

Economic sovereignty: An agenda for Militant Russia

Malle, Silvana

Veröffentlichungsversion / Published Version
Zeitschriftenartikel / journal article

Empfohlene Zitierung / Suggested Citation:

Malle, S. (2016). Economic sovereignty: An agenda for Militant Russia. *Russian Journal of Economics*, 2(2), 111-128.
<https://doi.org/10.1016/j.ruje.2016.06.001>

Nutzungsbedingungen:

Dieser Text wird unter einer CC BY-NC-ND Lizenz (Namensnennung-Nicht-kommerziell-Keine Bearbeitung) zur Verfügung gestellt. Nähere Auskünfte zu den CC-Lizenzen finden Sie hier:

<https://creativecommons.org/licenses/by-nc-nd/4.0/deed.de>

Terms of use:

This document is made available under a CC BY-NC-ND Licence (Attribution-Non Commercial-NoDerivatives). For more information see:

<https://creativecommons.org/licenses/by-nc-nd/4.0>

Economic sovereignty. An agenda for Militant Russia[☆]

Silvana Malle

University of Verona, Italy

Abstract

This paper argues that Russia has embarked on a difficult path to economic sovereignty and heightened security to withstand rising antagonism from the West that culminated with the application of punitive sanctions against Russia's positioning on Ukraine. With the aim of lessening economic dependence on trade with the EU, its major trade partner for decades, Russia tries to work out a patriotic model of growth based on two vectors: import and trade partner substitution. The pursuit of self-sufficiency in foodstuffs adds an important pillar to security concerns as reflected earlier in the 2010 Doctrine on Food Security. But import substitution will be costly and difficult to manage. Fiscal balances and exchange rates will need to adjust to the new challenges. Finding new partners eastwards is also complicated. Trade with China, in hydrocarbons or other commodities, requires massive infrastructural work that neither the government nor private investors can afford in a situation of financial stringency. Investment from China is slow to materialize as the economic slowdown also impinges on China's projects. Nonetheless important deals on gas and infrastructure have been agreed and are pursued despite difficulties. A favourable institutional framework aimed at attracting investors to the Far East is in place. It will be up to the local administrations to make the best of it and venture capital to run the risk. The outlook is long-term, but both Russia and China have learnt from history to be patient.

© 2016 Non-profit partnership "Voprosy Ekonomiki". Hosting by Elsevier B.V. All rights reserved.

JEL classification: F13, F52, L52, P27.

Keywords: Russia, economic security, import substitution, development eastward, trade, investment, China.

[☆] An abbreviated version of this article was published in Russian as: Malle S. A. Militant Russia. *Rossiia v Globalnoi Politike*, 2015, Vol. 13, No. 6, pp. 82–91. An earlier version of this paper introducing this concept in relation to Russia's changing strategies was presented at the CREES, University of Birmingham, Annual Conference, Cumberland Lodge 5–7 June 2015.

E-mail address: silvana.malle@univr.it.

Peer review under responsibility of Voprosy Ekonomiki.

1. Foreword on Militant Russia

The goals, strategies and agents of change in today's ostracized Russia are framed into "economic sovereignty", a concept used for the first time by President Putin at a Congress of the All Russian National Front (ONF) in April 2015. Putin laid down the context of the new policy framework. Heightened concerns for security in a hostile geopolitical environment required stronger engagement and commitment to implement the reform agenda enunciated in the 7 May 2012 decrees. Putin admonished people in charge to neither relax, nor complain, and assigned the ONF the monitoring and control of plans and procedures regarding self-sufficiency and import substitution policies.

Economic sovereignty fixes the paradigms of Russia's new order—that this paper characterizes as Militant Russia (MR). This is an order *in fieri*—a patriotic construct that is taking shape within the corporatist framework of enhanced security concerns. By this approach, militant means assertive, vigorous, active, but not necessarily bellicose. Militancy in the Latin meaning of "serving as a soldier" is understood as the collective pursuit of the Russian nation in defence of its own interests and goals. Features of Russian corporatism were discernible some years ago (see Malle, 2013b), but developments to date add new elements to this vision. While the search for a national identity anchored to historical values and tradition is still confused and incomplete, one can observe the emergence of a "militant nation" under the impact of ostracism from the West.

