims to arm twist Russia into siding with it over international issues.

In response to comments regarding Russia's role in Asia-Pacific, **Huang Jing** (Singapore) pointed out that Russia should play the role of a balancer. In doing so,

it must integrate itself bilaterally and multilaterally in the region. Second, he stated that what the Chinese want must not be assumed. The Chinese themselves best define their own national interests. **Paul Dibb** (Australia) acknowledged that while a hegemonic war is not possible in today's international system, the main risk of China's engagement in the region is that of miscalculation. He believed that China does not have much experience in managing these situations if they do occur. On Russia-Japan relations, **Yukio Satoh** (Japan) commented that there is a two-track approach involving economic cooperation and territorial disputes. Usually, they remain independent of each other. **Yu Nanping** (China) suggested that China seeks economic opportunities and stressed on the importance of cooperation and strategic dialogue. Lastly, **Evgeny Kanaev** (Russia) stated that Russia can play the role of a maritime connector between Europe and Asia through the Northern Sea Route. Moreover, Russia could be a real contributor to multilateral regionalism and has the potential to become an energy, food, and transportation hub. He pointed out that Gorbachev's central government policies until recently has been a failure because they have been insensitive to the nature of Siberia and the RFE's potential economic contributions.

Panel 3: Attitudes of Major National Players in Promoting International Cooperation in the Development of Russia's Siberia and Far East (Part I)

Chair

FENG Shaolei (China), Dean, School of Advanced International and Area Studies, East China Normal University

Speakers

JEH Sung Hoon (Korea), Research Fellow, Korea Institute for International Economic Policy

SAKAI Satoshi (Japan), Senior Advisor, Mitsubishi Corporation

Indra OVERLAND (Norway), Head of Energy Program, Norwegian Institute of International Affairs (NUPI)

Gilbert ROZMAN (USA), Professor, Princeton University

Commentator

ZHANG Xin (China), School of Advanced International and Area Studies, East China Normal University

Panel Summary:

JEH Sung Hoon (Korea) presented possible areas of cooperation between Russia and the Republic of Korea that could contribute to the implementation of the long-term plans on the development of the RFE. Korea's willingness to participate in this development, as noted, is based on the positive assessment that the development is among the priorities of the current Russian leadership. Establishing the *Ministry for the Development of the Russian Far East* as well as the adoption of the "State Program for Socio-Economic Development of the Far East and Baikal region" (for the period up to 2025) has been necessary. This effort fits within the wider interests of the Republic of Korea in the region as proposed in Korea's policy of "Northeast Asia Peace and Cooperation Initiative and expanding cooperation with Eurasia." Cooperation between Russian and the Republic of Korea in the context of Far East development can be developed and enhanced through several aspects and projects. First, he proposed the need for appropriate institutional foundation to promote Korean business activity in the Far East and Baikal region. This should include intergovernmental agreement on economic partnership on both higher and lower levels. President Putin's visit to South Korea in November 2013 already started high level cooperation regarding visitor immigration and Asian-European railway

project linking transportation and logistics routes between the RFE and the Korean Peninsula. Such agreements would involve the strengthening of cooperation in the field of railway and port sector (including airport) of the two countries. The other aspect of cooperation is in the energy and resource sector. There should be additional LNG plants under the “Eastern Gas Program” and talk on the natural gas pipeline project extending to the Korean peninsula should be resumed. These projects would be greatly advanced through the facilitation of Korea-Russia cooperation mechanism, both existing and additional. For example, specialized operative organization should be created as partner of the *Ministry for the Development of the Russian Far East* to regulate the capital flows to the Far Eastern Federal District and provide information on the investment climate in the region, and analysis on government plans. To do to this, Russia needs to pursue necessary administrative and organizational changes. Korea’s involvement could also benefit from raising the status of the *Russian-Korea Joint Commission on Economic and Scientific-Technical Cooperation* through top leaders’ direct guidance and the establishing of a Permanent Secretariat. Jointly, the two countries could setup a “Russia-Korea Fund for the Development of the Far East.”

Regarding the multilateral context, Jeh Sung Hoon noted the security dimension to which Sino-Russia and Japan-Russia relations also play into the conception of Russia’s Asian strategy. He noted China’s enormous economic influence and an increase of border trade between China and Russia, and Japans’ territorial dispute with Russia regarding the Southern Kuril in Sakhalin region.

Sakai Satoshi (Japan) presented on the current condition of Japan-Russian bilateral trade and investment and factors related to Japanese involvement in the development of RFE. As summarized by Russian statistics in 2012, the trade between Japan and the RFE/Transbaikal region totalled approximately \$7.6 billion in exports to Japan and \$800 million in imports from Japan, making up 22% of the total international trade of the region,

following China (29%) and South Korea (27%). Among trade goods, crude oil, petroleum products, and gas account for 87% of the region’s exports to Japan. In terms of investment, Japan’s direct investment in China in 2012 reached \$ 13.48 billion whereas in Russia merely \$760 million, according to Japanese MOF statistics. In the RFE, Japanese corporations are investing in crude oil and natural gas production in Sakhalin and timber production. This pattern of investment follows the international trade pattern known as “vertical trade”— importing resources and exporting manufactured goods.

Regarding the potential for multilateral international cooperation in the economic development of the RFE, it was noted that Russia’s developmental approach would remain to be the biggest factor in affecting foreign involvement. One of the greatest issues is whether to proceed based on market economics or to go with development economics. From market principle, it is not possible to finance unprofitable projects unless investor would accept loss. If an investment environment is better than anywhere else and is prepared right from the start, the agglomeration of enterprises from various countries may realize international cooperation through business partnerships.

It was suggested that the economic development based on potential multilateral cooperation of the RFE should be based on three premises. First, production of machine parts should assume exports with a quality equivalent to those in Asia countries. There should be a movement toward high value added industries through software development and application that cannot be followed by other countries in Asia. Second, formation of an economy largely relying on foreign capital depend on the realisation of legal system and tax system measures sufficient to gain the trust of foreign capital, especially those measures that separate corruption and bribery from the economics of foreign capital entities. Finally, there should be recognition, beforehand, that the business of producing chemicals from energy resources involves substantial risk in terms of sales competition from other regions in the world.

