

At a Dead End

Russian Policy and the Russian Far East

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Abstract: Russia claims to be a great Asian power, but its policies have failed to develop the Russian Far East or to use the energy lever at its disposal to develop the region or become a major, reliable energy provider. These failures owe much to the nature of the Russian political and economic system, and, as a result of Moscow's failure, Russia is running the risk of coming under China's political and economic influence.

Keywords: Asia, China, energy, Russia

Contemporary Russian foreign policy is aggressive, belligerent, offensive, and swaggering. Official statements reflect the now-popular elite view that Russia is up, America is down, and Europe counts for little or nothing because of its disarray. Russia's statesmen and analysts are also prone to this tendency to make inflated claims of Russia as an Asian power. For example, in 2008, Russian foreign minister Sergey Lavrov claimed that because Russian consumers are buying more Japanese cars, many of which are made in (European) Russia, Russia "makes for the prosperity of Asia, and in particular, Japan with its entire potential." Lavrov also stated that the plan to hold the annual Asia-Pacific Economic Cooperation (APEC) meeting in Vladivostok in 2012 and Russia's growing involvement in Asian economic and political processes proves that "Russia's integration into the [Asia-Pacific Region] has become a *fait accompli*."¹ Similarly, the veteran foreign policy analyst Viktor Kremenyuk writes that the revival of Russian power is making it an increasingly serious competitor to the United States. He charges that Russia is "successfully crowding out the United States from its position as China's No. 1 partner, and over time could become that country's quasi-ally."²

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It would be difficult to account for such grandiose delusions without understanding Russian elites' long-standing habit of making inflated claims about Russia to compensate for or conceal the weakness and disarray that they often perceive at home. However, when we examine Russian policy in Asia, and particularly the state of its far eastern provinces, whose effective development is essential for success in Asia, Moscow's tone changes. This may well reflect the differing audiences involved: in statements concerning Russian policy in Asia, Moscow and Russian elites are speaking to the local and central government elites directly responsible for making and implementing policy, whereas the aforementioned belligerent statements are targeted at different audiences; the swaggering tone is aimed to induce recognition of Russia's strength and power. This tone is intended for an audience of foreign elites that Russia wants to influence and the domestic public, whom the government wants to convince of its stalwart defense of Russia's great-power status. In this respect, statements about Russian foreign policy seek to convince audiences at home (both elite and popular) and abroad that Russia really is the great global power that its leaders want and imagine it to be. Thus, rhetoric about Russian foreign policy in Europe and Asia is very much an identity project.³

However, in the Russian Far East (RFE), the reality continues to fall short of the ideal, and Russian authorities therefore feel compelled to admit the gap between the real and desired outcomes and to frighten domestic audiences for the purpose of energizing them in pursuit of that great-power status. For that reason, policy-relevant remarks that are directed more toward the elite domestic audiences who must implement policy contain a quite open anxiety, a sense of frustration, sometimes even a sense of being lost, and mounting apprehension about the future course of events. Russian authorities have been apprehensive about their Far East policy since 2000, if not earlier. Their apprehension reflects Moscow's continuing realization that Russia is failing to develop the RFE as it has long intended to do and its attempt to galvanize local elites by any available means to develop the RFE work.

For example, in 2000, President Vladimir Putin warned local audiences that unless Russia put more effort into the region's development, they would end up speaking Korean, Japanese, or Chinese. Putin's warning left little doubt about Russian fears regarding its Asiatic holdings and which foreign powers might step in should Russia falter.⁴ In 2002, the prestigious Council on Foreign and Defense Policy (SVOP) admonished its elite audience that Siberia and the RFE would inevitably be depopulated. It warned: "One should not turn a blind eye to the risk of some Chinese-related dangers that could materialize within the next 10–15 years."⁵ Meanwhile, Dmitri Trenin of the Moscow branch of the Carnegie Endowment for International Peace was writing that Siberia's development was Russia's civilizational challenge of the twenty-first century and that failure to master this problem could become Russia's most serious problem.⁶ By 2006, he had become pessimistic about Moscow's success in meeting this challenge.

The principal domestic reason is the situation of eastern Russia, especially East Siberia and the [RFE]. Since the collapse of the Soviet Union, the territories have been going through a deep crisis. The former model of their development is inapplicable; a new model is yet to be devised and implemented. Meanwhile, the vast region has been going through depopulation, de-industrialization, and general degradation. Russia's territorial integrity and national unity in the twenty-first century will not be decided by Chechnya. Rather it will depend on whether Moscow will find a way to perform the feat of dual integration of the Far East and Siberia,

that is with the rest of Russia and with its Northeast Asian neighborhood. Eastern Russia is vulnerable. The quality of Moscow's statesmanship will be tested by whether it can rise up to the challenge in the East.⁷

During a September 2008 visit to Kamchatka, Putin's successor, President Dmitry Medvedev, warned that if Russia fails to develop its far east, it could turn into a raw material base for more developed Asian nations (a trend that already seems to be well under way) and "unless we speed up our efforts, we can lose everything."⁸ This warning is hardly a new one; instead, it is typical of elite apprehensions throughout the 1990s. Again, it is clear that Russia fears losing Russian Asia to China, Japan, or South Korea, as well as falling into a pattern of a neocolonial trading relationship in which Russia is the colony. Warnings from Putin in 2000, the SVOP in 2002, Trenin in 2006, and Medvedev in 2008 emphasized that failure to develop this region into something more than an outpost for the export of raw material to more developed East Asian states could lead to a Chinese takeover of the region, not by migration, as is widely but mistakenly feared, but by trade and investment. As Bobo Lo writes in his excellent study of Russo-Chinese relations,

The significance of local xenophobia, political manipulation, and demographic trends pales, however, in comparison with Moscow's continuing failure to implement a viable development strategy for the RFE. Although the Kremlin signed off in 2002 on a Strategy for the Social and Economic Development of Eastern Siberia and the Russian Far East, very little has been achieved. The region continues to be one of the most backward in Russia; the local economy is increasingly reliant on Chinese goods, services, and labor; and local out-migration shows little sign of reversing. For all the early promise under Putin, Moscow's policy towards the RFE is barely more effective than during the dismal Yeltsin years.⁹

Lo also notes that the southern RFE (the more settled area of this region) is already more effectively integrated with China than it is with Russia.¹⁰