The semantics of Militant Russia helps highlight the vision of a nation that is not resigned to a subordinate role among regional powers; aims at independent statehood, strives to strengthen its own social and economic organizations; moves to fight international isolation by threading new partnerships and alliances. Used and abused labels of dictatorship, totalitarianism, authoritarianism, neo-authoritarianism are either inadequate or less heuristic compared to the characters of "militancy" in present-day Russia. Militant Russia is not a system, but a process permeated by cultural features and people's pride in national heritage that motivate their support for the leadership. MR embodies a vision of social cohesiveness; commonalities of values and national aims. Contrary to the Soviet Union where internationalism, at least ideally, played an important role in framing alliances and establishing durable links with opposition movements in democratic countries, MR stands in defence of the nation's own interests and prospects. Militancy is an irreplaceable attribute of defence should mobilization eventually become necessary.

In this vision patriotism, together with enhanced military and economic security, plays a primary role. Patriotism has become the symbol of national identity and readiness to defend the country for a large majority of Russians.¹ While modernization cannot work "without the unifying force of civil patriotism," in order to succeed, "mobilizing" patriotism should look to the future, not to the past. "Owing to the radical and irreversible changes in the external environment" there is need for re-discussing foreign policy strategies—separately from the issue of Ukraine, warns Andrei Kortunov (2015), Director General of the Russian International Affairs Council. Isolated from Europe, Russia turns to Asia. But

¹ According to the opinion poll carried out 17–20 April 2015 by the Levada Centre, some 80% of Russia believe in patriotism and consider themselves to be patriots. <http://www.levada.ru/29-04-2015/patriotizm-i-gosudarstvo>.

forging new alliances will not be easy. The Russian Far East and the Asian Pacific Region beyond are largely unexplored territories and impervious cultures. In order not to be seen as a minor actor in the Asian countries' race for development and growth, there will be need for a wise balance of militancy and restraint.

Facing a confrontational approach at Russia's borders with Eastern Europe, "economic sovereignty" policies are discussed in Moscow with focus on enhanced security. Underlying decision-making, security concerns demand adjustments to the model of growth in which the pursuit of efficiency becomes a lesser priority compared to the past two and a half decades of transformation to market. The pillars of the new order are a tighter security approach to economic structure and performance, sustainable partnership linkages eastwards and the upholding of mutual trust between the people and the leadership.

This paper discusses two facets of the path to economic sovereignty, each bearing a durable impact on the nature of the system and its foreseeable development. Firstly, the Russian embargo on food imports and related policies are analyzed from a longer term perspective. The point is made that such an approach will entail economic policy adjustments unforeseen in the 2012 reform agenda. Secondly, the process of trade partners' substitution is considered with focus on the need for Russia to find long-term trustworthy strategic partners in Central Asia and China as an alternative to both Eurozone and European Union countries. While costly compared to former prospects of turning Russia into a bridge between Europe and Asia, the paper discusses whether this policy may be profitable in a longer term by furthering the development of the Russian Far East and opening new markets to Russian commodities and military exports.

2. Framing a militant model of growth

At the 2015 April Media-Forum organized by the ONF, Putin conceded the economic situation was evolving compared to 2012, but contested the notion of crisis dismissing the importance of the "so-called anti-crisis plan". In his view, despite difficulties, foreign loans were honoured and, despite falling oil prices and ruble depreciation, there was no economic collapse.² Changes in the model of growth were not discussed; vice versa, the room for progress was emphasized.

As a matter of fact, worrisome developments are putting pressure to adjust the model of growth to new constraints. This model is still based on open trade and free capital movements. The ratio of Russia's foreign trade to GDP is still comparatively high among the emerging market economies (EME) at 41.3% (2010–2014 average) similar to India (41.7%), not far from China (45.0%) and almost double that of Brazil (21.9%).³

Market criteria apply by and large to macroeconomic policies and the country has been pursuing further integration in the world economy becoming a member of WTO in August 2012. Sovereign funds backed up by oil revenues and prudent investments in foreign treasury bills have helped the economy to fend off

² See the transcript of "Media-Forum of Independent Regional and Local Media", St. Petersburg, 28 April 2015. <http://www.kremlin.ru/events/president/news/49358>.