Indra Overland (Norway) presented on the role of the RFE in the global petroleum sector as well as Norwegian-Russian relations and conditions for international oil companies in the RFE. In May 2012, the Norwegian and Russian state oil companies Statoil and Rosneft signed a comprehensive cooperation agreement that included exploration for oil and gas in the Sea of Okhotsk, off the Pacific coast of Russia. In the same month, it was reported that Statoil would withdraw from its joint project with Gazprom and Total to develop the Shtokman gas and condensate field in the Russian part of the Barents Sea. The Shtokman field had been the most high-profile project in Statoil's global portfolio and one that the company had worked hard for many years to gain access to. The Shtokman field is located just over 200 kilometres from the Norwegian-Russian maritime boundary and near many other major Statoil projects and infrastructure that it is intensively developing. In 2007, it was the new company, StatoilHydro, had been selected to participate in the Shtokman project. It seemed that the merger of Norway's two largest oil companies had achieved the desired outcome, and that the Shtokman deal was not only a big business deal, but a national cooperation project between Norway and Russia that enjoyed the blessing of the political leaders from both countries. The cooperation between Rosneft and Statoil on the Norwegian continental shelf is not as remote and irrelevant to their joint activity in the RFE as it may seem.

Foreign companies have often failed to appreciate the importance of offering broader international partnerships to their Russian partners. Instead, the foreigners have preferred to see Russia in a top-down perspective as an emerging market along with many developing countries – an arena for high risk investments with the possibility of high returns, but not an arena to meet equal partners. Thus, one possible reason why Statoil was granted access to the assets in the Okhotsk Sea and other parts of Russia could be that the company accepted a more equal relationship and helped Rosneft get access to the Norwegian continental shelf. This could be a lesson for other international oil companies that seek access

to the natural resources of the RFE. Bringing something more to the table than capital and know-how, and opening up for more mutual and geographically diversified relationships, may help to cut a deal. For Asian countries in the region that are not resource-rich but have large populations and growing economies, market access and downstream assets like ports, refineries or filling stations could be possible offerings.

Gilbert Rozman (USA) commented on the US perspective over Russia's relations with its neighbours and major powers and noted that the view from the United States includes complex elements. First, with regard to the US, he noted that the discourse on blaming the US for wanting to contain and undermine Russia could be counter argued by the understanding that the US has been eager to help develop the RFE since the end of the Cold War. Further, Obama's overall policy has been targeted to improve relations with Russia. This view suggests that there is potential for improvement in the US-Russian relations. This being said, he voiced serious concerns on Russia's increasing integration with China as it seemed to be a display of "the pretence of multi-polarity with acquiescence to bipolarity." Russia appeared to be turning to China for most of its requirements: as a market for its natural resources, labour and capital. In 2009, it turned to China when it faced financial challenges and it could do so in the future, especially given the uncertainty of falling oil and gas prices. Russia's bilateral relations with Japan and South Korea were also seen as "questionable". While there is the potential for establishing strong relations between Putin and Abe, the leaders need to cut a strong deal for joint-development in disputed islands. Many in the US would welcome this. Russia-South Korea relations was seen to be "hijacked" by the North Korean problem and talks about restarting the Six Party talks on terms that would support the North Korean nuclear problem have not been an effective solution. South Korea's muted response to the Cheonan incident was described as unpromising and Russia should have emphasised upon sanctions and how they could be used forcefully.

It was advised that it would help to place security in the forefront if any significance change is to be made. There is potential, as noted, in developing multilateral approach rather than a polarised one. Finally, in order to build its international image, it was recommended that Russia should respond to the needs of NGOs, human rights and free press more adequately. There should also be the stress on the rule of law, cooperation across regions, and cooperation on the modernization of the RFE. The focus should be on the joint economic development rather than militarisation. However, this would be challenging given the uncertainty of oil and gas prices and Russia may have missed its main opportunity to build and foster stronger relations with the United States.

Zhang Xin (China) commented on the presented papers from a synthetic and scholarly perspective. He stated that all papers could be threaded under the fundamental question: how to realise the potential for the surplus for transaction under a set of constraints. These constraints include uncertainties concerning oil/gas prices, market conditions and political disputes. Such uncertainties span over all areas of policy from political economy, energy policy, industrial policy and development policy. Given such understanding, he stated that Jeh Sung Hoon's paper would benefit from further emphasis on the motivation and underlying ideas behind Russia's "go east" strategy. He also pointed out a contrast between Jeh Sung Hoon and Sakai Satoshi's papers. Whereas the former advocated a vertical approach (in terms of government structure) for better bilateral relations, the latter advocated a horizontal approach (in terms of trade) for the same. A stronger theoretical foundation for all papers, he noted, would have made the papers converse better with each other. He also compared Sakai Satoshi's paper with Victor Larin's. Whereas Sakai Satoshi's paper spoke of an aggregated approach of development and the difficulty such approach posed on the population that could both be too large for the provision of state subsidies and too small to sustain a regional economy, Victor Larin's paper in the previous panel spoke of a multi-modular development pattern where a set of

hub cities with different functions could work synthetically as an overall development strategy. He suggested that the interactions between these two perspectives could be fruitfully compared and further explored in each of the papers.

Summary of Discussion:

Evgeny Kanaev (Russia) noted a lack of multilateral approach and mechanisms to develop cooperation. He asked: what is China's view on Russia's engagement with Japan and Korea? He also asked Sakai Satoshi whether there have been any changes or breakthroughs in Japan-Russia relations in non-energy sectors and his views on Russia joining the trilateral framework. **Oleg Barabanov** (Russia) asked a question to Indra Overland regarding the commercial prospects of the Okhotsk Sea project. If oil and gas were found there, where would they be sold? **Vladimir Ryzhkov** (Russia) commented that Siberia should not be forgotten in discussions about the Far East. Whereas the population of the Far East counted up to 6 million, Siberia's population has 20 million. It is a better-developed region that has educated and skilled people. Only private investment could help to further develop Siberia. A good example is Mongolia. It is a small country but has huge foreign investment and highest speed of economic development in the world. It is a continental country, but it is also integrated in global markets. Mongolia could be an example for Siberia. Vladimir Ryzhkov also posed question to Indra Overland and Sakai Satoshi respectively over the possibility of the development in services and technology sector in Siberia and the Far East. He stated that the local governments of Siberian and Far East regions do not have enough power to develop human capital and to attract FDI.

