

Confidential

RUSSIA

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Published monthly in Russian and in English
by Trialogue Company Ltd.

Issue № 8 (224), vol.14. August 2015

6 November 2015

Svetlana Klyuchanskaya reports from Novosibirsk:

RUSSIA, EEU, AND ASEAN: FROM BILATERAL TIES
TO INTER-REGIONAL COOPERATION?

ANNOTATION

Cooling relations between Russia and the West reignited the debate in Russia about an "Eastward pivot", which, coupled with existing integration strategies for the post-Soviet space, comes with new and ambitious challenges. The Eurasian Economic Union was formed in early 2015, and by the end of the year we expect to see the ASEAN Economic Union (AEU). That prompts the question: what prospects are there for cooperation between these regional groupings? What are approaches and formats for Eurasian Economic Union member-states to intensify cooperation with ASEAN countries?

Author Svetlana Klyuchanskaya believes that the Union's goal could well be creating an inter-regional EEU-ASEAN free trade zone (FTZ) based on the network of FTZ agreements with regional countries along the EEU+1 track. In the near future, it is more likely that we will see cooperation continuing at bilateral levels between countries. This should develop in line with an underlying strategy for EEU countries to penetrate ASEAN markets, based on economic complementarity and the construction of unified transport infrastructure. Russia, whose level of interaction with South-East Asian countries is significantly higher than that of other countries in the union, could become a springboard for ASEAN expanding cooperation with EEU countries.

RUSSIA, EEU, AND ASEAN: POTENTIAL OF A FREE TRADE ZONE

Today, ASEAN (Association of Southeast Asian Nations) countries are performing well in terms of external trade with many countries around the world. ASEAN states' trade with China in 2014 was worth 366 billion USD, with Europe - over 248 billion USD, with Japan and the United States - 229 billion USD and 212 billion USD respectively. This clearly demonstrates ASEAN's desire to avoid being dependent on any single external (non-regional) power in foreign trade. This policy means they are also open to trade relations with Russia, and its Eurasian Economic Union (EEU) partners.

STATISTICS IN BRIEF

The ASEAN area is home to 625 million people. Its total GDP exceeds 2.3 trillion USD. Total foreign trade amounts to 2.5 trillion USD. Foreign direct investment (FDI) in the region stands at 122 billion USD.

Trade between Russia and ASEAN has shown consistent growth, in 2014 reaching 22.5 billion USD, but it remains a small portion of ASEAN countries' overall foreign trade - at 0.9%. Nonetheless, over the past six years, it almost tripled, expanding from 0.3% in 2008, ensuring Russia enjoying a secure position among ASEAN's 15 main economic partners.

	2009	2010	2011	2012	2013	January - June 2013	January - June 2014
Turnover	8,2	12,5	16,2	15,6	17,5	8,3	8,8
% growth	81,1	152,3	129,2	96,2	112,1	117,6	106,2
Export	3,9	7,0	8,6	7,3	8,5	4,1	4,7
% growth	90,0	177,3	122,7	85,1	116,3	117,8	116,6
Import	4,3	5,6	7,6	8,3	9,0	4,3	4,1
% growth	74,3	129,3	137,4	108,7	108,3	117,4	96,3
Balance	-0,4	1,4	0,9	-1,0	-0,5	-0,2	0,6

Table 1. Growth in Russia's trade with ASEAN countries (2009 - June 2014).
Source: Russian Federal Customs Service

But even factoring in these positive changes, Russia remains significantly behind other major players. By comparison, China's total trade with ASEAN which just like Russia began with its official contacts with the Association back in 1991, now stands at 366.5 billion USD.

That said, Russia's engagement with ASEAN is still much more developed than that of its EEU partners. Growing out of the Customs Union, the EEU has been operational since January 2015, and currently comprises Armenia, Belarus, Russia, Kazakhstan, and Kyrgyzstan.