³ See the World Bank data sheet on Merchandise Trade in <http://data.worldbank.org/indicator/TG.VAL.TOTL.GD.ZS>.

the worst effects of the international financial crisis, providing a cushion against unexpected liquidity pressures in 2008–2009.

The repercussions on economic performance of falling oil prices and western economic sanctions, introduced in April 2014 and matched in August by a Russian embargo on imports of foodstuffs, have been painful, with a 2015 GDP fall of 3.7%. While it is difficult to separate the impact of different factors on performance, the official estimate of the cost of sanctions is \$160bn.⁴ Pressures to move from market tools to more direct state intervention are increasing.

The precarious balance between promoters of market reforms and conservative opposition that survived the 2008–2009 economic crisis clashes against MR's priorities and ambitions. While autarky is ruled out, "economic sovereignty" is an eloquent rallying cry for the direction of change. The catchphrase is ambitious and out of reach for a resource-based economy exposed to highly variable international prices and highly dependent on western technology, but conveys the need for structural measures against shocks from either business cycles or confrontational policies. Economic sovereignty, thus, entails control on the reallocation of resources according to priority and a discriminating choice of economic partners. Import substitution is the approach to production that any company is supposed to be aiming to. Government and businesses must work in tandem. Powerful state companies and administrations are put under pressure to deliver on time and quality. Ministerial regulations have been approved tightening the screws on state entities trying to circumvent import constraints to their benefit.⁵ Developments to date suggest that this goal is pursued with determination by the authorities despite resistance from large companies both state and private.⁶ From constraint, import substitution has become a goal of MR for which social cohesiveness becomes crucial. The ONF created in 2011 and developed throughout the country under the impulse of President Putin may serve this purpose.⁷ But import substitution is also to make room for trustworthy trade partners out of Europe, and primarily in Asia. With stronger economic ties, military alliances may also develop in time to secure common progress. In trying to fend off the worst effect of isolation, security concerns become pervasive and condition socio-economic developments.

3. Security and self-sufficiency in foodstuff

Sectors that matter for security are gaining pre-eminence for policy and growth. These include primarily the military-industrial complex (MIC) with its research and development sector, the modernization of which had been planned earlier (see Cooper, 2015), and energy that this paper briefly discusses below in relation to Gazprom's plans of supply to the East. We, however, focus on the security implications of the new approach to self-sufficiency in agriculture.

⁴ Reported by Putin at the Federation Council, see <http://www.rg.ru/printable/2015/04/27/putin-site.html>.

⁵ "Substitution has a meaning for what is necessary, not simply for what is possible" warns the government commission in charge of monitoring import substitution, see <https://www.vedomosti.ru/economics/articles/2015/05/13/importozameschenie-dolzno-sootvetstvovat-nuzhdam-goskompanii>.

⁶ Indicators of performance linked to purchase and use of domestic inputs may be put in place to counter established foreign supply linkages even if they would go against the need to reduce costs and concomitant pressure to achieve savings, see <http://www.vedomosti.ru/technology/articles/2016/03/29/635469-soveti-direktorov-goskompanii-mogut-pooschryat-zakupku-tehnologii-rossii>.

⁷ For a detailed discussion of the structure and policies of the ONF see Malle (2016).

Import substitution policies have either been forced by sanctions from abroad, or stimulated by government restrictions on a number of imported agricultural products. The cost of replacing some 800 critical imports of civilian processing industry by 2020 is estimated at 1.5 trillion rubles (c. \$30bn), of which 235bn (c. \$4,7bn) should be financed by the state in the (optimistic) expectation that, due to higher tariff barriers, the largest part will be financed by private investors.⁸ Observable effects to date of import substitution policies are discussed thoroughly by Connolly (2015, 2016). This section concentrates on their MR strategic aspects relative to food products.

Russia's embargo on imports of foodstuffs came unexpectedly in the aftermath of industrial, financial and individually-targeted sanctions enacted by major powers in the course of 2014 to condemn the annexation of Crimea and pro-Russian separatist fighting in Ukraine's territories bordering Russia. The embargo encompassed a number of perishable products and was interpreted as a tit for tat measure aimed at hurting small producers in the expectation that they would put pressure on their respective governments to revise, mitigate or cancel altogether their sanctions against Russia.