In response to Gibert Rozman's commentary, **Victor Larin** (Russia) stated that idea of the 'Chinese threat' is overstated. China should be thanked for making other countries and Moscow to be interested in the Far East. He also noted that there has not been enough interest and understanding of the political

and business culture of Asia among Russians and vice-versa.

Sergei Karaganov (Russia) argued that the lack of human capital is exaggerated. The most serious problem has been the obstacles to FDI, not human capital. Regarding Russia's mistrust towards the US, he noted that it is a logical position as the US has committed many mistakes, such as those in Syria, Libya and Iraq in the last decade. He stated that it is hoped that the US would re-join the Far East development effort that it "half-heartedly" participated in, back in the 1990s. He also asked about collaboration over growing marine culture in the area of fish farming with the help of Japanese and Norwegian ecologists. **Timofey Bordachev** (Russia) stated that US should join the effort of building a peaceful situation in Asia. While the Obama administration has been pragmatic from Syria to Iran, how would it deal with the symbolic obsessions with China in the Asia Pacific that contradicts its pragmatism? Timofey Bordachev asked Sakai Satoshi what were the key issues that affect Japanese and Korean investors in Russia? He also asked Indra Overland what if the Russian government makes Norwegian energy companies' involvement in the RFE conditional on other projects – i.e. investment into infrastructure projects and other regional development activities. Would Norwegian companies still want to participate? The round of questions closed with **Donald Hellmann** (USA) who clarified that the deal Russia cut with China at the height of the financial crisis was a deal of necessity, not strategy.

In response, **Sakai Satoshi** (Japan) stated that the main barrier Japan faces in the RFE is its lack of a cheap labour force and strong domestic markets. He emphasized the need for high value added products to be produced in the RFE. With these problems addressed, Russia can then work towards inviting foreign capital to the region. **Indra Overland** (Norway) responded to Timofey Bordachev's question over conditionality, stating that it will not work with Norwegian companies because energy policy is a historical doctrine. Answering Sergei Karaganov's question about marine culture, he stated that several companies are likely to be interested in fish farming.

Lastly, he added that companies investing in the RFE are not worried about corruption as much as they are for long term property rights. **Gilbert Rozman** (USA) responded by focusing on the need from Russian side to draw more partners and commented that the Obama administration has been making considerable effort to act pragmatically with China. **Jeh sung hoon** (Korea) stated that Korea's main priority is the development of economic cooperation with North Korea. Development in the RFE is geographically promoting the cooperation in this regard.

Panel 4:

Attitudes of Major National Players in Promoting International Cooperation in the Development of Russia's Siberia and Far East (Part II)

Chair

LEE Jae-Young (Korea), Head of Russia and CIS team, Korea Institute for International Economic Policy (KIEP)

Speakers

Timofey BORDACHEV (Russia), Deputy Dean, Faculty of World Economy and International Affairs Higher School of Economics, National Research University–Higher School of Economics

PAN Xingming (China), Professor, school of Advanced International and Area Studies, East China Normal University

Michael TAY (Singapore), Executive Director, Russia-Singapore Business Forum

Commentator

Ulf SVERDRUP (Norway), Director, Norwegian Institute of International Affairs (NUPI)

Panel Summary:

Panel chair **Lee Jae-Young** (Korea) started with updates on the support of the project from the Korean government and business community. An announcement on the development project was made by the *Korean Ministry of Strategy and Finance* in May, which attracted high level of interests from the Korean business community. In mid-November, President Park Geun-hye had a fruitful meeting with President Putin on issues of mutual development through which he observed an enhancement of regional cooperation.

As the first speaker, **Timofey Bordachev** (Russia) stated that Russia's attitude on multilateral development of Siberia and RFE is a "positive" one. But to understand how far Russia's vision for its "turn to Asia" goes, he emphasized, one must understand Russia's intentions behind its choices, international conditions leading to the choices, and obstacles of realizing these choices. The most important point was that Russia does not intend to play the role of a balancer between the US and China. It intends to become a provider of security guarantees on the global stage in its own right. Second, international conditions demanded changes in Russia. On one hand, international relations witnessed a return of the messy condition characterizing previous centuries up to the Cold War. On the other, the arrival of information technologies, democratization, economic and environmental globalisation pressured national stratagem to follow the macro-tendencies of the world. Given this context of intention and circumstances, Russia's turn to Asia includes a commitment to the idea of inclusiveness of international institutions – something to which the Asian countries have suffered unequal footing to begin with through their forcible subjection to the system of international relations originated in the west 150 years ago – as well as a policy orientation toward elimination of a number of imbalances that characterize Russia's presence in Asia. First, Russia needs to change its position from an ally to a hub of multilateral cooperation. As shown through its leadership in APEC 2012, Pacific Russia can host an

inclusive forum for multilateral cooperation on open trade and human security.

In addressing Russia's imbalance in the Asia-Pacific, the priority is to put RFE and Siberia on the economic map of the region. To do this, Russia should develop its huge potential in the export of resources and commodities from Siberia and RFE. The second imbalance is internal. The infrastructural priorities of the Russian state is going to shift infrastructure investment targets for the next few years to the 2014 *Sochi Winter Olympics* and the 2018 *FIFA World Cup*. More budgets would be poured west of the Urals. The third imbalance between Russia's need and resources is connected to the inadequate labour resources of the Transbaikal and Far East regions. There is a common shortage of personnel, not just skilled employees. To build new factories, labour force would have to be imported. But the current regional public opinion makes this unlikely.

Given these obstacles of artificial fears (especially with regard to China), lack of funding for infrastructural development, and Russia's lack of economic presence in the Asia-Pacific, the opportunities for export and investment are still abundant: wheat and other fodder products can be harvested through farmlands developed in Transbaikal region and the RFE; woodworking, paper mills, and industrial chemicals plants can be built in regions along the Siberian rivers; natural gas which is in great demand, offer an alternative to supplies of LNG from the U.S. and Canada; and low-cost energy industrial development along the eastern gas program also welcome investment from foreign partners. However, to take advantage of these opportunities, Russia will need to be fully incorporated into the economic interactions of Asia-Pacific, to build institutional infrastructure for multilateral cooperation, and to address long-term needs of the Asia-Pacific.

