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### **ANUCES Roundtable Summary: Russia and the Indo-Pacific**



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## **ANUCES Roundtable Summary: Russia and the Indo-Pacific**

On Wednesday 1<sup>st</sup> August 2012 the Australian National University's Centre for European Studies held an invitation-only Roundtable on trends in Russia and their implications for the Indo-Pacific region. The Roundtable aimed to support preparation for the September 2012 Asia-Pacific Economic Cooperation (APEC) Summit in Vladivostok.<sup>1</sup> It brought together prominent academic experts and senior public servants with strong relevant backgrounds to discuss developments in Russia's relations with the Indo-Pacific. Conducted under Chatham House rules, the Roundtable also provided an opportunity to consider the longer term role of Russia in the region more broadly. This paper provides a summary of the issues addressed.<sup>2</sup>

### ***The global economic context***

The meeting began by considering the overall global economic backdrop. The current crisis was characterised as the worst such global event since the Great Depression. It is still impossible to predict with confidence its future path. Much will depend on political decisions, and on sentiment. "Irrational exuberance" has been supplanted in large measure by irrational pessimism, which can be self-reinforcing and thus will affect economic and political decisions alike, including possibly by eroding support for sound small-l liberal economic policies. Policy-makers are already significantly constrained by the limits on the range of fiscal and monetary policies available to them.

The International Monetary Fund (IMF) envisages slow improvement in the world economy over the next period, but subject to "sufficient policy action in Europe" and increased pro-growth measures in emerging economies. It also sees the downside risks 'looming large'. Russian growth was expected to hold at around 4% through 2013. But that would be very dependent on outcomes in Europe.

Outside observers could be forgiven for seeing even this sober picture as over-optimistic. The earlier period of prosperity between the early 1980s and 2008 was built on a set of factors which may have now passed irretrievably, leaving imbalances in their wake which would be very hard to unwind. The Lehman collapse triggered a panic in Wall Street which in turn spread to Europe exposing severe vulnerabilities which had been allowed to develop there.

How this will all be resolved remains unclear, but the prognosis for Europe looks far murkier than for the United States, about which it was also difficult to be insouciantly optimistic. Europe is caught between two institutional and political models, with full federalisation at one end and a return to the pre-European Monetary Union world at the other end of the spectrum. Trying to find a politically acceptable hybrid between the two would be extremely difficult.

On the other hand, the US's long-term economic strengths – its ability to attract the best and

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<sup>1</sup> The APEC CEO Summit was held on 7-8 September 2012 in Vladivostok, Russia.

<sup>2</sup> We are grateful to Elizabeth Buchanan for taking notes during the meeting and for her assistance in developing this report.

brightest, its technological drive and sophistication and its financial markets should continue to stand it in better stead.

China is often seen as the saviour of last resort, but its great dynamism of recent years should not be uncritically projected into the future. The belief that it would go on becoming wealthier and wealthier and save our collective bacon was based, in the principal speaker's view, on two heroic assumptions: firstly, that China and the other emerging economies have effectively "decoupled" from the development economies; and secondly, that China would be able to morph seamlessly from an export-led to a domestic consumption-led growth model, without wrenching socio-political change.

The policies needed to bring about this transformation will be politically unpalatable for the leadership and will need to be implemented in a much less favourable international environment than China has enjoyed on its upward path to date. The US could slowly recover over the next decade, but more adverse outcomes should not be ruled out. And in an ever more interconnected world, our global institutions may not be fully up to coping with international economic turbulence. There is unlikely to be a country able to show leadership of the kind the US provided in the post-war decades.

### ***The Geo-Economics of Russia in the Indo-Pacific***

Russia is increasingly and painfully aware of the rise of China and Asia. It fears being distanced by the dynamism of their economies. It also fears that the vast empty spaces of Siberia and the Russian Far East will somehow fall under foreign economic or even political dominance. Both because of the threats and opportunities Asia presents, Russia is seeking to strengthen its Far East's economy. But this 'turn to the East' is a cyclical feature that stretches back over many decades, indeed into the nineteenth century.

But Moscow's latest turn to the East is subjectively genuine, forced on the leadership by the shift in the global balance of economic power and the depletion of resources in Russia's West.

Participants were sceptical about how much the present turn would amount to. There are severe constraints, including the elite's Eurocentrism, its fear of China, sharp differences over policy responses and unfavourable demographic trends the region's population is projected to be 6.46 million by 2016, a fall of 9.2% on the 2001 figure; and polls suggest that 70% of local tertiary graduates want to leave.