More importantly, however, from a systemic point of view, the embargo forced Russian producers to put in practice the precepts of security strategies laid down earlier, in the aftermath of the 2009 international economic crisis and when Russia's GDP had fallen by 7.8% year-on-year. Import substitution including foodstuffs was greeted by nationalists as a long-awaited chance of economic modernization.⁹ In this light, Russian counter-sanctions acquire a new dimension. Indeed, if conceived as a symmetrical reaction against the array of OECD members' sanctions, the Russian embargo looks trivial, particularly if compared to the cascade effects of banning foreign airlines from flying over the territory of Russia or cutting hydrocarbons supplies, both discussed in the country and, with much concern, abroad.¹⁰ Second, in the light of the small GDP share of agriculture in OECD countries (less than 2–3%) and the even lower share of food exports to Russia, the Russian authorities would have been naïve to expect the embargo to be very costly, socially painful and politically damaging.¹¹ Finally, one would think that the political drawbacks of a measure easily described as self-inflicted punishment bound to bring about shortage and price increase, should have been taken for granted by the authorities.¹²

More plausibly, as purported in this paper, the embargo was thought of, and carried out, as a timely, and unduly delayed (according to some), implementa-

⁸ Estimates by the Ministry of Foreign Trade, see <http://izvestia.ru/news/584888>. The total cost of import substitution is estimated at 2.5 trillion rubles, see http://minpromtorg.gov.ru/press-centre/all/#!realizaciya_vseh_otraslevyh_planov_importozameshheniya_potrebuet_25_trln_rubley. The USD value has been estimated at the prevailing exchange rate at the time the regulations were approved.

⁹ See <http://www.odnako.org/blogs/komu-na-sankciyah-rasti-horosho-mi-ne-tolko-potrebiteli-no-i-proizvoditeli/>.

¹⁰ On airlines flight bans see <http://itar-tass.com/ekonomika/1364075>. The issue of hydrocarbons was discussed among specialists and neglected by media.

¹¹ The EU agro-food exports to Russia fell 43% from August 2014 to June 2015 (from €10.2bn to €5.8bn) hitting comparatively more East European countries and Finland, but still an overall modest total cost, see <http://epthinktank.eu/2015/11/20/russian-measures-against-european-union-agricultural-products-one-year-on/>.

¹² For an overview, see <http://newsru.com/russia/07aug2014/sanctions.html> and <http://www.forbes.ru/print/node/264857>.

tion of security guidelines approved by Medvedev's decree on 12 May 2009. The previous decree signed by Putin as Acting President on 10 January 2000 in which agricultural stagnation and imports of foodstuffs were mentioned cursorily as one of many possible economic threats was cancelled.¹³ On the basis of Medvedev's 2009 decree a Doctrine of Food Security was worked out and approved on 1 February 2010,¹⁴ following concerns for people's well-being and possible unrest during the financial crisis. In Medvedev's decree the global financial and economic crises are comparable for their cumulative damage to application of military force on a large scale. Food shortage was listed as a major danger to avert thanks to biotechnology and "import substitution of basic foodstuffs". Among many fundamental concerns the consumer price level was listed third. The Doctrine of Food Security laid down monitoring indicators of consumption and production. Per capita consumption of food and calories was chosen the object of monitoring.¹⁵ On the side of supply, together with the volume of output, imports of primary and processed agricultural products and fish were listed for monitoring. Substitution with domestic output was also discussed with regard to technology, machinery, equipment and other resources for the agro-industrial complex and fisheries. The task of examining the state of food security and the right to issue recommendations were mandated to the Security Council.

The Doctrine's framework inspires today's agro-industrial policy and is referred to when justifying state support to farms and food processing. Arkady Dvorkovich's report to the government on food security late April 2015 suggests that the share of domestic output of basic staples must conform to the 2010 Doctrine's principles. In five years Russia should achieve almost 100% food security in meat, vegetables and fruit, and in about 7 to 10 years in dairy products. The Doctrine fixes precise quotas: domestic output should provide 95% of consumption of grain, 80% of sugar, vegetable oil and fish, 85% of meat, meat products and edible salt,¹⁶ 90% of milk and dairy products and 95% of potatoes.