The second speaker, **Pan Xingming** (Russia), compared Russia's "Go-East Strategy" with America's westward movement in the 19th century. In developing the frontier, the United States made its western regions an engine of prosperity. The

outcome of Russia's strategy is to be seen. In China's perception, Russia's strategy is welcomed and is seen as a reliable basis for sustaining and deepening the relation between the two countries. Furthermore, China believes this strategy will strengthen the prosperity and stability of the region. President Xi Jinping and President Putin agreed that the time and conditions are ripe for the two sides to carry out large-scale economic cooperation. Through the "Sino-Russian Comprehensive Strategic Cooperative Partnership" and existing economic cooperative-mechanisms such as the "Program of Cooperation between Far Eastern and Siberian regions and Northeast China in 2009-2018", Russia's new strategy is ripe for turning into further cooperation.

Overall, China would continue to insist on the strategy of leaning on the north, so as to help maintaining the period of strategic opportunity for China's development. During this process, Russia's emphasis on overall strategic interests rather than mere economic development means Moscow will consolidate its role as the centre of planning and control. Concurring with views expressed by Russian participants, it was noted that Russia's Asian strategy may improve the economies in the developing region, but the central position of the European part of the country is not likely to change in essence.

In conclusion, it was pointed out that the development of Siberia and the RFE is ultimately a domestic issue of the Russian Federation. The federal government of Russia determines the relevant strategies and policies in involving international cooperation. As a suggestion, an opening-up policy levying restrictions would be an important feature to attract foreign investments and joint-businesses. The Russian view of "catching the Chinese wind in the sails of Russian economy" and China's securing of energy supply from Russia are complementary strategies. As overall national strategies, the two countries have a high degree of strategic mutual trust to pursue close cooperation.

Michael Tay (Singapore) spoke on his experiences of setting up the Russia-Singapore Business Forum. In his opinion, the zero-sum game can't last long. The

developmental needs of Siberia and the RFE are not unique. They are also faced by most governments in the world who want to succeed: how to bring in the differences and how to integrate into the international orders. However, the Russian people and its soft power are unique, which is an advantage. From Singaporean experience, it's about making use of its own advantages to solve the problems: to create the investment climate. A disadvantage is that Russian people are cynical. There are more Russians living and studying in Singapore and more Russian companies based in Singapore now because of the Russia-Singapore Forum. It shows that the business ties and cultural –soft power– ties can nurture a good relation between the two countries. Viewing through the Russia-Singapore Forum, one can see an increase amount of Russian speaker every year. Singapore is planning to bring in more exhibitions from Russian museums from next year so that people in Singapore can get a better knowledge of Russia.

Regarding the three speakers' presentations, **Ulf Sverdrup** (Norway) commented that Norway has some interests towards the region. First, as a neighbouring country, Norway has achieved a friendly relationship with Russia. Second, although Norway has more interests in the western part of Russia, Russia's new strategy, with its overarching character, will no doubts concern Norway's interest. Third, as a country with a well-developed shipping industry, development around the region, especially with regard to the arctic routes, is something Norway pays special attention. In terms of multilateral cooperation, Russia can borrow the experience of EU in designing and developing regional institutions. It was underscored that integration is decided by a variety of factors instead of a general view of a specific country's current status.

Summary of Discussion:

Sergei Karaganov (Russia) expressed that one of the promising businesses to be developed in south Siberia and the RFE in the long term would be water intensive industry. It is high time for Russia and China

to think about joint production aiming at the Asian market. Here the awareness of small-size countries such as Singapore, which have not man power but brain power, for example, in its world-leading water management, comes to play a big role. To develop the Far East and Siberia means to get these countries involved.

Sceptical about setting up a regional institution between major regional players including Russia, **Paul Dibb** (Australia) referred to the experience of ASEAN when setting up a regional institution. According to him, it was like a “difficult slow processes” in the beginning. When setting up a cooperative relationship, despite all the territorial disputes and other historical problems, he warned against the danger of being overburdened by bureaucracies. **Yu Nanping** (China) asked how EU’s level of integration can be achieved in the context of Asia to which Russia is included.

On Singapore-Russia relations, **Chen Gang** (Singapore) commented that the relationship that has been described sounded more like a one-way street where Russian companies and people come to Singapore while it is not so much the other way around. He surmised that the one-way street is perhaps because the level of Singaporeans comfort was too high for them to go out to Russia. Agreeing with Chen Gang, **Michael Tay** also expressed a sense of drop in entrepreneurship among newer generations of Singaporeans. But he also pointed out that there is a great amount of Singaporean manpower and financial investment in Russia so the relationship is not one way.

Panel 5:

Energy, Environment, and Food Security: Interests and Attitudes of Major Players

Chair

Nobuo SHIMOTOMAI (Japan), Professor, Faculty of Law, Hosei University

Speakers

ABIRU Taisuke (Japan), Research Fellow, Tokyo Foundation

MOON Jin Young (Korea), Associate Research Fellow, Korea Institute for International Economic Policy

CHEN Gang (Singapore), Research Fellow, East Asian Institute, National University of Singapore

Commentator

Igor MAKAROV (Russia), Senior Researcher, School of World Economics and World Politics at the National Research University–Higher School of Economics

Panel Summary:

Panel chair **Nobuo Shimotomai** (Japan) started the panel by asking the question: which city represents Eurasian? The first speaker, **Abiru Taisuke** (Japan) provided his expert knowledge on Japans’ energy policy in the context of Japan-Russia energy cooperation. As summarized, the Abe-Putin bilateral summit in April 2013 resumed talk on peace treaty to resolve territorial problem, providing a favourable condition for further security and economic cooperation, including a Japan-Russia Investment Platform (1 Billion USD) and four new potential energy cooperation projects on the development of Siberia and the RFE. Previous to that, Russia’s “Eastern Gas Program” was approved in 2007 by the *Russian Federation Industry and Energy Ministry* as a state-run development program for an integrated gas production, transportation and supply system in Eastern Siberia and the RFE. However, Gazprom, as the appointed Program execution coordinator, has been very slow to fulfill its urgent task of diversifying of gas market to the East Asia. The 2013 bill passed by Russia’s lower house of parliament and signed by President Putin to “liberalize” LNG export was seen as a move to fulfill the demand.