This positive trend of growing trade and economic cooperation between Russia and South-East Asian countries could become a springboard for ASEAN to ramp up trade with EEU countries - provided there is further development of economic integration within the group.

It is therefore particularly telling that in May 2015 the agreement on a Free Trade Zone (FTZ) between EEU and Vietnam was signed - an event that is undoubtedly of great significance for developing relations between the EEU and ASEAN. Of course, this agreement reflects the natural development of existing relations (Vietnam has been Russia's partner for many decades) rather than ties exclusively related to the EEU's appeal.

There remains, however, significant space for development in this area. The most rational tactic to adopt is 'from the particular to the general' - i.e. building a network of Free Trade Zone agreements with individual countries in the region along EEU+1 lines in order to achieve the level of liberalization required to effect the transfer to talks on interregional FTZs between the EEU and ASEAN. The creation of autonomous FTZs with the most developed countries in the region (Singapore, Indonesia, Malaysia) in the short term is a real possibility.

It is through gradual evolution that ASEAN's trade relations with other countries in the Asia Pacific region and the EU develop: from the ASEAN+1 format (separate FTZs with China, Japan, South Korea, India, Australia, and New Zealand) to the ASEAN+3 format (China, Japan, South Korea), and the ASEAN+6 format (which would include an agreement on Comprehensive Regional Economic Partnership). ASEAN+6 could to some extent serve as a prototype for future EEU-ASEAN cooperation.

Integration processes are also underway within ASEAN - namely the proclaimed aim of creating the ASEAN Economic Union, or AEU, which is supposed to turn the region into a single market and single production base, to facilitate the free movement of goods, services, investment, labour force, and capital. Work to create the AEU is to be completed by the end of 2015.

Although each EEU member state today has experience of individual cooperation with ASEAN countries, work on a regional scale would clearly involve a completely different level of interaction.

At this stage, however, given the relatively feeble pace with which integration processes within both groupings are developing, it is more likely that we will see a continuation of this interaction at a bilateral, country-to-country level. This approach however must be based on a common strategy of expanding into ASEAN markets, while establishing an EEU-ASEAN FTZ could serve as a goal that would help the EEU member states building a consistent line in their relationship.

This cooperation must be built on economic complementarity, as the ASEAN countries' main exports differ from those of the EEU, and therein lies significant potential for expanding these ties. The EEU's main goal in relations with ASEAN countries should be to develop long-term plans and visions for future cooperation based on an analysis of possible areas - we will review several below.

ENERGY: AT THE FOREFRONT OF GLOBAL DEMAND

Cooperation on energy is undoubtedly a key area: ASEAN states are major oil and oil-product importers, and are highly dependent on the state of the global energy market. Although there are 11 bilateral projects aimed at optimising regional energy resource use and expanding connection to electricity and gas supplies already active under the Association framework, cooperation in this area is limited by financial and economic factors, as well as the development level of countries in the

region. Oftentimes these national energy systems cannot be built independently by local specialists due to a certain lack of human, geological or material resources.

This opens up serious cooperation prospects for Russia and other EEU members, and not solely in terms of energy supplies, but also in the provision of services to build and modernize energy facilities, help train people and develop energy systems. This is a particularly interesting avenue for cooperation for Russia, especially given the opportunities for cooperation with ASEAN on nuclear energy.

TRANSPORT AND LOGISTICS: RACING AGAINST CHINA

The development of transport and logistics infrastructure is vital in boosting trade and economic relations and investment cooperation between EEU and ASEAN countries. Russia should in particular focus on developing maritime communication linking ports in Russia's Far East with ASEAN countries. The Northern Sea Route runs along the shores of Russia's Far East, and according to forecasts seems set to become a key transport link that will only grow in importance. The Trans-Siberian railway and Baikal-Amur mainline feed into the ports in Russia's Far East, transecting Eurasia. All this presents rail and port infrastructure in the region with new tasks and challenges.