Plans are ambitious and resources are scarce. Nonetheless, food security may finally have obtained priority status close to that of military output and energy. It is also gaining support from farmers' lobbies.¹⁷ High agricultural subsidies maintained by the US and the EU for decades despite WTO's recommendations also provide for food security. After decades of food dependence Russia appears to be aligning itself with world powers' practice. The embargo of foodstuffs approved in 2014 is supposed to encourage the consumption of traditional staples, enhance import substitution when feasible and provide for food reserves. To counter imports, including agricultural machinery and foodstuff from EU countries, through the members of the Eurasian Economic Union (EAEU—see below) the Ministry

¹³ See <http://kremlin.ru/acts/bank/14927>.

¹⁴ See Medvedev's legislation and provisions in <http://www.rg.ru/printable/2009/05/19/strategia-dok.html> and <http://kremlin.ru/acts/bank/30563/page/1>.

¹⁵ Interestingly, Sergey Glaziev prepared a long dossier on food security for the nationalist Izbornik Club also dwelling on calories and per capita consumption, see <http://www.dynacon.ru/content/articles/1725/>.

¹⁶ Import of edible salt from Ukraine was halted in January 2015 alleging sanitary reasons, see http://rosпотреbnadzor.ru/about/info/news/news_details.php?ELEMENT_ID=2967. Import was authorized again in May 2016, see <http://www.finmarket.ru/main/article/4279534>.

¹⁷ See http://www.ng.ru/editorial/2015-05-25/2_red.html?print=Y on increasing revenues to food producers and their interests in upholding embargoes and <http://top.rbc.ru/economics/20/01/2015/54be941b9a79473ac2a44d29> on priority import substitution of equipment for food industry.

of Economic Development (MED) aims at introducing import substitution policies in state procurement (already in place in Russia) within the EAEU.¹⁸ The authorities may even consider, as they did, tax or other constraints to the export of grains to boost foodstuff reserves, and even destruction of illegal imports that is continuing in 2016.¹⁹ If banning the import of foodstuffs aims primarily at increasing security, as suggested in this paper, it is likely that, no matter the fate of sanctions against Russia, the authorities will not hurry abolishing the embargo on basic staples any time soon.²⁰ But they will need to adapt economic policy to this challenge.

4. Security and economic policy linkages

Tougher security rules will have an impact on policies since there is a need to a) provide investors in agricultural output and processing with the necessary long-term horizon; b) boost the output of primary products; c) reign in currency appreciation relying on a weak ruble as a protectionist measure against imports from non-OECD countries instead of subsidizing farmers for which there is now little fiscal room²¹; d) stimulate the development of internationally competitive large-scale farms and agricultural processing.²² All in all, the macroeconomic policy coordinates will need to adjust to security concerns at least in the short to medium term. Plans for 2016–2018 include subsidies to agriculture of up to 290bn rubles by the Federal Government and of up to 66bn rubles by the regional structures.²³

A competitive exchange rate suits economic authorities and investors better than a strong currency.²⁴ In this context, an appreciation of the ruble linked to an increase in oil prices would find the Central Bank less inclined than in the past to sterilize current account capital inflows to stem inflationary pressures.²⁵ The infla-

¹⁸ The MED's instruction is discussed in <http://www.vedomosti.ru/economics/articles/2016/03/04/632496-evraziiskomu-soyuzu-importozamescheniem>. On regional coordination of import substitution referring also to better integration of producers in the EAEU see <http://economy.gov.ru/minec/activity/sections/macro/politic/20160311#>.

¹⁹ See <http://www.reuters.com/article/2014/12/24/us-russia-crisis-grains-egypt-idUSKBN0K216C20141224>. A tax of 15% was imposed on the export of grains from February to end of June 2015, as earlier discussed and still debated, see <http://www.finmarket.ru/news/3897798/>. On the destruction of embargo foodstuff approved by 42% of Russians see <http://www.interfax.ru/business/461784> and <http://top.rbc.ru/politics/21/08/2015/55d713149a794744e36765df>.