Russia's Energy Failures in Asia

The current global economic crisis is also strengthening the signs that this trend toward gradual Chinese dominance may already be under way. The 2008 announcement of a new deal to ensure the supply of Russian oil to China through the projected East Siberian Pacific Ocean Pipeline (ESPO), which would branch off to China at Skovorodino and go to China's largest terminal in Daqing (see figure 1), reflected not only China's earlier irritation at Russia's stalling and failure to deliver on energy projects, but also suggests that China is no longer averse to using its economic power to compel favorable outcomes. This agreement was signed just as Rosneft and other Russian energy firms were appealing to China for loans to bail them out from the financial difficulties arising out of the current economic crisis, signifying that Russia is losing its economic competition with China.¹¹ Putin even begrudgingly said that Russia now welcomed Chinese investments.¹² Similarly, Deputy Prime Minister Aleksandr Zhukov told the Russo-Chinese bilateral commission that Russia favored both states making investments in the other's economies.¹³ Regional officials such as Oleg Safonov, the presidential plenipotentiary in the RFE, also are promoting mutual investment, specifying Chinese investment in not only basic products, such as timber, but also in the high-tech sectors of aircraft construction, nanotechnology, and energy.¹⁴

However, these rosy scenarios are unlikely to materialize. As of early 2008, direct Russian investments in China totaled \$14.2 million and direct Chinese investments in Russia



stood at \$415 million.¹⁵ This disparity is only likely to grow as the global economic crisis and falling energy prices force Russia to retract its economic ambitions. Chinese investment, however, is likely to grow because Russia cannot sustain its visions for the RFE without large-scale foreign investment. For example, a consortium of Chinese engineering firms led by Harbin Turbine will be building coal-fired turbines in the RFE to develop 41,000 megawatts of new generating capacity by 2011. Stanislav Nevynitsyn, executive director of the Russian power producer OGK, admitted, "It is simply a necessity for us to work with the Chinese—we will not get the capacity built otherwise."¹⁶ Thus, Russia is becoming increasingly dependent on Chinese capital investments in regional infrastructure, as this case and Chinese loans to energy firms show.

However, the scheme for Chinese loans failed almost as soon as it was announced. China apparently had first agreed on a 7 percent interest rate for the loans but then changed its mind and requested that the interest be pegged to the London International Bank for Settlements (Libor) rate, which is much higher. China originally was supposed to lend Rosneft \$15 billion and Transneft (Russia's pipeline monopoly) \$10 billion in return for a Russian guarantee of 15 million tons of oil (300,000 barrels a day) to China. This oil would ostensibly have gone from Siberia through the ESPO to Skovorodino and then to Daqing. However,

Russian sources denounced China's interest demands as absurd lending conditions, and the talks collapsed on November 12, 2008. Although they were resumed six days later, it took three months to finalize the deal, which was announced in mid-February 2009.¹⁷ This deal stated that China would lend Rosneft \$15 billion over ten years and Transneft \$10 billion at 6 percent annual interest in return for Russia supplying China with 15 million tons per annum for twenty years—through 2031.¹⁸ Transneft also committed to using its loan for building the ESPO so that it will be commissioned in 2010.¹⁹

Despite the size of the deal, skepticism about its benefits for Russia is warranted for several reasons. The facts surrounding this deal are instructive here. The original 2008 deal was not a conclusive deal to build the ESPO link from Skovorodino or a bailout of Russian firms. Much hard bargaining lies ahead and, if the previous record is any indication, there will be a long intermission between the agreement and the actual execution.²⁰ Furthermore, the price of the oil and the financing arrangements connected with the loan were not announced.²¹ Therefore, there is still no agreement on the price of the energy shipments involved or certainty as to when the pipeline will be finished. In fact, Russian officials remain divided about the ESPO's prospects. Mikhail Barkov, Transneft's vice president, said it would be commissioned at the end of 2009 and reach full capacity in 2011,²² but Energy Minister Sergey Shmatko recently told the subcommission on energy cooperation of the Russo-Chinese commission that there is no way the ESPO could be launched in 2009.²³ If the current global economic crisis is prolonged (a situation that seems ever more likely), it will become ever more difficult for Russia to raise the cash needed to develop Siberian energy sites and invest in the infrastructure necessary to hold up its end of the ESPO bargain.²⁴ Moreover, arguments over prices will then likely become more acute because China will strive to keep them low and Russia will aim to keep them as high as possible. Combined with the inveterate rent-seeking, graft, and suboptimal economics of Russia's energy sector, caution about projecting a completion date for the ESPO, especially in the absence of agreement on energy prices, is amply warranted.

However, China would benefit by committing Russia to a long-term supply that cannot be interrupted if there is disruption in the Middle East, Indian Ocean, or Central Asia. As John Helmer reports,

For China in the medium to long term, according to one Russian bank, the new deal will "provide an impetus to massive development of Eastern Siberia" from which China is best placed to benefit. "We believe that two options are possible: greater Chinese access to the East Siberian fields (currently two upstream projects) via a joint venture with Rosneft, and the potential transformation of [the] East Siberian Pacific Ocean pipeline network into a joint stock company with China getting 49 or 50% control in it." . . . If the latter materializes, that would give Beijing a control[ing] stake in an oil port to be built at Kozmino Bay, near Nakhodka, on the Sea of Japan. Reporting the loan as one of the largest in Russian credit history, a Moscow

"The [East Siberian Pacific Ocean Pipeline]'s travails epitomize the real disarray in Russian policy."

newspaper speculated that in financing the new Russian oil source, “China will reduce its dependence on deliveries of oil from the Persian Gulf, which currently comprise about 80% of China’s oil imports.” The enormous size of the loan also adds to the strategic influence Beijing will have on the development of the Russian economy in the short term. According to Victor Mishnyakov, oil analyst at Uralsib Bank in Moscow, “We think that the development should offer support for the ruble and underlines our expectations that the devaluation of the ruble is over if crude prices remain at their current level throughout the year.”²⁵

Helmer also reports that

China’s undertaking means that new Russian oilfields, such as Rosneft’s Vankor field in central Siberia, will move oil eastwards to Asian markets, rather than westwards to Europe. This geostrategic shift of Russian energy flow has been a Chinese objective for years. Last week’s signing defeats a similar objective pursued by the Japanese government, which has also been lobbying the Kremlin with promises of financing for the ESPO pipeline to the sea.²⁶

Meanwhile, whereas Transneft will use the money to build the pipeline from Skovorodino to Daqing and then, in a second stage, to Kozmino Bay (scheduled for completion in 2013), Rosneft will use at least \$9 billion to refinance its debts due in 2009.²⁷ It is easy to see who is the big winner here and predict the likely geo-economic and geostrategic repercussions of this loan.