Japan’s role in Russia’s turn to Asia became more visible especially since the Fukushima earthquake in

2011. As one of the main exporters of LNG to Japan, Russia ranked No.5 with a share of 8.8% of Japan's overall sources in 2010 and No.4 with a share of 9.6% in 2012. The Sakhalin Energy company, operating the Sakhalin-2 oil and gas project, had its biggest share of Russian produced LNG shipped to Japan in the past few years. Its production capacity rose from 9.6 million tons per year before Fukushima to 10.4 million tons per year after Fukushima. In June 2013, Rosneft signed framework agreements on LNG supply with Japan's Marubeni (1.25 million tons/year), Japan's SODECO (1 million tons/year) and Vitol, an international energy trading company (2.75 million tons/year). While the demand of LNG continues to rise, Japanese buyers also worry about the timeliness of gas project operation completion, sources of supply, and costs. For example, there is the perception among Japanese buyers that Gazprom faces problems of securing supply sources of gas for Vladivostok LNG project and Sakhalin Energy's plan to expand LNG production capacity; the Yamal LNG project faces hurdles of potential high transportation costs by using the Northern Sea Routes and possible additional costs from construction delays. Rosneft's new LNG project in the RFE has been perceived with positive lights as it has already had a reliable source of gas supply and Igor Sechin, president of Rosneft, has a big political influence inside Russia. But even this project, as it was presented, might not be economically feasible.

Moon Jin Young (Korea) examined the implications of recent world trends in oil and gas market for South Korea. As a heavy importer of fuels coming from the Middle East (constituting more than 80% of its oil import), Korea is quite vulnerable to risks associated with geopolitical tensions in the middle east, along the sea routes, and the South China Sea (where Indonesia and Malaysia are the second and third exporter of LNG to Korea after Qatar). Given such risks, the diversification of energy supply has been highlighted by the recent proposal of the "Eurasia Initiatives" stressing the importance of establishing connectivity and cooperation across the Eurasian continent. This concept provided a framework for strengthening the cooperation in logistics and energy

network which include the development of Northern Sea Routes and gas pipelines through Russia, China, North and South Korea, and other countries in the region. It was reported that studies by the Korea Maritime Institute estimated that the economic viability of using the Northern Sea Route would be significantly higher (drop by about 30%) if the "charge of passage" by the Russian government (which includes the cost of the use of icebreakers) is excluded from calculation. As for building gas pipelines from Russia to South Korea, development has been made, for example, in 2008, where an MOU was signed between KOGAS and Gazprom on the construction of gas pipelines via North Korea. However, the project is at standstill due to lack of cooperation in North Korea. Aside from the fluctuations and risks associated with energy supply and demand, an emphasis was given on the importance of implementing energy-efficient policies and support for research and development. As Korea ranked 38th in the Energy Architecture Performance Index (EAPI) in 2012, ample room exists for policies to motivate industrial sectors to reduce energy consumption and develop more energy-efficient technologies. To do that, Korea will need to convert its energy consumption structure in the long run to include a higher share of gas (16.4% in 2010). Closer ties with producers of shale and conventional gas would need to be established. In effect, the country's greenhouse gas emission would also be significantly reduced.

Chen Gang (Singapore) examined the role of Singapore as a stakeholder in the development of the RFE from energy and environment perspectives. The essential question for Singapore, given the explosive growth in East Asia's energy demand and the possibility of new transportation route in the arctic, is whether Singapore would be bypassed. Chen Gang disagreed on two grounds: First, although the number of ships using the Northern Sea Route is on the rise, it is unlikely to become a major contender to the usual southern Suez Canal route. The northern route is only open for four to five months per year and the passage is still very unpredictable with melting ice. Second, Northeast Asia will continue to

rely heavily upon crude oil supply from the Middle East. Third, Singapore today has successfully emerged in the global economy as an international financial hub, high-end manufacture base and a regional center for a number of service sectors. The combination of these factors would help to provide Singapore with the resilience to withstand potential impact from a decline in energy and shipping sectors as a result of a reshaping of Northeast Asia's energy market. Another key factor is that the diversification strategy pursued by Northeast Asian countries will not reduce the absolute amount of energy resources transported from the Middle East.

Singapore also has a lot to offer to the development of Russia. In the energy cooperation between Singapore and Russia's Siberia and Far East, Singapore's highly-skilled workforce and industrial experiences can be used to achieve quick industrial upgrades and to include the use of state-of-the-art technologies. It also has a lot of experiences managing foreign labour. As an extremely environmentally-fragile region, Russia's Siberia and Far East has a huge task to protect the region's ecology from potential damaging impacts of massive energy projects and other infrastructure construction. A world-famous garden city with urban solutions to a series of environmental challenges, Singapore has gained rich experiences in ensuring a clean, green and liveable urban environment. Therefore, an environmental cooperation between Singapore and Russia's Siberia and Far East regarding issues such as water management, transport management, waste management and pollution control has great prospect.

Igor Makarov's (Russia) comment addressed the issue of food security in Asia and how the development of agriculture in Russia's Siberia and Far East would help to address this issue. Granting the condition within Russia that energy would remain to be one of the pillars of Russia's economy in the short-term, the new policy initiative calling for a more comprehensive strategic plan of "a new globalization of Russia" inevitably needs to account for an economic policy where all potentials of the

underdeveloped region would become developed. The competitive advantage that the vast arable land and water resource of Russia's Siberia and Far East hold relative to Asia's limited arable lands, water resources, and expanding population, is obvious. As *Valdai Discussion Club's* 2012 and 2013 reports on the "New Globalization of Russia" detailed, Russia has the dispositions to play the role of a guarantor of food security for Asia. Furthermore, it was argued that the food security tie between Russia and Asia is not a one-way street. The potential of agricultural development could be increased further if technology and proper strategic planning imported from Asia were used or studied. The key fact is that there is no other country with unexploited agricultural land as large as in Russia's eastern regions. The barriers of an agricultural breakthrough were also examined. It was argued that a shortage of labour is overstated compared to the lack of export infrastructure and the Eurocentric mentality of a large portion of the population where the eastern region of the country as well as agriculture as a profession have been erroneously seen as primitive. Thus, it is the task of the policy experts to prove to the public and Russia's elites that agriculture can be a hi-tech and efficient sector. For example, Japanese companies have already proposed the idea of agricultural clusters in the RFE.