²⁰ As stressed by deputy prime minister Arkady Dvorkovich charged with monitoring import substitution, see http://www.ng.ru/economics/2015-04-30/1_dvorkovich.html?print=Y. Medvedev on May 23 2015 was confident that Russia will expand cattle breeding to stop imports from the US, eventually using excess grain for the purpose, <http://government.ru/news/18220/>. In May 2016 Medvedev announced that 5 out of 8 indicators of the Doctrine of Food Security had been fulfilled, including that for meat, and self-sufficient Russia could even become an exporter of foodstuffs, see <http://government.ru/news/22717/>. He also announced on May 27 that the embargo will be extended to the end of 2017, see <http://www.interfax.ru/business/510405>.

²¹ A deficit projection up to 3.7% of GDP was approved by Putin in April 2015, see <http://www.forbes.ru/news/286567-putin-podpisal-zakon-o-popravkakh-v-byudzhet-2015-goda>. But in 2016 according to MED's basic projections based on a \$40pb oil price for Urals the deficit may increase to 5.1 % of GDP, see <http://www.kommersant.ru/doc/2911191>.

²² On producers' pressure for depreciation, see <http://www.themoscowtimes.com/business/article/russian-meat-producer-cherkizovo-plans-to-up-exports/519700.html>.

²³ On cutting the share of consumer goods and services in retail from 44% to 38% of total imports projected for 2018, see <http://government.ru/media/files/QTqv2S15qYEuu2zOHkOAwguydbKD9Ckf.pdf>; on subsidies see <http://krasnoyarsk.bezformata.ru/listnews/prezident-i-premer-obsudili-podgotovku/35745001/>.

²⁴ See Yakovlev (2015) on the positive effect of 1998 devaluation on recovery.

²⁵ Minister of Finance Anton Siluanov reacted sharply against an unexpected appreciation of the ruble late April 2015, see <http://lenta.ru/news/2015/04/24/siluanovruble/>.

tion targeting regime is unlikely to be brought, if it ever was, to capacity and, while remaining volatile, there is no sign that the exchange rate may significantly appreciate any time soon, particularly after devaluation of the yuan by China in August 2015 (see Weafer, 2015; Wolff, 2015). Thus in the foreseeable future, macroeconomic stabilisation and disinflation may be sacrificed to changing priorities.

Results to date show that imports of foodstuffs decreased remarkably, probably more due to the depreciation of the ruble and falling disposable income than self-inflicted embargo. Despite the sharp fall in GDP, agricultural output increased in 2015.²⁶ State subsidies to the agro-industrial sector increased either through direct grants or indirectly through privileged credits backed by state. One third of the regions benefited from such schemes.²⁷ Only time will tell how structurally effective such policies might have been.

Sanctions and embargoes cannot prevent altogether trade flows through third, particularly if bordering, countries, as repeated skirmishing on foreign trade with Belarus suggests.²⁸ But higher transaction costs help reduce the comparative costs of home-made staples. Improving food processing and catering of home-made products and fostering competition against large scale international retailers in the field are already occurring. Start-ups may find some state-backed support.²⁹ Foreign retail investors are already moving to find local suppliers. This may lead with luck to people's pleasure in rediscovering traditional tastes, though there could be limits to food patriotism when prices grow fast.³⁰ In some regions price control demanded by social organisations is already in place.³¹ *Ceteris paribus*, this may contribute to shortage in the short run. But the material and moral coordinates of MR's food security are in place: hardly anybody would dare to fight them.

5. Away from Europe towards Asia

The security approach to economic sovereignty is patriotic, but not autarkic. In this light, Russia's turn to Asia is of a great significance, as noted by Russian policy advisors and quite a few dispassionate foreign observers,³² for this vision may

²⁶ By 46% in the IH2015 y-o-y, see <http://rg.ru/2015/08/28/import-site-anons.html> with dairy products more easily replaced by home-made substitutes, see http://www.lprime.ru/consumer_markets/20150407/806916286-print.html and <http://rusplt.ru/news/soyuzmoloko-zayavilo-o-pereizbyitke-molochnoy-produktsii-v-rossiyskih-torgovyih-setyah-422120.html>. From the start of embargo Russia reduced imports of agricultural products by \$10bn, from \$36,7–36,9bn import value in 2013–2014 to \$26bn in 2015, see <http://www.vz.ru/economy/2016/2/19/795182.html> and official data for foreign trade in 2015 in http://www.gks.ru/bgd/free/b04_03/IssWWW.exe/Stg/d06/35.htm. See official data in http://www.gks.ru/bgd/free/B04_03/IssWWW.exe/Stg/d06/64.htm.