The ESPO’s travails epitomize the real disarray in Russian policy. During his February 2008 tour of the region, Medvedev learned firsthand of the problems connected with the pipeline. Nikolai Tokarev, head of Transneft, said then that the ESPO was unlikely to be finished before the end of 2009. The first stage of the pipeline was 46 percent complete, although the original plans called for the pipeline to be 67 percent complete by that time. Although it was 87 percent complete in Irkutsk region, only 18 percent of the pipeline had been constructed in Yakutiya. Costs rose from \$11.2 billion in late 2006 to \$12.5 billion in August 2007, and Transneft suggested delaying its launch. These difficulties are attributable to the harsh climate and topography, the decision to move the ESPO away from Lake Baikal, contractors defaulting on their obligations, and the government’s slowness to decide on a final terminus for the pipeline. Once the government settled on Kozmino Bay as the terminus, it was expected that construction would take twenty months. The predictions from Tokarev’s predecessor at Transneft, Semen Vaynshtok (that the ESPO could be commissioned by the end of 2008) thus were unrealistic.²⁸ Vaynshtok’s report also shows the enduring pathologies of the Russian bureaucracy—passivity and shoddy follow-through on implementation. Despite these obstacles, in December 2007, Transneft’s board of directors rejected proposed adjustments to its 2008 investment schedule, including a postponement of the commissioning of the ESPO’s first phase, because making changes in this schedule was supposedly part of the government’s responsibilities, as if Transneft was not part of the government.²⁹ It is all too clear that these problems stem from malfeasance, corruption, and incompetence on both the corporate and governmental levels (which are virtually indistinguishable in Russia). Meanwhile, Chinese pressure for energy deliveries and the fear of losing China as an economic and political partner caused Russian firms and the government to pledge ever higher oil deliveries to China, even though it is unlikely they can extract that amount from the fields that will be fully online by 2008–11.³⁰ Thus—especially in the absence of an accepted price for oil from the ESPO—we need to examine this deal with some caution.

The ESPO is not the only such example of Russian energy failures in the RFE, nor are these problems confined to Sino-Russian oil or gas relations. Despite recent high-level ministerial talks with Japanese officials and mutual calls for enhanced cooperation in energy and other sectors, no specific agreements appear to have been signed for new Japanese deals in the RFE.³¹ Similarly, Russia's aspirations for gas deals with South Korea went awry in 2005, not least because of Gazprom's high-handed behavior toward Ukraine, which produced a crisis at the start of 2006.³² The analysis that depicted Russia's failure to achieve its goals concerning South Korea warned that Russian export rates were falling even before the financial crisis of 2008 and that fuel output was falling because of production and legal wrangles, governmental claims against several oil companies, and Gazprom's inefficiency and efforts to export petroleum products rather than crude oil. Likewise, these analysts warned of the indebtedness that now haunts Russian firms and expressed concern about what might happen if energy prices fell.³³ Despite major oil discoveries in Kamchatka in 2007, the analysis delicately warned about the problems involved in building the ESPO and the overall program for infrastructure construction in Siberia, warning that "the preceding examination of the two countries' economic structure shows that mutual complementing of the Russian and South Korean economies will be sustainable only in the short and medium terms."³⁴

It remains unclear whether Russia regards supplying Siberia and the RFE with energy as the priority or whether exports to Northeast Asia in return for capital are the priority—another factor that has hampered regional development. A huge plan for a network of pipelines bringing gas from eastern Siberia, and ultimately western Siberia, to Asia in large amounts by 2020 still insists that Siberia receive priority gas distribution from these gas fields and that Asian consumers pay world market prices.³⁵ Analysts of the plan want foreign countries (e.g., South Korea) to help develop Siberia in return for Gazprom gaining equity in those countries' domestic distribution systems, which is not terribly likely, given that these would be major state projects. However, it is clear that the prize is China. These analysts envision Russia building a network of gas pipelines from the RFE and Liquefied Natural Gas (LNG) plants from Sakhalin that would allow Russia to dominate the China gas market by 2030.³⁶ The reality is rather different, however. China is now building gas pipelines from Central Asia that give it (and Central Asia) bargaining leverage vis-à-vis Russia over the terms and prices of gas supplies from western Siberia to China (and from Central Asia to Russia). Instead of concentrating on building pipelines to China, it makes more sense to emphasize putting as much Central Asian energy as possible in Russia's hands, where it can subsidize Russian domestic consumption or, if necessary, be sent to Ukraine or even Europe. As Alexei Kontorovich, Andrei Korzhubaev, and Leonty Eder note,

In the situation that is shaping up now, Russia, with the world's largest gas resources, a cross-border neighbor and an important commercial, economic, and political partner for China, is hard pressed to find an economic rationale to move into China's market and ward off price competition from other gas suppliers to the Chinese market. As Russia sees it, it has to boost the gas flow from Turkmenistan, Kazakhstan, and Uzbekistan across Russia to Europe all the way to the Atlantic. This ambitious goal must be backed up with an adequate transportation infrastructure (including construction of a gas pipeline running along the Caspian coast, modernization of gas pipelines from Central Asia to Russia's heartland and from Bukhara to the Urals in Russia) and Russian companies' greater involvement in drilling projects in Central Asia. If put into effect, these measures will help divert the region's gas into the Russian integrated gas supply system in the face of competition from projects to send gas to China.³⁷

So if Russia and Europe are the priority markets and Central Asia and Russia the priority construction sites, it is not surprising that energy shipments to China, notwithstanding all these glorious plans, are being shortchanged and failing to meet their targets. Russian oil deliveries to China, which now go by rail, evidently failed to meet their 2007 targets and fell 10 percent between January 2007 and November 2007.³⁸ Revelations of delays in the ESPO and further declines in Russian oil shipments to China in January 2008 have only further compounded these problems.³⁹