Russia and its partners in the Union should start to make real and systemic efforts to building transport and logistics infrastructure on their territories as a unified intra-regional system providing a reliable link with transport systems in Asia Pacific, and acting as a bridge to Europe, Central Asia, and the Middle East.

Businesses from the EEU states could also seek out opportunities to participate in developing rail infrastructure in South East Asia, and in developing port facilities in the region. They could start with being involved in the Trans-Asian Railway, which is being developed actively from Singapore to Kunming (China).

Today's realities mean that putting things off is not really an option - especially since neighbouring countries such as China already have plans to scale up their work to build infrastructure and production potential. To conclude, this will make it possible to attract developing business, including from ASEAN countries.

Under China's plans to create the Pan-Asian Highspeed Railway works on the following strategic railway construction projects should began by 2025:

- *Central Asian section - from Urumqi across Kyrgyzstan, Kazakhstan, Uzbekistan, Turkmenistan, Iran, Turkey, and other states to Europe;*
- *East Asian section - from Kunming via Vietnam, Cambodia, Thailand/Myanmar, Malaysia - to Singapore;*
- *Russian section - from Heilongjiang via Siberia to Eastern Europe.*

The rising number of domestic road transport development projects executed on a national and regional scale, is also indicative. In April 2008, China signed Intergovernmental cooperation agreements on road transport with 14 countries including Russia, Mongolia, Kazakhstan, and Vietnam, which cover the development and launching of 242 cross-border highways. This also means that Kazakhstan's role as a central part of this transport and logistics system is growing.

TRADE AND INVESTMENT: KEY AREAS

This is the main area of interaction, and in one way or another it is related to all the other sectors. Until recently EEU countries only had modest volumes of trade and investment with ASEAN countries, even though they did show significant growth.

- In 2014 trade between the **Republic of Belarus** and Association countries came to 728.6 million USD (import - 686.6 million USD, export - 42 million USD). One of the most natural and promising niches for Belarusian exports to ASEAN countries, with their developing economies where 80% of their economic production is in agriculture - is agricultural machinery. ASEAN countries' plans to develop their mining sectors would involve engineering and equipment investment, and that means that Belarusian machines and mine trucks could find a new market.
- The mining industry, like the metals sector, could also be a promising area for **Kazakhstan**, with whom ASEAN has not so far engaged in any major cooperation, despite Astana's bold rhetoric about moving to enhanced cooperation on an ASEAN+1 format. In 2014, Kazakhstan's trade with Association countries amounted to 440.1 million USD (export - 56.4 million USD, import - 383.7 million USD).
- **Armenia** joined the EEU in early 2015, and at that moment, its trade with ASEAN countries in 2014 was the lowest of any country in the EEU. Its total volume amounted to 43.7 million USD (import - 31.6 million USD, export - 12.1 million USD).
- **Kyrgyzstan** has been a member since 12 August 2015, and its trade with ASEAN countries amounts to just 16.2 million USD (15 million USD - import, 1.2 million USD - export).
- **Russia's** cooperation with ASEAN countries is uneven - in terms of the different countries in the region it is involved with, and - rather than sectors - the kind of projects it is implementing in ASEAN countries. It bears mentioning cooperation in the oil and gas sector (Russian firm *Petros* exploring and developing oil reserves under contract with the Indonesian company *Suma Sarana*, from the *Nuansa Group holding*); in nuclear energy; work to launch a satellite with Indonesia (project to develop and deliver the *Telkom-3* for Indonesian operator *PT Telekomunikasi Indonesia Tbk*, which, sadly, ended in failure to reach orbit), etc. Today, one key problem in relations between Russia and ASEAN is the fact that these relations are limited to individual projects, largely implemented by state corporations.

Clearly, in order to expand economic cooperation it is imperative that there is a move from *les grands projets* that have limited reach and are implemented by major companies and corporations, to cooperation between small and medium-sized business.