And there's doubt whether the resources available in the East can be sold at a price and in the quantities required to cover the costs of, and earn a decent return on, the massive investments required to extract them.

Moscow wants a prosperous, industrialised and well-populated Far East, but pursuing this absorbs resources that could otherwise go to increasing exports (which make money for the elite and the bureaucracy). Vladimir Putin's new Ministry of Far Eastern Development, based in Khabarovsk, itself a product of a bout of bureaucratic infighting, will face a stiff fight against fiscal conservatives and other miffed Moscow bureaucracies.

This tension between competing domestic interests affects Sino-Russian cooperation. Discord over implementing the bilateral cooperation agreement (for joint ventures in Eastern Russia)

and over prices for energy deliveries suggest that Russian wariness of China has an important geopolitical dimension and is one of the many stress points in the Indo-Pacific.

After years of hesitation, Moscow finally decided to build two oil pipelines running East, one to China and the Eastern Siberia Pacific Ocean line, but there may not be enough oil to fill both. There's talk of a gas pipeline to China via the Altai region but the two sides can't agree on price. Gas is more Indo-Pacific-oriented than oil, but Russia faces a dilemma whether to stick to the traditional pipeline, oil-indexed gas market or shift to the commoditised, Liquefied Natural Gas (LNG) market. As well as pipelines, infrastructure for these exports will require huge investments. Upgrading the Trans-Siberian and Baikal-Amur Mainline (BAM) railways are priorities but even if all the money set aside is spent, rail capacity may still be well short of planned port capacity.

The image of Russia as a resource cornucopia is not untrue, but there are nonetheless big questions about the quantity and quality of Russian resources. Foreign oil companies feel obliged to get involved, to the extent that they are allowed to, but foreign mining firms are not much interested. In terms of Australia's interests, the Far East's iron ore and non-ferrous metals are marginal, but its oil, gas and coal are not. Russia has big coal deposits and wants to export to China and the Indo-Pacific. But the lack of infrastructure will remain a constraint. If - a big if - Russia put in place the infrastructure to mount gas sales to China that could become an issue for Australia.

### ***Putin's Russia and the Indo-Pacific***

The 'Indo-Pacific' is a much more useful strategic framework for Australia than the Asia Pacific: it brings India into the matrix and embraces the Indian and Pacific Oceans, and the sea corridors between the two, into one seamless theatre of operations.

Like Australia, Russia has tended to focus on North Asia (which it calls East Asia) and especially China, a preoccupation that is becoming obsolete. But Russia has always given weight to India, its Cold War 'natural ally'. South-East Asia and the South Pacific Russia sees primarily a market for arms and/or a theatre of geopolitical contention with the US.

Russia sees Australia mainly through the prism of the Australia, New Zealand, United States Security Treaty (ANZUS) alliance and as a relatively minor player. Putin once said that Australia was a country he had never had occasion to think about. But a series of multilateral events has brought on a period of more substantive engagement. The events are

- APEC 2012
- Group of Twenty 2013-2014
- Russia's accession to the World Trade Organisation (WTO)
- The East Asia Summit
- Australian bid for a seat on the United Nations Security Council (UNSC)

So, what are we engaging with?

The Putin regime – and the Russian elite – continues to see the international system as defined principally by the relations between the great powers. Russia's slogan

‘Democratization of international relations’ does not mean multilateral governance, but the devolution of global leadership from the US to a multipolar concert of great powers or ‘global oligarchy’.

China’s re-emergence as a super power notwithstanding, Russian foreign policy is still based on a Eurocentric cultural and economic focus, and America-centric security and strategic culture. Mutually reinforcing factors feed this Western-centrism. The West is still where the bulk of its exports go (51% of Russia’s exports go to Europe; about 16 % to Asia). This is shifting eastward, slowly, drawn by Chinese demand. And after a period of warming towards the West in the 1990s, Russia under Putin has become more confrontational than at any time since before Gorbachev. This reinforces its traditional Western focus.

Putin’s foreign policy is governed by the idea that Russia must be a front-rank great power; that might confers right; that democracy, human rights etc. are bunkum and that Western governments use such doctrines to advance their national interests; that Russia is hated by enemies that covet its resources; and that Russians have a right to dominate the smaller peoples on their periphery.