In addition, Gazprom is now trying to get out of its plans to sell gas to China.⁴⁰ Russia recently struck costs associated with designing a gas pipeline from the 2008 gas budget of the gas project called Sakhalin-1, because Russia cannot produce enough gas to satisfy its domestic, European, and Asian markets. Under pressure, Gazprom sacrificed China to domestic needs, confirming rising suspicions that Russia cannot satisfy the rising demand of its Asian, European, and domestic customers for energy with its current and foreseeable production levels.⁴¹ Not surprisingly, given Gazprom's suboptimal organization and substantial corruption, as well as its domestic political position, it opted to supply the domestic and European markets rather than reform in a more market-oriented direction and raise its production to meet Asian demand. This suggests that China's efforts to get around dealing with Gazprom at Sakhalin-1 by signing a 2006 Memorandum of Understanding with Exxon-Mobil failed, and that Gazprom is likely to drive Exxon-Mobil into a minority status, as it did to Mitsubishi, Mitsui, and Shell on the Sakhalin-2 gas project.⁴² From China's perspective, worse than the fact that Sakhalin-2 will start selling gas to Japan in 2009 was Gazprom's plan to build a pipeline to the Sea of Japan, bypassing China and rewarding its rival, Japan.⁴³ Perhaps this failure in hydrocarbons is one factor driving Beijing to demand more Russian nuclear energy through participation in tenders for reactors to be built in China.⁴⁴ These developments also suggest that expecting huge returns to Russia from the development of nuclear capabilities may well be misplaced, as not enough capability can be developed or sold to the key market that would most need it, China.

Medvedev's response to these obstacles during his February 2008 tour was equally illustrative of Russia's economic-political pathologies. Like a tsar or a Communist Party boss, he sharply attacked the Ministry of Industry and Energy for being slow to approve the Kozmino Bay endpoint for the ESPO, demanding that the ministry explain the delays behind the project and ordering it to finish commissioning the pipeline by later in 2008. At the same time, he announced that the heads of Gazprom and Rosneft, Alexei Miller and Sergey Bogdanchikov, would be held personally accountable for finishing the lagging Sakhalin-Khabarovsk gas pipeline by 2011. Medvedev also ordered the Unified Energy Systems electricity firm to conduct a major China-oriented project to develop regional power generation capabilities and attended the launch of a hydropower station in Yakutiya. His tour was generally intended to stimulate some of the comprehensive development plans previously discussed. For example, the government will spend 570 billion rubles (about \$19–20 billion) to develop transportation and energy infrastructure. It should be remembered that Putin made a similar regional tour in 2007, leading officials to indicate that Moscow could allocate up to 600 billion rubles (\$24.4 billion) for development projects in Siberia and the RFE by 2013 and 9 trillion rubles (\$366 billion) by 2025 to hardly impressive results.⁴⁵ It is not likely that local officials will achieve any greater success despite Medvedev's tour and hectoring.⁴⁶ Indeed, in July 2008, Transneft announced that

the pipeline would not be commissioned until late 2009.⁴⁷ Thus, these huge investments will return very little to Russia.

Finally, Russia and China are discussing trading energy between themselves using their national currencies to bypass the dollar. But given the conditions outlined here and the global environment, analysts like Fedor Lukyanov warn that

It is quite possible that Russia and China may be moving towards using their national currencies in mutual trade. Economically the weight of Russia and China is hardly comparable. China is so far ahead of us that we should be very careful. Otherwise we may find ourselves fully dependent on it.⁴⁸

Under the circumstances, it is not surprising that Moscow also recently signed numerous energy deals with Japan and South Korea, as well as China, and is intensively cultivating Japan's help to build the ESPO and presumably act as a balance to China.⁴⁹ Such multilateralism (or effort to play divide and rule) among all Asian interlocutors is an integral part of Russia's Asia policy in general, not just its energy policy.⁵⁰ Moscow clearly is intensely seeking to avoid having to live up to its commitments to China in regard to energy and to escape the trap of dependence as it is balancing its policies toward China with a rapprochement with Seoul and Tokyo.⁵¹ However, one should not assume that the problems that have plagued energy ties to China will suddenly vanish for South Korea and Japan.

These policy decisions and failures have serious consequences throughout Asia, but they most affect China and Sino-Russian relations in the foreign policy sphere. Even so, and no less importantly, they call Russia's overall Asian policy into serious question. As Pavel Baev concludes,

For China and other energy-hungry Asian countries, Russia shapes up not as an answer to their needs but as a highly unpredictable variable and obstacle for their access to the Caspian hydrocarbons. Seeking to harvest the maximum dividends from the skyrocketing energy market, Moscow has manoeuvred itself into a truly tight corner.⁵²

Russia's failures to realize the development of its far east or live up to its commitments are having exactly the result one would expect: it is increasingly showing signs of dependence on China. This incipient trend toward economic dependence will also have political ramifications throughout Asia. Again, Moscow knows this. It has therefore sought to ensconce Russia in Asia as a legitimate self-standing Asiatic power by such actions as holding the APEC conference in Vladivostok in 2012 and continuing efforts to seek out Japanese and South Korean energy deals and financing for developing eastern Siberia.⁵³ These balancing and multilateral strategies are very important elements in Russia's efforts to avert dependence on China.⁵⁴ But such gyrations are only possible to the extent that the RFE is developed and allows Moscow to realize its claims that it is truly an Asian power. The development of Siberia is thus a national security issue of the utmost importance. It goes beyond economic development to the development of both a civilian and military, economic and transportation infrastructure: all-weather roads, highways, railroads, pipelines, airports, and the like.⁵⁵

The Dilemmas of Russian Policy in the Far East

Moscow undoubtedly knows that it faces a Herculean challenge. But it is still trying to throw resources at the problem. However, those resources can only be generated through

the development of an energy base in Eastern Siberia that can provide large-scale capital and possibly attract foreign capital to this region. As Lavrov wrote in 2006,

Russia can join the integration processes in the vast Asia-Pacific region only through the economic growth of Siberia and the [RFE]; in other words, the modernization of these regions is an axiom. Therefore, there does not exist any contradiction between the general vector of Russia's internal development, described as "the European choice," and the objectives of our policy in Asia. . . . Moreover, our domestic and foreign policy interests converge in Asia as in nowhere else; because without economic progress there cannot be a solid foundation for our policy in this region. In turn, this policy directly depends on the social, economic, and infrastructural, and other development of Siberia and the [RFE].⁵⁶

“Energy replaces grain as the cash crop whose sales abroad will finance industrial or, in this case, postindustrial development.”

Energy extraction and the building of the requisite infrastructure, presumably to Asian consumers, are the only means by which these provinces can be developed. Energy replaces grain as the cash crop whose sales abroad will finance industrial or, in this case, postindustrial development. This situation, of course, replicates the problems of 1860–1917, when Russia could only extract the capital for investment from grain exports and foreign loans or direct investment. Falls in either of these revenue streams would have seri-

ous, if not catastrophic, outcomes. The contemporary dependence on high energy revenues is likely to lead to outcomes similar to those in the late nineteenth and early twentieth centuries, which included long-festering political unrest that twice resulted in revolutions. The classical antinomies of Russian economic development are still exercising a dominating influence on policymaking. Indeed, we are seeing those serious outcomes now, as Russia enters into a prolonged and profound economic crisis with falling energy prices, a depreciating ruble, and massive layoffs.