Summary of Discussion:

Addressing some of the Japanese oil buyers' concern on the timeliness of gas project operation, **Sergei Karaganov** (Russia) responded to Abiru Taisuke's presentation that from other meetings where the Novatek's leadership was present, it was opined that Novatek's current projects will actually be carried out ahead of schedule. **Vladimir Ryzhkov** (Russia) commented on points regarding agriculture and ecology. He emphasized the fact that Siberia and the Far East are unique natural areas. Lake Baikal located in southern Siberia is the world's largest freshwater lake. One natural gas pipeline constructed to go through the "Golden Mountains of Altai," a UNESCO site, has caused rage among indigenous people.

Nevertheless, Russia's Siberia and Far East need to change their conceptions of the region. In terms of agriculture, the potential of Siberia is still huge. **Oleg Barabanov** (Russia) further commented that the problem for developing the region is not only in technology. Labour practices and standards are questionable too. Villages, where agricultural workers live, have been losing population to the cities. **Zhang Xin** (China) asked two questions regarding Abiru Taisuke's presentation. Firstly, is there a possibility to further liberate the energy industry? If so, what are the drives? Secondly, is there any potential or existing energy cooperation between Japan and Korea? Responding to Zhang Xin's question, **Abiru Taisuke** (Japan) explained that there has been a coal cooperation project in Mongolia set up by Korea, Japan and Russia, but due to the drop in coal price on the market, the project was no longer feasible. Such case illustrated the changing dynamics of the energy market of Asia-Pacific. **Moon Jin Young** (Korea) emphasized again that Korea still need structural change to keep up with the trends in international energy market and the pressing issues of climate change. **Chen Gang** (Singapore) responded to commentaries regarding agriculture and the environment. He pointed out that good water management could play a significant role in sustainable agricultural development. Inquiring deeper into comments made by Vladimir Ryzhkov and Oleg Barabanov, **Igor Makarov** (Russia) concluded with several observations regarding the conditions and difficulties of an agricultural revival. First, the collective form of property in agriculture has shrunk to almost inexistent status in Russia but its heritage is still there. Second, the condition of the land has been degrading as the population urbanized. Third, the lack of good economic practices remains to be an obstacle to development.

Panel 6:
The Pacific and High North Sea Routes:
Maritime Development, Security, and
International Law
Chair

Ulf Sverdrup (Norway), Director, Norwegian Institute of International Affairs (NUPI)

Speakers

Per Erik Solli (Norway), Senior Military Advisor;
& **Wrenn Yennie Lindgren** (Norway), Research Fellow,
Norwegian Institute of International Affairs (NUPI)

Yang Fang (Singapore), Research Associate, Centre on
Asia and Globalisation, Lee Kuan Yew School of Public
Policy, National University of Singapore

Lim Chinsoo (Korea), Vice President and Senior
Research Fellow, Korea Maritime Institute

Vijay Sakhuja (India), Director, Indian Council on
World Affairs

Commentator

Hyodo Shinji (Japan), Head of America, Europe and
Russia Division, National Institute for Defense Studies

Panel Summary

Per Erik Solli (Norway) and **Wrenn Yennie Lindgren** (Norway) examined the Arctic interests of Asian states and how their interests have been received by the Arctic states. As Wrenn Yennie Lindgren (Norway) summarized, major interests and agendas of Asian states in the Arctic include scientific research, commercial activities and navigation safety. Climate change added a new dimension to the Arctic where resource exploitation and navigation route of the region has become more viable. This implies the need for better Arctic governance through both circumpolar and sub-regional cooperation. It was argued that high military tension in the area is unlikely but increased commercial activities facing infrastructural and safety problems are yet to be addressed. Given these factors, and the carefully preserved dominance of the Arctic states, the *Arctic Council* granted observers status to Asian applicants on the condition that the new applicants should pay full respect to the Arctic states' sovereignty claims. Per Erik Solli (Norway) elaborated further on the various dimension of commercial activities in the Arctic including fishing, mining, petroleum exploitation and tourism. He also assessed the

feasibility of four potential arctic sea routes across the Arctic region, namely the North West Passage, Northern Sea Route (NSR), Transpolar Sea Route and the Arctic Bridge Route. He also discussed the various practical difficulties of carrying out transportation projects through the routes due to harsh weather, the ice conditions, and the unavailability of sufficient infrastructure for search and rescue services. It was noted that Russia has begun developing old bases into search and rescue centres to address the demands for safety and security capabilities along its coastline.

Yang Fang (Singapore) asked the question: whether the Arctic from Singapore's perspective is a blessing or a curse? She argued that the changes and development in the Arctic creates a mixed fortune for Singapore. The curse is largely caused by the potential shift of shipping activities to the Arctic which could lead to loss of shipping business in the Malacca Straits. The melting ice and rising sea level could also threaten the existence and survival of Singapore as a low-lying small island. However, the curse is also mixed with the fortune of business opportunities given Singapore's strong expertise in offshore construction, ship building, port development and management, and maritime services. Therefore, she argued that Singapore has stakes in Arctic governance as well. Given that Singapore has been a long serving member and leader in the *International Maritime Organization* (IMO), she suggested that Singapore could also participate in drafting of the Polar Code for the safe navigation and environmental protection in the Arctic. It could make the case that as a shipping nation located in the Malacca Straits, cooperating with neighboring countries such as Indonesia and Malaysia, it has a lot of experience to offer regarding the design and implementation of maritime cooperative mechanism. She also noted that Singapore has a strong oil refining business which heavily depends on the supply of crude oil from the Middle East. Importing oil and gas from the Arctic would help Singapore to diversify its energy source. Finally, being vulnerable to the rise of sea level, Singapore also has a stake in the preservation of the Arctic environment. It cares about maintaining a delicate balance between doing business and preserving the Arctic environment. Its strength in green shipping technology could be utilized in forming partnership with Norway. Its participation in the Arctic Council

will help to reduce uncertainties and bring benefit to Arctic littoral states.

Lim Chinsoo (Korea) provided an analysis on the potential and obstacle of using the Arctic route for bulk shipping and container shipping between Europe and northeast Asia. He assessed that container shipping may prosper less in the future. Korea's Arctic policy is guided by the dual purposes of cooperating with Arctic states and developing new economic opportunities. Korea has actively participated in the Arctic affairs and developed strong research capabilities and academic interests. As summarized, Korea's Arctic policy is guided by four principles:

- Maintaining peace and stability;
- Promoting technological innovation;
- Protection of the Arctic environment;
- Preservation of welfare of the indigenous people.