A central strategic goal is to extract the maximum geopolitical advantage from Russia’s resources, especially its oil and gas. Putin probably sees the key strategic achievements of his energy diplomacy as the Nord Stream gas pipeline across the Baltic, which allows Moscow to export directly to key markets in Europe while cutting off vital energy supplies to pressure unco-operative former vassals in Eastern Europe; and extracting from ExxonMobil a commitment to supply the technology needed to exploit energy deposits in the Arctic and thus sustain oil and gas production at present levels.

China has treated Russia gently and skilfully in the reversal of roles from senior to junior partner – especially when contrasted with what Russia perceives as US and European Union’s (EU) dismissiveness. Despite their underdeveloped economic ties, Russia is far more reliant on China than China is on it. The Russian population east from Lake Baikal imports 60% of its food from China. True, China is now Russia’s largest trading power, yet Australian-Chinese trade levels are still higher despite Russia’s very long land border with China (4355km) and the fact that Russia’s Gross Domestic Product (GDP) is now almost double that of Australia’s. China’s exports to the US are nine times more valuable than its exports to Russia.

The underdeveloped nature of bilateral trade is evident in terms of energy. Russian energy exports to China are quite large from a Russian perspective but in 2010 China imported more oil separately from each of Saudi Arabia, Angola, Oman and Iran (currently China gets 6% of its oil and 4% of its gas from Russia).

But despite the problems in their economic ties, having China in its corner in a geopolitical sense is seen by Moscow as integral to ensuring its restoration as a great power. And the bilateral relationship reinforces perceptions in Russia of the ‘decline of the West’ and the onset of an ‘Asian Century’.



The concept of an Asian Century rests upon the notion that China is set to remain the vanguard of global change and eventually displace the US as the most powerful nation-state. Some participants felt that these forecasts may overstate the case.

Be that as it may, Russia must be interested in two major interrelated trends in China: China's urbanisation is continuing strongly, generating huge demand for energy imports; and straight-line projections suggest that China's burgeoning middle class will reach to 1.4 billion by 2030. Coupled with 1 billion Indian consumers, by 2020 – merely 7 years off – within the broader Indo-Pacific region there will likely be 1.7 billion middle class consumers.

So Russia is almost assured of a huge consumer market on its eastern and southern flanks (though it is separated from the huge Indian market by the arc of chronic volatility stretching from Iran to the Pakistan-Indian border).

### ***Overhaul and overtake the West in the East***

A speaker argued that Russia has fallen behind in tapping into this huge emerging market. Australia's approach towards China had been more strategic. (At the cost of being out-manoeuvred by the Chinese over price) Australia had tapped into the growing Chinese LNG market, positioning itself as a major competitor for Russia in the wider Indo-Pacific energy market. By welcoming Chinese investment in some Australian industries, and large numbers of Chinese students, Australia had sought to guarantee further development in its raw materials and education-services exports.

Russia had fallen behind by being too wary of Chinese investment in 'strategic' industries and of Chinese economic migration to Russian Far East (RFE); and by failing to lock itself in as a dominant supplier in the Chinese market. Nor was it providing renewable energy and natural gas options to a China which is increasingly taking climate change and pollution seriously. And it was still focused on Chinese oil consumption as its sole hook to China's prosperity.

The window is closing for Russia to change its approach. Furthermore, when it comes to China's expanding population, Russia is falling short of providing anything of interest to sell to the middle class. Russia's Higher Education Common Space initiative in APEC is unlikely to get off the ground as Russia is not a destination of choice for university students.

Russia doesn't appear to recognise the flaws in its approach to its dealings with China, due probably to its preoccupation with territorial integrity. Nor does it appear to recognise the need for modernization and renewable energy. It has not responded, for example, to the significant changes in the global gas market sparked by the shale gas revolution. Gazprom, the Kremlin's gas arm, viewed the shale-gas revolution coupled with the Euro crisis as a temporary coincidence. Only now, for the first time since the Soviet era, is Russia beginning to review its gas-export strategy.

### *A nineteenth-century approach to the twenty first*

Another speaker argued that China's rise is starting to modify the Russian elite's Western-centrism, but not its anti-Western reflex and its inability to conceive of Russia's interests other than in terms of zero-sum competition with the US.

Russia's claims to a 'sphere of privileged interest' now include half of the Arctic Ocean. And Putin is pursuing a patrimonial claim over former Soviet possessions, the so-called 'Eurasian Union'.

Russia has acute economic problems but the economic difficulties of the US and Europe tend to mask that fact. While the Euro crisis and the sluggishness in the US economy persist, Putin feels this must be good news, though in fact Russia continues to be heavily dependent on the EU for its prosperity. Meanwhile, Moscow's zero-sum approach to 'The West' and geopolitical use of its resources negate its fitful efforts to deploy soft power and make it a cause for continuing concern in Western capitals.