An important task remains to develop a format for cooperation between small and medium-sized business that would be specifically tailored to the needs of the EEU and ASEAN. Setting ongoing dialogue in place along these lines could enable the business communities in both blocs to gain a clearer picture of what this cooperation could look like and what needs to be done to ensure investment activity develops effectively and to ease access to ASEAN investment projects.

In the whole, for developing trade and investment the following steps should be considered:

- creating an interaction format at senior officials level in EEU and ASEAN in the field of economy;
- developing an information exchange mechanism covering trade, investment, tariff policy, non-tariff measures, regulations, etc;
- encouraging and expanding mutual exchange through business trips and delegations;
- in order to expand investment activity, participation in developing highways, railways, and overall transport and logistics infrastructure is needed - as part of a broader implementation of the overarching *Master Plan on ASEAN Connectivity*.

ADVANCES IN THE FINANCIAL SECTOR

Gaining and holding an effective presence on financial markets as an individual country and as a regional grouping requires a clear strategy underpinned by sound market analysis. The lack of any such strategy regarding ASEAN countries, and the lack of resources for a bold entry onto new regional markets is common among EEU banks. However, the past five years have seen some progress in this area. The most striking example of this, perhaps, can be found in Russia's VTB, whose success in Vietnam demonstrates the key role that financial cooperation plays for developing cooperation in other areas.

Since entering a new regional market is something only seasoned major financial players can stomach, in the medium term it is vital that major players in the EEU banking sector join forces to enter and strengthen their positions on ASEAN countries' financial markets.

CONCLUSION

Analysis of the situation makes it clear that it is not only Russia, but also its EEA partners, that lack effective long-term strategic plans for cooperation or roadmaps to boost trade and expand their presence in South East Asia. Developing this kind of plan is the task at hand, and it must be approached based on a common strategy for entering ASEAN markets. Developing effective transport and logistics infrastructure in the form of intra-regional systems must be a key part of this strategy.

In 2015, the formation of the EEU and the ASEAN Community creates additional opportunities for growing cooperation between countries in the two blocs, through deepening integration processes and developing ongoing dialogue. Today, the EEU's main challenge is to develop and create mechanisms for interaction with the ASEAN Community on trade and investment. That said, a long-term goal that should help EEU member countries take the right approach in their relations, could be the development of the interregional EEU-ASEAN FTZ based on the network of FTZ agreements with individual countries of the region following the EEU+1 principle, with the recent agreement with Vietnam being a good first step in this direction.

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Moscow-Geneva, August 2015

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We continue 2015 Club season and are glad to **invite you to prolong your membership for 2016 or 2016-2017**, if you have not done so yet.

In 2016, the *Trialogue* Club members will continue to receive our exclusive information on the foreign policy priorities of the Russian Federation, and on current threats and challenges to global security. **Five meetings of the *Trialogue* Club International** are planned for 2016 (four in Moscow and one abroad); Club members will receive 4 issues of the Security Index quarterly journal in electronic form and 2 issues in print (in 2016 only in Russian), **12 issues of the *Russia Confidential* exclusive analytics bulletin**, our informational and analytical newsletters.

As before, experts of the *Trialogue* Club International and of its partner organization PIR Center are open to an exchange of views on key international problems.

Fees for the *Trialogue* Club membership since 2016 are as follows:

Period	Individual membership	Corporate membership
01.01.16. – 31.12.16. (1 year)	50 000 rub.	80 000 rub.
01.01.16. – 31.12.17. (2 years)	90 000 rub.	140 000 rub.

We would like to remind you that the corporate membership is based on **"1+1" scheme** when **two representatives** of the organization participate in the work of the Club.

Please note that when paying membership fees no later than 30 November of the year preceding the year of membership that is paid for, a 10% fee discount is applicable.

On all questions concerning the *Trialogue* Club Internationals membership, please contact us by the e-mail secretary@trialogue-club.ru or by phone: +7 (985) 764-98-96

Sincerely,

**Chairman,
Trialogue Club
International**

Dmitry Polikanov