



CENTRE ON ASIA AND GLOBALISATION



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POLICY DIALOGUE REPORT

# INTERNATIONAL COOPERATION FOR THE DEVELOPMENT OF SIBERIA AND FAR EAST

7-9 July 2014, Moscow, Russia



The Centre on Asia and Globalisation at the Lee Kuan Yew School of Public Policy, National University of Singapore and the Faculty of World Economy and International Affairs at the Higher School of Economics, co-hosted a policy dialogue titled ‘International Cooperation for the Development of Siberia and Russia’s Far East’ in Moscow from July 7-9, 2014. The policy dialogue is a part of a multi-year collaborative research project undertaken by a consortium of six countries’ top think tanks and research institutes. The objective of the policy dialogue was to bring together top experts and policy makers from Russia, China, Japan, Korea, Norway, and Singapore to discuss multilateral international cooperation in the development of Russia’s Siberia and Far East (RFE). This report is summary of the key discussion points at the dialogue based on policy papers presented and meetings with key policy makers in Moscow.

The dialogue opened with an insightful presentation on the “pillars of development” by the **Minister of the Development of the Russian Far East Alexander Galushka**, and **Deputy Minister Maxim Shereikin**. The policy outlook detailed by the ministers was well received by the participants.

The Ministry’s “pillars for development” include:

1. Increasing the region’s input and contribution to the country’s overall GDP;
2. Attracting investors not only to mineral sector, but new type of economic zones, which would be enhanced and advanced into Special Economic Zones (SEZs). In this regard, developmental patterns of Asian neighbours can be replicated in the Far East. Legislation has been implemented to this effect focusing on the need for deregulation in the territories.
3. Developing SEZs into ‘one-stop shops’ for investors, where opportunities for tax relief will be established;
4. Providing infrastructural support to land plots;
5. Developing of human resources.

### Key points discussed during the Question-Answer Session



L-R: Sergei Karaganov, HSE and Jing Huang, CAG, LKYSPP

1. How will the development be financed?
2. Will the special economic zones be managed federally or locally? What is relationship between Moscow and Federal Governments? Will these zones be organised Country-wise or sector-wise? How many SEZs can be setup and where?
3. Will there be development of transcontinental networks? Can the logistics be implemented?
4. Is academic research such as that carried out by institutions like the Higher School of Economics useful for projects established for development of the region?
5. What makes the plans under the new administration different from ones implemented in the past?
6. Are there chances of logistic-related projects (especially in the Northern Sea Route – which is beyond RFE) resulting in piecemeal efforts?
7. Are there policies in place to assure investors of long term investment risk reduction?
8. Is there a possibility of establishing a bilateral commission for the purpose of dispute settlement and risk management for investors for SEZs in RFE? This has been established to secure Singapore’s investments in Suzhou, China.
9. The population in the Russian Far East is relatively small; hence there is a shortage of labour and markets, for automobiles, for instance.
10. Does the Ministry intend to coordinate its future plan with the Asia-Pacific Economic Cooperation (APEC) through flagship companies and research companies?

11. What is the prospect of investment in Russia's Far East by Russian domestic investors?



L-R: Alexander Galushka Minister of the Development of the RFE, Sergei Karaganov and Jing Huang

### Responses by the Minister

1. The main goal of the Ministry of the Development of the Russian Far East is to advance fast development of the region.
2. Some of the old targets are reaffirmed and new targets are set. These targets include:
  - Logistic projects to support key investment projects. For example, federal funds have been earmarked and there are on-going discussions with Chinese and Korean investors. Cooperation with China Communications Construction Company and the possibility of utilizing the arctic route that enable cargo to be transported out of Siberia are examples of how the region's development can be linked to the market of Asia-Pacific.
  - Work is underway to create an economic model for reviving the Northern Sea Route (NSR). A special desk for NSR has been created in the Ministry.
  - Active discussions are being supported and promoted through trilateral dialogue including North Korea through cooperation on projects

such as the Trans-Korean Main Line, power supply line, and Trans-Korean Pipeline.