In one speaker's view, the widespread belief in the West that Russia and China *must* eventually liberalise and 'converge' is wishful thinking. Despite the abiding tensions in their bilateral relations, they form a *de facto* alliance as joint leaders of an international autocrats' club, providing security guarantees to junior members, such as Syria, Belarus and Iran.

The recurring themes of Moscow's rhetoric directed to Indo-Pacific audiences are:

- Russia is a natural ally and reliable partner for all countries in the region;
- US alliances, the main source of regional tensions, should be replaced by a system of 'indivisible security' with Russia and China as its guarantors;
- As a country physically located mainly in Asia, Russia is *ipso facto* a leading member of the Asian community and should be at the high table of any regional groupings;
- Russia's geopolitical clout and its 'strategic partnership' with China make it the region's crucial 'swing state' and 'wild card'. Were the US to abandon its support for democracy in the post-Soviet space, accept Russia's pre-eminence there and scrap its missile defence plans in Europe, Russia might support the US against China.

But Russian actions show that for it the region is another theatre for the pursuit of its core agenda – shoring up its 'sphere of privileged interest' and pursuing its eternal struggle with the West. Russia's perspective is global rather than regional. It is less interested in engaging with the wider region than in reinforcing its 'strategic partnership' with China. As one Russian regional specialist has expressed it "*Everything is seen through the prism of competition with the US and 'friendship' with China.*"

Russia's approach to regional multilateralism is tokenist: it demands membership of all 'clubs' but thinks membership is all that matters - meetings seem to be seen primarily as opportunities to hob-nob with other great powers. Its entry into the WTO and engagement with APEC and the G20 notwithstanding, Russia has little faith in the capacity of multilateralism generally to implement an active agenda – whether in security or economic governance.



Having staked on China as the next global superpower, Russia's Asia policy has become China-aligned and China-dependent. It has, for example, shifted its position on the South China Sea from abstention to support for China.

Russia faces various difficult political issues in the region – notably the strong presence of its preferred adversary the US, and the Kurile islands dispute with Japan. But the biggest regional problem is the one Moscow leaves largely undeclared: how to regulate their vital 'strategic partnership' with China, a country of which they are, inwardly, extremely wary.

### ***Concluding Remarks***

Any major shifts in Russia's overall approach to the region seem unlikely. The profile in Asia that the APEC summit in Vladivostok affords Russia may fade quickly as Moscow's focus returns to Europe, with the Winter Olympics in Sochi in 2014, one of Putin's pet projects. With Vladivostok out of the way, Russia's interest in APEC is likely to fade.

And the G20 won't be a priority: for Moscow it's a Western construct with too many paltry members. Moscow's hopes for Brazil, Russia, India, China, South-Africa (BRICS) may be wishful thinking, but that won't prevent it from seeking to discourage its efforts to make it the leading multinational economic grouping.

Relations with the US, already bad since Putin reclaimed the presidency, are unlikely to improve. But, convinced that the US decline is terminal, and having cut the deal with Exxon on terms he thinks give Russia the better of the bargain, and with the prospect of more such deals to come, Putin is unlikely to adjust his stance towards the US in the region or anywhere else.

Russia's international image is poor, and crude PR is making it worse. Unless it recasts its approach, its standing in the region will remain low and its influence limited. But its capacity for mischief should not be underestimated. For instance, it may yet open an embassy in Fiji, where Bainimarama is a congenial candidate for the autocrats' club.

Russia is rich and will get richer because the international energy firms need it. Despite its political meddling, corruption, dis-incentivising tax regime and chronic inefficiency, it will remain a dominant force in the global market. For most commodity markets, Russian resource exports to Asia are unlikely to become a concern for Australia; but coal and gas may be different.

But the shale-gas revolution will probably do more for energy security globally than any other energy source. This is a threat to a Russia which continues to rely heavily on pipeline gas. And given that the International Energy Agency (IEA) expects renewable energy and natural gas to meet nearly two-thirds of increased energy demand by 2035, Russia will have to develop a competitive advantage by sorting out its natural gas deliveries to the Indo-Pacific.

Australia's time on the G20 trio with Russia will provide an opportunity to engage more closely with Russia. We could share with Russia our domestic discussion on the patchwork economy and flesh out ways of distributing the benefits of a resource boom more productively than massive increases in defence spending, salaries in selected state sectors and welfare entitlements.

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