²⁷ About 60bn rubles were already disbursed before the sowing period, <http://www.mcx.ru/news/news/show/37867.355.htm>.

²⁸ On contrasts on problems of transit, see <http://www.interfax.ru/business/410114> and <http://www.vz.ru/news/2014/12/8/719325.print.html>.

²⁹ On the allegedly competitive fast food project *Edim doma!* proposed by two well-known film directors, see <http://www.interfax.ru/business/436947>.

³⁰ See <http://www.npr.org/blogs/thesalt/2014/09/04/345506041/russians-react-to-western-food-ban-with-pride-resignation>. Overall Russians seem to have quietly adapted to import substitution and higher prices of foodstuffs, see <http://www.levada.ru/old/16-04-2015/importozameshchenie-uma-chto-rossiyane-dumayut-o-propazhe-produktov-s-prilavkov>.

³¹ See <http://ria.ru/economy/20141204/1036612490.html>; on retailers freezing prices for two months to avert worst measures by the government, see <http://expert.ru/2015/02/27/zachem-magazinyi-zamorazhivayut-tsenyi/>, <http://tass.ru/ekonomika/1799594>.

³² See Karaganov (2013), Danilov-Daniliyan (2013), Inozemtsev (2014a). For a view from India, see Sakhuja (2014). For a German view of the challenges facing Russia see Spanger (2016).

durably effect not only the strategic allocation of resources, but also partnership in trade and investment and joint defence agreements. The May 2012 decrees focused on the accelerated development of the Far East and increased openness to China and the Asian Pacific Rim as a whole. Three years ago the idea of Russia bridging Europe with Asia appeared if not attainable in the medium to long term at least a far-reaching goal that both western and eastern economic partners could be interested in (see Malle and Cooper, 2014). This idea is now dead.

Moving eastwards is presently a tighter concept, as it entails Russia turning away from Europe to give pre-eminence to deepening its foreign relations with Asian countries and China.³³ As a point in case, it is worth noting that a free trade agreement between Vietnam, among the many other Asian countries that manifested interest, and the EAEU has been approved by the Russian government on 25 May 2015.³⁴ Rather than eastwards plus westwards, as conceived earlier, this is a continental shift of dramatic dimensions and consequences for all. Putin and Xi Jinping standing side by side at the 9 May 2015 Moscow parade for the celebration of victory in WWII with the glaring absence of all western leaders and/or high level representative officials is striking proof of the tremendous turn in foreign relations observable to date. This represents a milestone in smoothly developing bilateral relations the pace of which accelerated as a reaction, according to a Chinese expert, to the strategy of containment adopted by the US, disrespect of other countries' sovereignty and NATO's expansion to Eastern Europe.³⁵

The divide was initially marked by the ostensible disinclination to attend the Sochi Olympics by most western leaders. This decision was preceded by the condemnation of the Eurasian Customs Union (ECU) as a revanchist attempt to recreate the Soviet Union, and followed by various efforts to disrupt the enlargement of the Eurasian integration project.³⁶ The reasons for mounting hostility against Russia at that stage are unclear. On the one hand, projects of regional economic integration had been carried out by many countries earlier, including the US with NAFTA. The ECU project was largely based on the EU model and regulatory framework. The EAEU was inaugurated in 2015 as a supranational entity with equal rights for all members. Decision are taken by consensus at the Highest Council body.³⁷ On the other hand, nationalist overtones are better assessed if compared with those of other EMEs, such as Turkey, for instance, or contextualized in Russia's transformation to market and peoples' pride in recovery and growth after the painful 1990s.

Both Sochi and ECU initiatives had been conceived at the time of high GDP growth rates that Russia has not yet been able to recover since the 2008–2009 crisis and may have to be sacrificed in the years to come to the need to revisit the model of growth. Steps to strengthen the Eurasian Customs Union (limited to Russia, Belarus and Kazakhstan until mid-2014) were gradually undertaken in the aftermath of the crisis by a laborious process of tightening regulations on trade, technical/sanitary product specifications and compromises on customs'

³³ These developments are discussed in Malle (2014).