Lavrov's remarks reflect a situation in which Russia has trapped itself in the classic dilemma of late-tsarist security policy: even as he acknowledges the need for multilateralism, he insists on the state's prerogative and assumes a priori that any foreign investment is intended to render Russia the economic colony of some foreign government. Indeed, he understands this dilemma because he explicitly invokes that period in his remarks about foreign policy. However, despite this awareness, the fact that otherwise the investment simply will not take place, leaving the RFE open to exactly such colonization, is thus minimized. Lavrov writes,

Yet there are occasional suppositions that this goal [of a new “dash to the Pacific”] could be achieved only within the framework of a project for multilateral, investment-based development of Siberia and the [RFE]. However, the internationalization of the country's internal development bears a strong resemblance to another epoch. And if it implies an attempt to initiate a partition of the “Soviet heritage,” especially now that Russia is on the rise as a sovereign nation, this would sound like something from the domain of political fantasy. I am

convinced that we can fulfill this task on our own, while attracting, of course, investments from all interested countries of the region on a balanced basis. However difficult the task of developing the Asian part of the country may be, we will not renounce our sovereignty, nor share it with others. Only we can see to it that all of the resources of those territories including manpower resources are put to use and that the areas are developed, above all in the interests of those who live or want to live there. This is a fundamental issue, and no pseudo-geopolitical reasons can override it. We must not play a U.S. or Chinese card with regard to the access of our resources, as some political scientists propose. Instead, we must clearly outline terms for cooperation in developing energy resources on the basis of Russian laws.⁵⁷

This ultimately translates into a policy that lurches between economic nationalism and divide-and-rule tactics among states that might be attracted to regional investment policies in the RFE. The latter tactics are habitual for Russia under Putin and have been used extensively since 2000 in the pipeline negotiations that resulted in the ESPO. These tactics resulted in delays exporting oil and building the requisite infrastructure; mounting distrust among consumers, who started searching for and getting energy from Central Asia, Africa, the Persian Gulf, and other areas; and sharply rising costs for infrastructure construction, including pipelines.⁵⁸

Today, the success of this national project depends on Moscow obtaining sufficient revenue to develop the region and to build the pipelines to Asia and associated infrastructure (e.g., high-transmission electric lines). However, even when oil was \$145/barrel Moscow could not afford to do this, and the wastefulness, mismanagement, and bureaucratic gamesmanship of the energy industry precluded effective development of the RFE during that interval. Even then, Moscow was busy shopping the East Asian pipeline and other projects to Asian countries seeking to exploit their rivalries for political and pecuniary gain (often personal, because of the utterly venal nature of the Russian elite). Now it will have to do even more to recruit foreign investment, as exemplified by the recent deals with South Korea.⁵⁹ As of this writing, however, the dominant trend is toward ever more state ownership of key sectors with the associated problems of mismanagement, corruption, rent-seeking, and politicized investments that do not make market sense. Moreover, this is accompanied by an economic nationalism and the belief that Russia can restrict foreign investment in key sectors and go it alone without serious costs.⁶⁰ As a result, the long-standing energy, labor, and other infrastructure problems of Siberia and the RFE are not being addressed, and Russian policy still attaches excessive importance to bringing people into the region and developing it along lines redolent of earlier and equally misconceived misallocations of resources.⁶¹

The Will-o'-the-Wisp of Large-Scale Projects

Moscow has consistently thought in terms of grandiose projects to transform the RFE and lay the foundation for the attainment of the geopolitical objectives associated with Russia's return as a major player in Northeast Asia. But these projects invariably spend significant amounts of money and go nowhere. For example, Russia intends to raise its share of oil supplies to East Asia from 3 percent to 10 percent by 2016. It plans to increase the number of Asia-Pacific countries to which it exports oil and natural gas tenfold and fivefold, respectively, by 2020. The share of Asia-Pacific countries that receive Russian exports is scheduled to increase 30 percent by 2020, and natural gas exports will increase from 5 percent to 25 percent. These estimates depend on implementing both new and developed

energy projects, including those in Sakhalin.⁶² Minister of Industry and Energy Andrei Dementyev said,

A program for the development of natural gas resources in East Siberia and the [RFE] would be submitted to the Russian government in 2006. A single system of gas production, transportation, and supplies will be created in the region, with account for exports to the markets of China, the world's largest energy consumer, and other Asia-Pacific countries.⁶³

According to Dementyev, construction of the ESPO, estimated to cost \$11.5 billion, began in April 2006. Since then, more than 100 kilometers have been built and 330 kilometers have been prepared for pipe installation. The ESPO is supposed to pump 60–80 million metric tons of oil annually, with 30 million of it going to China via an ESPO offshoot, the construction of which has already begun. The rest will go to other markets, including Japan and South Korea.⁶⁴ Russia is also vigorously pushing Putin's idea for building an international center for spent fuel and nuclear waste in Russia and the construction of atomic power centers in Asia, in the hopes of raising its profile in the export of nuclear energy to the global market and reaching orders of \$25 billion.⁶⁵

In 2007, Dementyev said that the new government program to develop an integrated gas production complex in eastern Siberia comprising production, transportation, and supply to Siberia and the RFE will require 2,400 billion rubles (\$92 billion). Gas production centers would be established on Sakhalin, and in the Yakutia, Irkutsk, and Krasnoyarsk regions. Russian gas exports to China and South Korea after 2020 are projected to amount to 25–50 billion cubic meters (BCM) annually.⁶⁶ These investments include geological surveys to raise proven reserves in eastern Siberia and the RFE. By 2030, annual gas production in those two regions would total 160 BCM and LNG production would amount to 20 BCM. Gazprom believes that gas production could even reach 200 BCM annually after 2030 and is formally asking the government for licenses to develop new fields in Yakutiya and Sakhalin; it insists that it could raise annual production to 570 BCM in 2010 and 670 BCM in 2020, a 14 percent increase over present projections.⁶⁷ All these projections were based on continuing high energy prices and probably will have to be revised downwards to account for the current economic crisis.

