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*“Business and Investments Opportunities in Northeast Asia and Greater Tumen Region:  
Russian Perspective”*  
(presentation thesis)

The Northeast Asia (NEA) region plays an important role in the Russian foreign policy, because Moscow is very interested to use its increasing economic potential to contribute to the economic development and comprehensive security of the Russian Far East (RFE) and Eastern Siberia.

**There are several areas of Russia's regional involvement** that could become substantial components of the NEA and Greater Tumen Region multilateral cooperation models: energy and natural resources supplies; transportation, tourism and education services, nature and ecology preservation, constructive participation in regional International Governmental Organizations (IGO), etc.

First, most perspective among them is to become a major and reliable energy supplier to the East Asian countries. Several NEA infrastructure development projects in the energy supply sphere have been actively discussed for many years, and the critical issue has always been unsolved: *who would pay to start and to implement them?*

In a very positive financial situation in Russia, Moscow began to implement New Energy Policy (NEP) by preserving its capacity in strategic decision-making in the energy extraction and transit. Thus in December 2004 the Russian Prime Minister Mikhail Fradkov ordered to begin construction of the Eastern Siberia - Pacific Ocean (ESPO) oil pipeline *using Russian public budget money and not seeking foreign investments to start the project*. The fact that largest public companies Gazprom and Rosneft got a preferential access to the Russian natural resources may lead to some slowdown in extraction ratio.

At the same time in unfavorable conditions of the RFE territories (cold climate, mountainous terrain, lack of transportation infrastructure and labor force, etc.), those largest Russian public companies would be able to effectively support stable supply of energy to Asian markets according to approved schedule and in quantities coordinated with foreign partners (another NEP idea is to sign long term contracts with foreigners to obtain Russian natural resources).

Overall, Russia as a consolidated player at the East Asian energy market will be a more reliable partner to the key consumers of oil and gas in NEA (China, Japan, ROK, DPRK), and foreign investments' perspective into this sector is very positive. Considering a proposal to form a

regional IGO for cooperation in energy sector in Northeast Asia, Moscow is still interested in its realization.

Second, Russia already became a critical supporter of natural resources (timber, fish, seafood, metals, etc.) to NEA countries. A special emphasis should be made by Moscow on developing regional cooperation in natural resources preservation, because all East Asian countries, especially China and Japan, are dependant on Russian energy, metals, timber, fish, and will depend even more in future when, for example, Chinese acute lack of water may become a critical regional problem. In future, Russian Government plans to make substantial investments to develop natural resources processing industry thus increasing the share of more value added product and to reinvigorate at the RFE such high technology based industries as shipbuilding and civilian aircraft production. Foreign investments into those sectors would be very welcomed.

Another area of possible Russian input is to provide efficient railway transportation services between East Asia and Europe by connecting TSR and TKR. However, several key energy and infrastructure development projects in NEA could not be realized due to unsolved security problem at the Korean Peninsula, and Russia is trying to do its best to change this situation. Russia's role as a consistent supporter of multilateral cooperation in the Asia-Pacific, primarily in security and economic matters, is gradually emerges, and taking into account favorable financial situation in the country, Moscow role at the 6-Party Talks' negotiation table, and especially in delivering energy supplies to DPRK, will increase in future. Finally, an effective solution to this problem in a 6-Party Talks format may become a key to forming a new international governmental organization dealing with the NEA comprehensive security issues.

### **TRADP experience and GTI perspective**

The Tumen River Area Development program (TRADP) and its successor the Greater Tumen Initiative (GTI) so far is the only one example of the intergovernmental mechanism in NEA for economic cooperation.

During its history of operation TRADP demonstrated several shortcomings and liabilities as follows:

1. Participating states interests and visions' controversies.
2. The project has never become participating states' priority. As a result leading international financial institutions (WB, EBRR, ADB) were not interested to support it. The idea to form a NEADB so far did not materialize.

3. Too much concentration of power in the leading donor's (UNDP) hands resulted in negligence of participating states' interests and regional specifics thus decreasing effectiveness of multilateral cooperation.