The presentation also demonstrated research findings from the North Pacific Arctic Conference which was jointly organized by KMI and East-West Center of the United States since 2012. Korea is very optimistic about the emerging economic opportunities in the Arctic and called for cooperation among Arctic and non-Arctic states on the areas of investment, research, cultural preservation and information sharing.

Vijay Sakhujia (India) addressed India's perspective on the challenges and prospects of the Arctic. He noted that India has set up a number of national research centres and programs for the study of the Antarctic. Since 2007, these research centres have also gradually included research on the Arctic as well. In 2012, India joined International Arctic Science Council. In 2013, it acquired permanent observer status in Arctic Council. Research on the Arctic in India has paid more attention on energy exploitation than benefits to Indian shipping companies. It is generally acknowledged, however, that the emerging sea routes in the Arctic are something that would bring tectonic consequences to the existing shipping lanes in both Asia and the Indian Ocean Region.

It was observed that despite India's scientific interests on the North Polar, India's narrative on Arctic has been evolving but without the emergence of a dominant discourse. To address this, Vijay Sakhujia suggested that an "Asian approach" to the

North Sea Route could be used as a framework. Asian observers in the Arctic Council could develop a collective narrative on their constructive role focusing on scientific research and the support for sustainable and ecologically viable commercial activity. Regarding the development of the Northern Sea Route, six areas of cooperation were identified: shipbuilding, finance, data management, port management, training, and human resources. One of the key areas that the Asian countries could have a special role to play, as argued, was the fact that Asia has been offering the largest supply of skilled human resource for shipping led by Philippines, China, India, and Bangladesh. Asian seafarers are perceived as technically competent. Their marine education and training infrastructure are of international standards, and strict quality controls are used. The Asian players, argued Vijay Sakhujia, could meet critical gaps in providing human resource. Finally, Vijay Sakhujia also stressed the importance of early finalization of the Polar Code.

Hyodo Shinji (Japan) shared three observations. First, he is concerned about the potential conflict of interests between Asian countries and Russian government over the control of resources in the Arctic. As he noted, Russia has been exercising strong control by extending outer limit of the continental shelf. This may discourage international involvement in energy exploitation. Second, the feasibility of Northern Sea Route is still under study and it is also subject to Russian government policy towards Arctic shipping. Third, how to cooperate between Arctic Council members and new Asian permanent observers is also a concern.

As to the Japanese attitude towards the Arctic, Hyodo Shinji contended that Japan has not developed an official Arctic policy. The business circle in Japan has been cautious about the feasibility and the high cost of navigation through Northern Sea Route. However, as the Japanese government has been strengthening the bilateral relations with Russia through 2+2 dialogue, issues related to the Arctic could be an important area for cooperation. Hyodo Shinji also voiced the Japanese concern about Chinese presence in the Sea of Okhotsk and the Arctic. It was mentioned that Japan has discussed with the Russian counterpart in the 2+2 dialogue for the possibility of expanding the existing bilateral joint maritime search and rescue from the Sea of Japan to the Arctic waters.

Summary of Discussion

Donald C. Hellmann (USA) raised concerns over Arctic governance, the role of international law on sovereignty issue, and Russia's attitude towards international cooperation. He suggested that the international commercial activities in the Arctic need to be regulated to prevent environmental damage. Responding to the question of sovereignty and external parties' position, all panellists reiterated that the Asian observers have already accepted the new criteria set by Arctic Council and agreed to pay full respect to the sovereign rights of the Arctic states. For China, **Pan Xingming** (China) shared his view that China welcomes both multilateral and bilateral cooperation on the development of Arctic. China has been supporting international law as legal framework for peaceful resolution of sovereignty disputes in the Arctic. **Hyodo Shinji** (Japan) highlighted the importance of the Sea of Okhotsk to Japanese national security. It is considered a gateway for Japan's access to the Arctic.

With regard to international cooperation and Russia's attitude, both **Per Erik Solli** (Norway) and **Lim Chinsoo** (Korea) agreed that ships transiting through Russian waters will need to share the cost. Given that marine resources are subject to the control of littoral states, Per Erik Solli stated that external parties need to negotiate with Arctic littoral states bilaterally for resources cooperation. **Yang Fang** (Singapore) pointed out that Singaporean investments in the Arctic are driven by individual company's interest and they usually partnered with Russian companies bilaterally.

On the issue of Arctic governance, both **Per Erik Solli** (Norway) and **Vijay Sakhujia** (India) insisted that the existing international legal framework shall serve as guiding principle. **Timofey Bordachev** (Russia) asked if there is any feasibility study done by international investment aimed to improve Northern Sea Route infrastructure. Concerning that there has been no feasibility study to his knowledge, **Lim Chinsoo** (Korea) stressed the importance of international cooperation for scientific research, information sharing and feasibility study.

Indra Overland (Norway) raised concern about the prospect of bulk shipping and container shipping. Regarding this issue, all panellists believed that intra-region bulk shipping will be more prosperous. **Vijay**

Sakhuja (India) explained that container shipping is highly schedule-dependent and time-sensitive and shipping companies are less prone to bear the cost.