Dementyev's and Putin's statements clearly indicate that Russia regards China as its primary intended partner in Asia but does not confine itself to an exclusive energy relationship with China. However, many of these programs and goals were clearly in doubt even before the crisis hit in late 2008. For example, the Ministry of Industry and Energy could not meet the deadline for devising an integrated or unified gas program before the end of 2006, because it could not coordinate the many and rivalrous bureaucracies inside Russia that are involved in this project.⁶⁸ Although this program has again been announced, one should not expect that it will be completed on time or in its complete draft form. Moscow hopes that all these problems will be solved by selling gas to Beijing, Seoul, and Tokyo, not to mention Pyongyang. Furthermore, Russian energy production is stagnant; Gazprom's production fell 1.3 percent in 2007 and oil production is estimated to have increased only 2 percent in 2008. Because Russia has already admitted that it suffers from a domestic increase in demand and a deficit in energy, it is redirecting gas to its domestic consumers, making the prospects of satisfying Asian demand quite dubious.⁶⁹

The goals that Dementyev and Putin announced in September 2006 envisage the completion over a decade of huge pipelines and equally enormous deals with Asian consumers for

energy that would go far to validate Russia's ambition of becoming "an energy superpower in the Asia-Pacific region."⁷⁰ Indeed, these deals, if they were to be consummated with intended Asian partners, would involve China, Japan, and both Koreas. Finally, large-scale energy, power, and infrastructure deals with East Asia, including the trans-Korean–trans-Siberian railroad, are fundamental components of Putin's strategy to revitalize Siberia and the RFE.⁷¹ Putin formulated such programs in 2000–2001 as a way for Russia to overcome its previous marginalization in the region. Moscow saw the need to create large-scale international consortia to develop energy, electricity, and power engineering projects.⁷² These projects for energy development in Siberia and Sakhalin, as well as large-scale electric power and engineering deals, have since been discussed with China, Japan, South Korea, and even India.

From 2000 to 2001, Putin announced a broad vision of Russia's economic and political place in Asia. He particularly stressed Russia's "natural" role as a geographic bridge and hub linking Asia, Eurasia, and Europe. Russia was supposed to perfect this linkage through jointly developing several major projects. These projects go beyond energy, electricity, and power engineering to include whatever high-tech equipment Russia can bring to those fields, including all forms of transportation (e.g., rail, sea, and air), satellites, and communications.⁷³ The success of Russia's Asian policy hinges on the timely and effective completion of projects that center on energy sales and the development of the requisite infrastructure in Siberia and the RFE. It may be the last chance for some time to carry out this "civilizational" task. Consequently, the reverberations of Russia's failures here cast doubt on its reliability as an energy supplier for China and the rest of Asia, as well as its future as a major player in Asia.

Moscow has also recently reaffirmed its intention to overcome the negative demographic trends of declining population nationally and migration from the RFE, claiming that its plan will create almost 70,000 new jobs in the RFE and increase the regional domestic product by 260 percent compared to its 2007 level by 2013. Furthermore, Moscow claims that investments in capital stock should grow by 35 percent and that economic activity in 2013 will be 110 percent of that in 2007. Finally, Medvedev stated that the regional demographic problem must be overcome because this territory borders China, suggesting Moscow's apprehensions about this demographic trend.⁷⁴ Accelerated development of the region's energy and natural resources is critical to the success of the larger program and the Ministry of Natural Resources is planning at least two investment tenders for the development of minerals, leading to investments of \$30 billion.⁷⁵ It remains to be seen how the current global economic crisis will affect these plans.

Undaunted by the fact that Russia has poured resources into this area for more than thirty years only to achieve little or nothing but wasted time and effort, Medvedev is going to follow in his illustrious predecessors' footsteps with another grandiose plan for reviving Siberia and the RFE, largely through energy and natural resources.⁷⁶ The entire program of energy sales to Asia and development in the RFE is in trouble. Soviet-style storming or crackdowns by the boss are unlikely to achieve major breakthroughs. In the absence of a pipeline, Russian oil sales to China go by rail, but as late as the start of 2008, the Russian railroad system had not signed a contract for shipping oil to China. Although Vladimir Yakunin, head of the Russian railroad system, claimed that the railroad could ship 30 million tons of oil to China if asked, last year it sent only 8 million tons, and in January 2008, oil shipments to China by rail declined by 7.4 percent.⁷⁷ Since then, even where pipelines are being built (e.g., the main ESPO and the branch from Skovorodino to Daqing), Moscow and Beijing have not

yet agreed on the amount of energy to be sold to China or its price. It is even possible that Russia will not be able to ship enough oil to anyone in East Asia to satisfy their demand in the future.⁷⁸ For the first eight months of 2008, Gazprom could not provide the China National Petroleum Corporation with oil because of a dispute with Kazakhstan, and when it resumed shipments in September, China had already begun to inquire about making alternative arrangements with other suppliers to buy oil from elsewhere.⁷⁹

Meanwhile, Russia had to delay construction of its gas pipeline to China because of competition for other gas sources there. These sources of competition arose mainly due to Russia's own dilatoriness in negotiating, and then building, this pipeline.⁸⁰ The Altai pipeline, designed to ship 30 BCM of natural gas to China annually from western Siberia, was excluded from Russia's new blueprint for the gas industry through 2030 because the two sides could not agree on pricing or other issues. Furthermore, gas from the Altai pipeline would be less competitive than gas coming to China from Turkmenistan.⁸¹ Similarly, the giant gas deposits at Kovykta that Gazprom wrested away from TNK-BP will now evidently be used for domestic consumption in Russia's still-subsidized domestic market, where demand is still growing, rather than going to China, as was originally intended.⁸²

Threats to Russia's Position in the RFE

Russia stands to lose a great deal by delaying. Former ambassador to China Igor Rogachev urged Moscow to negotiate prices for gas exports to China as soon as possible and to decide on a time frame for building the ESPO because "if Russia takes too long to decide, China will buy oil in Southeast Asia and in the Middle East." In that case, China's ability to dominate Central Asian energy and economics will grow over time, along with the inevitable political consequences of such a trend. Beyond that, all the evidence to date indicates that oil and gas-producing Central Asian countries can significantly raise the prices they charge to Russia if they have the Chinese market as an alternative.⁸³

If this trend continues to develop, it will become even harder for Russia to sustain its position in Central Asia; the price of doing so would become prohibitive over time. Rogachev could also have cited Central Asia as another of the alternative energy sources for China but refrained from doing so. He said Russia should negotiate a better price despite China's holding out for below-market prices.⁸⁴ Those actions reflect equally compelling geo-economic and geostrategic perspectives for Moscow. In 1998, the Kazakh political scientist Nurbulat Masanov wrote that