3. The Ministry's new approach to development is to attract more private investments that are project-specific and competitive. It starts from the bottom-up direction with a portfolio of 340 projects, from which 18 key projects have been chosen.
4. The Ministry also work to provide favorable tax regime, decrease administrative barriers (a "one stop shop" service) and deregulation (which applies not only to business, but to all the aspects of economic activity).
5. The Ministry has completed field auditing and site selection for the first SEZs. Out of the 14 in total, a few have been selected.
6. In terms of human capital management, the Ministry has created a desk on the management of labour and migration.
7. There will be small and medium enterprises (SMEs) in the advanced special economic zones. More Russian SMEs are included in this project and there is an aim to foster a good milieu for business to business relations.

### Meeting with Alexander Shokhin, President, Russian Union of Industrialists and Entrepreneurs (RUIE)

Points raised by Alexander Shokhin with inputs from Sergei Karaganov

1. The key goal in the development of Russia's Far East is to protect the interests of the business community. In this light, an International Entrepreneurial Initiative has been formed, which has around 15 road maps, one of which is to improve customs regulations to facilitate businesses. There is a shortage of skilled workforce, which is a barrier for even Russian companies to invest in the region. For this purpose, means to impart education and training have been developed. A National Council has been set up to institutionalise the business community network thereby developing professional standards. Several institutions have been formed to liaise between businesses and authorities,

not only protect business profitability but also economic development of the region.

2. International sanctions on companies and politicians have exerted pressure on the Russian hydrocarbon industry, making Russian hydrocarbons and gas less competitive in the European market, hence creating more opportunities for American shale gas. Russia can meet this challenge by improving its industries through increasing the use of innovative technology and the development of more international projects and alignments. For instance, Russia is ready to join and be a leader in the Organisation for Economic Co-operation and Development (OECD). Russian companies will then need to keep to OECD standards mandatorily.

While developing Russia's Far East is a priority, Russia has a strained relationship with the US and EU. Despite this, the US has made progress towards Russia at the expense of its European partners. The US has been supporting businesses in Russia. Similarly, Russia and EU need to manage their relations accordingly. Current sanctions are just a 'mosquito bite' for Russia but it most definitely affects the investment environment.

3. When sanctions were imposed, Russia welcomed cooperation with the Chinese and South Korean banks. More initiative should be taken with regard to BRICS and the Shanghai Cooperation Organisation. The BRICS Development Bank, as a possible alternative to the IMF is a welcomed development along with banking relations implemented on national currencies. There is an agreement between Chinese and Russian banks for the use of rubles and renminbi for settlements. Russia is also drafting agreements with other countries to use local currencies for energy transactions.
4. The Eurasian Union will be created on the basis of economic union between Belarus, Kazakhstan, and Russia. The aim is to open it to Armenia, Kyrgyzstan and Tajikistan. New businesses should expect better capital flow in these three countries. The Eurasian Union does not aim at being an opponent to the European Union but to improve competitiveness of the region globally.

5. Alternatives to the dominant electronic funds transfer system of Visa and MasterCard should be established.



Jae-Young Lee, Korea Institute for International Economic Policy

### **Key points discussed during the Question-Answer Session**

1. What is the role of Western companies in Russia's Far East?
2. There is a parallel between Siberia and RFE and Australia. Russia needs to create a vision for the region's development.
3. Chinese investors are not confident about investing in Russia's Far East and Siberia.
4. Russia needs to restructure its energy-based economy if it wants to attract investment.
5. Only if the Far East and Siberia develop, can Russia be a global power.

### **Responses by Alexander Shokhin**

In Ukraine, a legitimate president was overthrown and newly appointed leaders were put into place. Ukraine has a large Russian-speaking population. Russia did not intend to intervene militarily, but could not jeopardise the safety of Russian people. In the Eurasian Union, there is no desire to rebuild another Soviet Union. The aim of the Eurasian Union is to build a free economic environment to make better use of resources – not a unified defence system.