Conference Programme

Lee Kuan Yew School of Public Policy, Singapore
Manasseh Meyer Building Seminar Room 3-1

December 16-18, 2013

Dec. 16 (Monday)

18:30-19:00 Pre-dinner cocktail reception
19:00-21:00 Welcome Dinner at the Garden Terrace, Shangri-la Hotel
Welcome Remarks by **Kishore Mahbubani**, Dean, Lee Kuan Yew School of Public Policy

Dec. 17 (Tuesday)

08:30 Transport for delegates from Shangri-La Hotel to Lee Kuan Yew School of Public Policy
(Delegates to be present at hotel lobby by 08:30)

09:00-09:10 **Opening Remarks**
Prof. Jing HUANG, Centre on Asia and Globalisation, Lee Kuan Yew School of Public Policy & **Prof. Sergei KARAGANOV**, School of World Economics and World Politics at the National Research University–Higher School of Economics; Council on Foreign and Defense Policy, Russia

9:10-11:00 Panel 1

Developing Russia's Siberia and Far East: an Assessment of the Last Five Years

Chair: Consortium Co-Chair

Prof. **Sergei KARAGANOV**, School of World Economics and World Politics at the National Research University–Higher School of Economics; Council on Foreign and Defense Policy, Russia

09:10-09:25 Prof. **Viktor LARIN**, Institute of History, Archeology, and Ethnology of the Peoples of the Far East, Russian Academy of Sciences

09:25-09:40 Prof. **YANG Cheng**, School of Advanced International and Area Studies, East China Normal University

09:40-09:55 Dr. **Arne MELCHIOR**, Norwegian Institute of International Affairs (NUPI)

09:55-10:05 Comments by Prof. **Jing HUANG**, Centre on Asia and Globalisation, Lee Kuan Yew School of Public Policy

10:05-11:00 Q&A Discussion

11:00-11:20 Tea Break (Manasseh Meyer Building, Seminar Room, Level 3)

11:20-13:10 Panel 2

Challenges of Development or Underdevelopment of Siberia and Far East from Geostrategic and International Perspective

Chair: Consortium Co-Chair

Prof. **Jing HUANG**, Centre on Asia and Globalisation, Lee Kuan Yew School of Public Policy, National University of Singapore

11:20-11:35 Prof. **Evgeny KANAIEV**, Professor, Department of International Affairs, National Research University Higher School of Economics

11:35-11:50 Prof. **YU Nanping**, School of Advanced International and Area Studies, East China Normal University

11:50-12:05 Amb. **SATOH Yukio**, The Japan Institute of International Affairs

12:05-12:20 Valdai speaker: Prof. **Paul DIBB**, Australia, Strategic Studies at Australian National University

12:20-12:30 Comments by Prof. **KIM Seok Hwan**, Hankuk University of Foreign Studies, Republic of Korea

12:30-13:10 Q & A Discussions

13:10-14:10 Lunch (Oei Tiong Ham Building, Lobby)

14:10-16:00 Panel 3

Attitudes of Major National Players in Promoting International Cooperation in the Development of Russia's Siberia and Far East (Part I)

Chair: Chinese Delegation

Prof. **FENG Shaolei**, The Center for Co-development with Neighboring Countries; School of Advanced International and Area Studies, East China Normal University

14:10-14:25 Dr. **JEH Sung Hoon**, The Korea Institute for International Economic Policy

14:25-14:40 Mr. **SAKAI Satoshi**, Mitsubishi Corporation

14:40-14:55 Dr. **Indra OVERLAND**, Norwegian Institute of International Affairs (NUPI)

14:55-15:10 Valdai Speaker: Prof. **Gilbert ROZMAN**, USA, Princeton University

15:10-15:20 Comment by Dr. **ZHANG Xin**, School of Advanced International and Area Studies, East China Normal University

15:20-16:00 Q&A Discussion

16:00-16:10 Tea Break (Manasseh Meyer Building, Seminar Room, Level 3)

16:20-18:10 Panel 4

Attitudes of Major National Players in Promoting International Cooperation in the Development of Russia's Siberia and Far East (Part II)

Chair: Korean Delegation

Dr. **LEE Jae-Young**, Korea Institute for International Economic Policy

16:10-16:25 Prof. **Timofey BORDACHEV**, Faculty of World Economy and International Affairs Higher School of Economics, National Research University–Higher School of Economics, Russia

16:25-16:40 Prof. **PAN Xingming**, School of Advanced International and Area Studies, East China Normal University

16:40-16:55 Mr. **Michael TAY**, Russia-Singapore Business Forum

16:55-17:20 Comment by Prof. **Ulf SVERDRUP**, Norwegian Institute of International Affairs (NUPI)

17:20-18:00 Q & A Discussions

18:00-18:10 Group Photo

18:45-21:00 Dinner at PeraMakan (Level 3, Keppel Club 10 Bukit Chermin Road)

21:00 Transport for delegates from PeraMakan to Shangri-la Hotel

Dec 18 (Wednesday)

08:30 Transport for delegates from Shangri-La Hotel to Lee Kuan Yew School of Public Policy
(Delegates to be present at hotel lobby by 08:30)

09:00-10:50 Panel 5

Energy, Environment, and Food Security: Interests and Attitudes of Major Players

Chair: Japanese Delegation

Prof. **Nobuo Shimotomai**, Faculty of Law, Hosei University

09:00-09:15 Mr. **ABIRU Taisuke**, The Tokyo Foundation

09:15-09:30 Dr. **MOON Jin Young**, Korea Institute for International Economic Policy

09:30-09:45 Dr. **CHEN Gang**, East Asian Institute, National University of Singapore

09:45-09:55 Comment by Dr. **Igor MAKAROV**, School of World Economics and World Politics at the National Research University–Higher School of Economics, Russia

09:55-10:35 Q & A Discussions

10:35-10:55 Tea Break (Manasseh Meyer Building, Seminar Room, Level 3)

Panel 6: 11:00 – 13:00

The Pacific and High North Sea Routes: Maritime Development, Security, and International Law

Chair: Norwegian Delegation

Prof. **Ulf SVERDRUP**, Norwegian Institute of International Affairs (NUPI)

11:00-11:15 Colonel **Per Erik SOLLI** and **Wrenn Yennie Lindgren**, Norwegian Institute of International Affairs (NUPI)

11:15-11:30 Ms. **YANG Fang**, Centre on Asia and Globalisation, Lee Kuan Yew School of Public Policy, National University of Singapore

11:30-11:45 Dr. **LIM Chinsoo**, Korea Maritime Institute

11:45-12:00 Valдай Speaker: Mr. **Vijay SAKHUJA**,
Indian Council on World Affairs
12:00-12:10 Comment by Mr. **HYODO Shinji**, The
National Institute for Defense Studies, Japan
12:10-13:00 Q & A Discussions & Closing
Remarks
13:00-14:00 Lunch (Oei Tiong Ham Building,
Lobby)

Participants List

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- *Korea Institute for International Economic Policy*
- *Norwegian Institute of International Affairs*
- *National Research University – Higher School of Economics*
- *Valdai International Discussion Club*

Contact Information

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An electronic copy of the report is also available at <http://lkyspp.nus.edu.sg/cag/>

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