U.S. and Western trans-national corporations are active in the exploration of Central Asian resources and are particularly interested in reducing Russia's influence in the region. When new transport routes, such as the Trans-Caucasus corridor, become operational, Russia is expected to experience serious negative consequences. The point is that the flow of export goods from Central Asia across Russia unites the Urals, the Volga region, Western Siberia, and the Far East into a single complex. If this flow takes alternative routes *it is quite possible that the territorial integrity of Russia will be endangered. And with China playing a larger role in the eastern part of Russia, this process is fraught with even greater unpleasantness.*⁸⁵

If Russia cannot control Central Asian energy flows, its entire geo-economic and geostrategic platform, which is contingent on the extensive development of Siberia and the RFE as major energy centers, will collapse, as will Russia's ability to play a major strategic role in Asia or to exercise genuine sovereignty (at least economically) over Siberia, as it will have no basis for economic competition with anyone in East Asia, least of all China.

Russian officials have repeatedly reiterated their opposition to being merely China's source for raw materials and demanded equal status in economic-technological exchanges with China.⁸⁶ Russian leaders also know that if they fail to be competitive economic players in East Asia, they will also be at a serious disadvantage at home and in Central Asia. For, if Russia fails to become "a worthy economic partner" for Asia and the Pacific Rim, Deputy Prime Minister and Finance Minister Aleksei Kudrin warned, "China and the Southeast Asian countries will steamroll Siberia and the [RFE]."⁸⁷ China would then also steamroll Russia in Central Asia, too. Certainly Russian energy policy betrays a definite reserve, if not something stronger, about ceding too much influence to China in Russia or Central Asia.⁸⁸

Thus, Gazprom wants to sell gas to China at a price that generates the same earnings as gas exports to Europe and equal domestic earnings once prices in Russia are raised to global levels in 2011. Even if the final formula for sales to China ultimately differs from those of Gazprom's European customers, it still seeks prices comparable to current European contracts of \$300/thousand cubic meters (tcm) as of 2008.⁸⁹ Worse yet, in view of the recent agreement to buy Central Asian gas at these global prices, Gazprom warned its European customers and Ukraine in 2008 that it may have to charge \$400–\$500/tcm to maintain its profit margin, which is absolutely essential to its survival given its mismanagement.⁹⁰ Moscow's efforts to impose such prices on Ukraine collapsed in early 2009 and its prices to Europe are also falling steadily. If China balks at paying \$300/tcm for gas, how will it react to prices of \$400/tcm—especially with other eager sellers in the market? In the current crisis, China will have ample opportunities to buy gas at much cheaper rates than Russia wants or can afford to charge.

Russia's failure to take advantage of opportunities in Asia will lead China and other Asian consumers, often embodied in national energy companies, to follow Rogachev's injunction and look elsewhere or take matters into their own hands. For example, on February 21, 2008, the South Korean government announced that it had set aside 357.6 billion won (\$378.1 million) to help local energy companies develop overseas oil and gas fields in 2008. These projects are in West Kamchatka in Russia and the Iman field in Azerbaijan, among other locations.⁹¹ These and other deals are part of South Korea's quest to ensure its energy supply and diversify its supplier base. Although South Korea signed major energy deals with Russia in September 2008, including the deal opening West Kamchatka, it also is looking for energy all over the world, including Central Asia.⁹² These deals with Russia are as much political as they are economic; they aim to tie North Korea and South Korea more closely together as part of the emerging competition for shaping the future regional geopolitical and geo-economic order. Therefore, we cannot know whether these deals with Russia will be implemented and, if so, to what degree.⁹³

However, three major considerations could impede that implementation. First, some South Korean commentators observed that South Korea had almost lost out in the race among its neighbors to obtain secure energy resources. Therefore they welcomed these Russian deals.⁹⁴ Others welcomed them because they represent President Lee Myung-bak's first major success in his avowed energy diplomacy. South Korea imports 97 percent of its energy, so it has no choice but to conduct a vigorous diplomacy to bring in oil, gas, and other energy sources in a smooth process at reasonable prices. Likewise, the opportunity to launch a significant process integrating the two Koreas and making them both more or less mutually dependent on a pipeline was cautiously welcomed.⁹⁵

These large deals admittedly offer the possibility for large-scale projects tying together South Korea and Russia, if not ultimately North Korea. However, we should not overestimate their impact. It is noteworthy that nobody released the price that South Korea will pay for this gas or for transfer fees to North Korea, especially because price issues played a large role in obstructing the realization of Sino-Russian and Russo-Japanese pipelines. As the price of energy is now in a rapid decline of almost 70 percent from its 2008 price, these issues could become a more sensitive question between Russia and all its potential gas consumers. Furthermore, North Korea's reaction to these deals has yet to be determined, and it could throw up serious obstacles to both the railroad and pipeline deals, or it could demand very high prices for transfer fees, or it could even reject the projects altogether. This unpredictably could manifest itself particularly strongly in the event of a succession crisis, which is no longer a remote possibility, given Kim Jong-Il's stroke in 2008.

Finally, and potentially most crucial, Russia has been a notoriously unreliable partner to East Asian countries in the energy field, as China's and Japan's experiences richly suggest.⁹⁶ Its own internal economic and political structure militates against coherent implementation of energy promises made to partners, and the immense corruption of its administrative and energy sectors also precludes rapid and effective execution of contracts even after they have been signed at the state level. The examples of the ESPO, the Altai pipeline to China, and other projects to China should be cautionary. There also are potentially promising economic and political initiatives, such as those embodied in the September 2008 deals with South Korea, that could materially transform the situation on the Korean peninsula if realized. However, between the promise and the reality, between the dream and its execution, there falls a rather large shadow.

Waiting for Russia is an unprofitable—if not dangerous—exercise, and the recognition of this fact, even as South Korea, Japan, and China seek Russian energy because there is so much of it so nearby, has led these countries to heed Rogachev's admonition and seek energy sources elsewhere. Ultimately, Medvedev can crack the whip from time to time, or even all the time, but unless major structural reform takes place soon, Medvedev's pressure will quickly be recognized as ineffectual. Absent real reform, cracking the whip will not induce the circus animals of the Russian bureaucracy to dance either better or faster.