### **Discussion on Policy Paper 1: Human Capital and Russian Far East: R&D and High-Tech Potential**

1. Industries in the region are decaying and there is a brain drain. Siberia needs to be developed in an advanced sense and more funding for universities is required. Lessons can be learned from Singapore in this regard, to develop specialised departments and agencies for training.
2. If the main drive is to establish private businesses in the region, horizontal associations need to be developed to establish common projects.
3. For development of Siberian Universities, joint programmes need to be established.
4. In order to facilitate private capital investment, a legal framework that matches international standards needs to be established to convince investors.
5. The right kinds of living conditions need to be established in Siberia. Russian businesses should also proliferate in the region.

Discussion on policy paper 2: The Northern Sea Route: Economic Potential and Business Interests

1. Following the collapse of the USSR, the Northern Sea Route (NSR) has been viewed as an important transit route from North Europe to East Asia. Today, barely any use is made of NSR and domestic projects need to be developed for this purpose.
2. Shipping businesses do not see the NSR as profitable in the short-run. For Norway, the interest is on reducing potential risks associated with increased traffic along the route, such as oil spills.
3. Northeast Asian partners see potential for NSR to be developed. It must be developed in accordance to the United Nations Convention on the Law of the Sea (UNCLOS). The US however, still has not ratified UNCLOS.
4. Singapore is a maritime hub, and Russia should draw

from its experiences.

5. The Arctic council represents the institutionalisation of North-Atlantic Cooperation.



In Focus: Feng Shaolei, East China Normal University

6. The development of NSR does not imply greater construction of ships, but ports. China's experience of ports construction will be beneficial.

Discussion on policy paper 3: Cooperation in Natural Disaster Response

1. Disasters are often trans-boundary and regional cooperation should be established to manage disasters.
2. Common funds and disaster bonds can be established to tackle the impact of trans-boundary natural disasters.

Discussion points on scholarly exchange and knowledge sharing between Russia and East Asia

1. Russia has one of the oldest oriental schools. There are several Chinese experts in Russia, involved with the top leadership in the country.
2. While there are also ASEAN experts in the Russian Foreign Ministry, the knowledge of Russian expert community about East Asia is still lacking. Track 1.5 dialogues and closer contact between Non-Government Organisations and the Government should be increased.
3. There should be an initiative to build a working triad between academics, businesses and government.



### Discussion on policy paper 4: Prospects for Energy Cooperation between Russia and Asian Countries

1. In the Russian Far East, three LNG companies are competing. Russia needs to have a gas stake and should not only be transporting gas.
2. Long term China-Russia Energy Cooperation also provides the opportunity the same over environmental issues.
3. The demand for a cleaner environment in Japan and China will grow. This happened in China and it caused the shift of demand from coal to gas. The barriers for developing gas in China are several, including the lobbying efforts on behalf the coal industry. Russia should not only focus on energy consuming countries like Japan and China, but also on energy producing countries like Vietnam which might also face at some point a move away from coal. It is important for Russia to have a broad customer base. Philippines might also be a potential customer for Russian hydrocarbons.

### **Russia's Pivot to Asia under Conditions of the Crisis in Russian Relations with the West**

The Cold War in Europe ended abruptly. The situation worsened for Russia's since 2007, when there were plans of NATO's expansion to Ukraine was kept confidential. The then president of Ukraine approved this but Russia intervened, preventing this from taking place. Russia's relations with West continued to degrade. In 2013, a crisis was in the making and relations were strained due to the Winter Olympics in Russia and its negative coverage in the West. It was during this time the decision pertaining to



L-R: Nobuo Shimotomai, The Japan Institute of International Affairs and Viktor V. Sumsy, ASEAN Centre at MGIMO

Crimea was made. The question of

Crimea was made. Whether this was legitimate in the eyes



L-R: Il Hong LEE, Korea Institute for International Economic Policy and Nobuo Shimotomai, Hosei University

of international law is out of question, given that it has been repeatedly violated. At some point, there was a desire amongst Russian elite to disintegrate Ukraine, but that desire has ceased. In the top political circles it was not desire at all– Russia does not want an Afghanistan scene.