4. TRADP incomplete regional membership: absence of Japan as a possible leading financial donor.

To increase operational effectiveness, TRADP new models have been discussed for a while, and finally it evolved into the GTI. In 2007 Japan is still not a part of the project, but in current positive financial situation in most GTI participating countries (China, ROK, RF) it does not look as a critical problem. Besides, GTI operational model is now mostly characterized by genuine member-state ownership and empowerment.

Most critical issues for GTI is to enhance multilateral cooperation by putting its plans and activities into context of the NEA larger political initiatives, especially 6-Party Talks. At the same time GTI proposed plans should be effectively coordinated with participating states own priorities in developing this region. In Russian case one of such priorities it is an envisioned role for Vladivostok as a center of international cooperation in the Asia-Pacific.

### **Special role for Vladivostok in NEA and GTI cooperation models**

In 2012 the APEC Summit will take place in Vladivostok, and to improve the host city's infrastructure the "Big Vladivostok" project is developed. The project capital will amount to 147,5 bln rubles (about \$6 bln). It should be implemented during five years (2007-2011) on the basis of the public/private partnerships. The complex of "Big Vladivostok" project includes: reconstruction of the international airport, development of road network, including construction of a bridge(s) to the Russian Island, development of port infrastructure, communications, engineering objects, and construction of the multipurpose administrative business center, including 5 large 4-5 "stars" hotels and international conference center for 7 thousand people.

A plan to develop Vladivostok as an international business and cultural center also provides creation of the tourist recreational zone at Russian Island, hi-tech Techno Park, gambling zone, and other objects.

Realization of this complex project would support the role of Vladivostok as a "world city", and one of the NEA centers in providing such critical services as:

- transportation and logistics (modernized airport, sea port, roads, bridges, communications, etc.);
- tourism (tourist recreational zone at Russian Island, gambling zone, new large and small hotels);
- international education (after APEC Summit several hotels could be transformed into dormitories for foreign students of the new International university to be created at the Russian Island. At this moment foreigners already complement a sizable amount of students' body in several Vladivostok universities);
- scientific consulting in energy, environment and other spheres. It is of critical importance taking into account recent cases of deadly water pollution of the Songhua river in Northern China when toxic waste reached Amur river and city of Khabarovsk, and potential ecology threat for northern part of Japan Sea as a result of construction of industrial objects at the bank of Tumen river in Jilin province, and in southern Primorsky region in Russia (oil refining factory with capacity of 20 mln tons per year, etc.).

### **Conclusions:**

To preserve the territorial integrity of the RFE and Eastern Siberia, Moscow plans to substantially increase public budget allocations to improve regional energy and transportation infrastructure thus indirectly improving local population standards of living due to positive collateral socioeconomic effects. In 2007 then Minister for Russia Economic Development and Trade Gref announced that 427 billion rubles (\$16,6 bln) would be assigned to implement The Far East and Transbaikalia development federal program for next 6 years. The amount of allocated funds will be gradually increasing from 35 bln rubles in 2008 to 75 bln rubles (\$3 bln) in 2013.

To make proposed changes a reality the Russian Government should complement the above mentioned federal program with one more critical component – to give the FRE territories more economic freedoms to start several free economic zones, tourist/recreational zones, etc. thus attracting more investments from Russian and foreign private investors into new high tech industrial production lines, hotels construction, tourism and education services, scientific consulting, etc.

To increase NEA states' priority in implementing GTI Strategic Action Plan 2006-2015, its activities should be considered in the strategic context of the NEA political situation, and to be

effectively coordinated with participating states own priorities in developing this region. Thus Proposed GTI projects should be put in the largest framework of the efforts undertaken in the 6-Party Talks format to solve Korean Peninsula security problem. In this case Russia would be more willing to increase its share in realization of those projects.

At the same time “Big Vladivostok” project has all the reasons to be included into the activities of the GTI Strategic Action Plan 2006-2015, taking into account its very positive role in GTI Plan priority sectors: transport, energy, tourism, investment, education, and scientific consulting with environment as a cross-cutting scheme.