Problems of the Defense Industry in the Far East

Neither Putin nor Medvedev have been able to get these bureaucratic-economic behemoths to cooperate. They have also devoted much attention to reviving the defense budget as another means to stimulate regional development. Despite the growing economic crisis, Russia is raising defense spending by 27 percent in 2009, and by comparable orders of magnitude for 2010–11, to reconstruct its entire conventional and nuclear capabilities so that it can play the role of an independent great power. As a result, defense industries in the RFE are hoping for a renaissance because of increased orders. The defense-industrial sector also expects to be a major producer of civilian goods, as it was in the Soviet period. The efforts to regenerate a large defense budget under present conditions appear to be a trajectory that can only lead to more problems. As Pavel Usov observes:

The development of the Far East companies of the industry, which used to focus on filling the needs of the Navy, depends on the volume of orders. If the Navy starts reducing the number of orders placed and there are no civilian orders coming in some production facilities will have to be closed down: we are thinking realistically here. It would be great if customers like

Rosneft and Gazprom could also understand this, but for the time being, everybody is still just talking about all this.⁹⁷

However, according to Aleksandr Levdansky, the executive director of the Far East Gas and Oil Complex Association, Rosneft and Gazprom are utterly unable to find common ground on a series of issues or to coordinate between themselves. They instead stick to their individual policies, which are mutually hostile.⁹⁸

Conclusion

Despite more than a generation of grandiose energy and other projects, the RFE remains a region in danger of depopulation and economic colonization by China. Moscow still has no clear idea of what to do. It tries to induce migrants to move there, but there are not enough jobs to sustain them, and the energy projects that are either contemplated, announced, or under way will not provide enough jobs in the future.⁹⁹ In this respect, the present merely reenacts the past.¹⁰⁰ Mismanagement, corruption, and widespread criminality, all of which is tied to officialdom (30–40 percent of the defense budget is simply stolen¹⁰¹), further compromise efficient investment in the region. As Lo observes, the guiding principle in energy policy is what's good for Gazprom (or Rosneft or Transneft) is good for Russia. Decision making by government insiders usurps the national interest. This, he says, is a style of decision making that is morally delinquent, volatile, and at odds with any kind of stable long-term policy for developing the RFE.¹⁰²

Energy firms run by the state cannot even coordinate among themselves. In any case, once the revenues from energy get to Moscow, they are siphoned off, used for political purposes, or mismanaged to an incredible degree. Gazprom invests its profits and revenues mainly in unrelated industries and suffers from declining production, probably 3–4 percent in 2006. This is amazing but not especially surprising—in 2004, another year of surging global demand, Gazprom's production only grew 2 percent. Its higher debt and increased inefficiency are predictable consequences directly traceable to state policies of monopolization and control.¹⁰³ According to Vladimir Milov, president of the Institute of Energy Policy, writing before the 2008 financial crisis,

Gazprom and Rosneft are the “champions of debt accumulation,” with total debts of more than \$85 billion as of the third quarter of last year. That accounts for some 20 percent of Russia's total corporate debt. The chairman of Gazprom's board of directors is president-elect Dmitry Medvedev and Rosneft's board chairman is deputy presidential-administration head Igor Sechin. Milov writes that Gazprom's debt-to-earnings ratio has reached 70 percent, while Rosneft's is already 106 percent, which leads him to conclude the two companies “are in a deep financial crisis that has so far been covered up only by high world oil prices.” Milov says the most likely outcome will be additional loans to the companies from state banks at the order of the government. Milov concludes that “it is important to understand that the reckless policy of restoring the government's influence in the oil-and-gas sector in recent years has not been free for the country. It has a concrete price and a very high one.”¹⁰⁴

Beyond that, Gazprom's and Rosneft's production growth is either minimal or negative.

Gazprom's natural gas production forecast calls for modest growth of 1–2 percent per year by 2008. Russia's natural gas production growth has suffered due primarily to aging fields, state regulation, Gazprom's monopolistic control over the industry, and insufficient export pipelines. Three major fields (called the ‘Big Three’) in Western Siberia—Urengoy, Yamburg,

and Medvezh'ye—comprise more than 70 percent of Gazprom's total natural gas production, but these fields are now in decline. Although the company projects increases in its natural gas output between 2008 and 2030, most of Russia's natural gas production growth will come from independent gas companies such as Novatek, Itera, and Northgaz.¹⁰⁵

Rosneft suffers from similar pathologies and forecasts. Although it claims that it will boost production by 10.9 percent in 2008 and 40–50 million tons of oil annually in eastern Siberia by 2020, it faces serious problems, particularly in Siberia and Asia. These problems may stem in part from the firm's aggressive acquisitions policy in eastern Siberia and ensuing pressures for rapidly putting fields into high-volume production. Rosneft's strained finances and history of a lack of cooperation with Gazprom may, however, preclude its ability to finance these projects, particularly given that Rosneft is struggling to refinance its short-term debt.¹⁰⁶ The loan from China indicates that it is exchanging equity for debt—a classic sign of a colonial relationship.

Not surprisingly, because of its distorted incentive structure, Russian oil and gas production is suffering from insufficient prospecting.¹⁰⁷ There may not be enough oil being produced in eastern Siberia for the ESPO to meet its 2025 target. In 2007, Japanese experts at the Ministry of Natural Resources concluded:

According to the information revealed at the experts' meeting of the Ministry of Natural Resources, confirmation of the oil reserves is drastically falling behind schedule. In 2005, only 800,000 tons (0.08%) was confirmed against the estimate of 90 million tons; in 2006, 15 million tons (8.5%) against the estimate of 108 million tons was confirmed. . . . At the current pace, it will be impossible to reach the amount of reserve that will be needed to start the second stage of construction [of the ESPO], and to reach Japan. Therefore, there is the strong possibility that Russia will only supply oil to China.¹⁰⁸

In that case, all the plans now being laid and those constructed since Putin came to power in 2000 will amount to little or nothing. The warnings cited by Putin, Trenin, SVOP, and Medvedev will indeed come true. But the paradox here is that although policymakers recognize the dangers, they refuse to take the actions to reorient Russian economic and development policy to market realities and genuine capitalism, rather than to periodic updates of the tsarist model.¹⁰⁹ Medvedev and Putin must take to heart the insight of the nephew of Lampedusa's prince—that “for everything to stay the same, everything has to change”—if they wish to preserve Russian sovereignty in the RFE and integrate it firmly into both the Russian and Asian economies, and thus leverage Russia's return to Asia as a great power. Based on the evidence to date, it is doubtful that Russian leaders have even heard of this insight, let alone assimilated its profound meaning into their thinking about the RFE.

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