1. The impact on Russia's pivot to the East has been both positive and negative.
  - Positively, East Asian countries understand that Russia's relations with the West will be complicated or worse for the next five to ten years. Relations between Russia and China have strengthened and there appears to be a stronger desire for Russia to pivot to Asia than Europe. The downside of this is that the crisis may lead to a rise of anti-modernisation trends.
  - Russia should think of a way to swiftly mitigate the crisis, but it is unlikely for solutions to come from the West. When the pivot to Asia is seen as a phenomena occurring at the expense of Europe, it has a negative consequence of drawing away from constructive goals and purposes. Though it has economic dimensions, the initiative has not been sufficient.
  - Relations between Europe and Russia degenerated. The EU must develop its own strategy, independent of the US.
2. Russia's pivot to Asia appears to be happening symbolically and economically. Three concerns will determine the new strategy of Russia in Asia:

- The relations between US and China will not go back to the 70s and 80s. This will be a fixed variable affecting Russia's strategy in Asia.
- Emphasis on development of Russia's Siberia and the Far East.
- Politically and administratively, this pivot has already been carried out. The US usage of the term 'pivot' is temporary. But in the case of Russia, is not about a temporary pivot, but about long term balancing and rebalancing. There is a need to involve Russia regionally and to increase trust by reducing political and economic barriers.

The main priorities of Russia's East Asia Strategy should be:

- Optimising its relations with China
- Compensation of adverse effects of western sanctions
- Comprehensive approach towards regional integration
- Enhancing the diplomatic dimension of Russia's turn to Asia



Vladimir Ryzhkov, Russian independent Politician

Russia and China can collaborate on addressing each other's challenges. Russia can help solve issues with the South China Sea. China can help Russia on diversifying its energy-reliant economy and developing the navigation route. Russia also has the potential to tackle East Asian food security challenges.



George Yeo, Vice Chairman, Kerry Group; Former Minister of Foreign Affairs, Singapore

It is essential that Russia establishes stable relations with all the countries in the region. If it wishes to be integrated in the regional politics, then it would have to forge close relations with China, including cooperation on the Eurasian Union.

There are 4 systemic aspects that can impact Russia's turn to Asia:

- A "Cold War"-like situation is likely to last for a few years. China will not be able to change its status of neutrality over Ukraine.
- A "G2" on Chinese terms;
- Further development of the Silk Road Economic Belt;
- The revitalisation of the Shanghai Cooperation (SCO) which can become a bridge between the Silk Road Economic Belt project and the Eurasian Union.

#### Closing remarks by representative of the six participating Countries

**Norway:** Russia is not closing its door to Europe by integrating with Asia. Norway has a huge potential for cooperation with Russia over energy, fishery and so on. It is important to continue cooperation and solutions can be formed. There needs to be sustainable development of Russia's energy resources. Russia's pivot to Asia is an open process to Europe and the US. Russia has to be open and transparent. In a positive sense, it could be said that Norway is undergoing its own pivot to Asia. With regard to the Northern Sea Route, many countries are looking

forward to the possibilities it opens up and there is potential for more ground research on this.

**Korea:** In terms of economic development of Russia's Siberia and Far East, clustering would be a good option. This involves natural resources, especially in agriculture. The response and involvement from neighbours must also be taken into account. Once the Far East is developed, the development of Siberia will become easier. Transportation networks will facilitate the process of development.

**Japan:** Japan's pivot to Russia was inevitable after the Fukushima disaster. Japan is preparing for new development on Far Eastern fronts in energy infrastructure

amongst other aspects. Japan is seeking cooperation not only at bilateral levels but also through six party talks.

**China:** The development of Siberia and Russia's Far East is related to Chinese priorities. Russia should consider how to connect the region with the open domestic market in China and how it can be implemented in the future.

**Singapore:** Russia needs to provide momentum for the development of Russia's Siberia and Far East. Singapore welcomes Russia's interest in the region. Plans need to be harnessed into organic processes of growth – finance, trade and so on.

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