³⁴ See <http://izvestia.ru/news/586678> and <http://government.ru/en/docs/18216/>.

³⁵ "Sino-Russo Entente is more than an Axis of Convenience" was the cool remark by Trenin (2015b). Russian-Sino relations strengthened owing to the US' containment policy towards both countries according to Li Jingjie (2013).

³⁶ http://www.ng.ru/armies/2014-04-23/1_nato.html?print=Y.

³⁷ See Treaty http://www.eaeunion.org/files/history/2014/2014_2.pdf.

barriers and transit, while the cost of enlarging the alliance to poor partners such as Kyrgyzstan and Tajikistan turned into a reason for postponing their entry to better times, as was explicitly reiterated by the authorities in charge of ECU, rather than rushing to incorporate them, a move eventually justified by an expansionist and/or defensive strategy. The whole process of Eurasian Integration, originally proposed by Nazarbaev in the early 1990s, was slow, marred by uncertainties, difficult negotiations with weaker but demanding partners and, all in all, very costly for Russia. Economic prospects from integration with more advanced countries and efforts at improving security in Central Asia by bribing in poor countries framed the whole strategy. Not a militant one at that stage.

Ukraine that had been enticed by Russia to join the ECU with a number of promises and privileges declined the offer in 2013 unleashing—together with the breakdown of government structures, political and economic linkages, people's unrest and separatist movements—additional reasons for Russia's acrimony against the EU and the Anglo-American community overt partisanship. Russia's altogether peaceful annexation of Crimea, after a cleverly organized pro-Russia referendum, enhanced Russians' militant mood and passions.³⁸ The frozen armed conflict in south-east Ukraine is to become a permanent source of tensions in Europe compelling Russia not to disengage from the region (see for this outlook Trenin, 2015a; Ishchenko, 2015; Karaganov, 2015; Lukyanov, 2014a). But that will not prevent a rapidly growing re-allocation of resources aimed at deepening its relations with Asia. Understandably, policies and commercial agreements are driven by economic interests, but security concerns remain paramount primarily with regard to Central Asia (as discussed in Malle, 2013a).

6. Divorcing the EU while chasing new partners

6.1. Central Asia

Acrimonious foreign relations with the EU and the US in particular have prompted Russia to speed up the enlargement of the Eurasian Union that entered into force on 1 January 2015 while striving to accommodate the on-going grievances of incumbent members. Pressed by Russia, on 4 December 2014 the Armenia Parliament approved by a large majority entry into the Eurasian Economic Union perfectly knowing that the country will face a number of problems with integration, not having completed all the necessary formal steps for accession (with eight years of transition period accorded to fully adapt), and will have to cope with the cost of lacking borders with the associated countries.³⁹ On 2 January 2015 Armenia formally acceded to the EAEU with an estimated cost of €5,2 for the Russian budget due to a number of concessions including a conspicuous gas price rebate, from \$270 to \$180 per cubic metre.⁴⁰ The accession of Kyrgyzstan has been approved, once again under Russian pressure, with full membership attained on 6 August 2015 after a number of protocols and concessions linked to membership

³⁸ See the 14 October 2014 opinion poll conducted by the Levada centre, <http://www.levada.ru/eng/crimea>.

³⁹ <http://tass.ru/ekonomika/1862740>.

⁴⁰ <http://www.gazeta.ru/business/2015/01/16/6377985.shtml>. Both the EU, with economic measures (as usual arriving too late), and the US tried to deter Armenia from association with EAEU. The US put pressure for the country to join in sanctions, see <http://izvestia.ru/news/574746>.

had been signed by Heads of State of the member countries.⁴¹ The details will be known later. Thorny issues related to labour migration, visa conditions and treatment of imports from China as well as problems with sanitary requirements for agricultural products are still unresolved.⁴²

The accession of Tajikistan, with regard to which US concerns and contrasting action seem to be stronger, looks more problematic.⁴³ The closing of the Manas airbase in Kyrgyzstan makes access to Tajikistan's airbases crucial for British and American military convoys.⁴⁴ Political killings and unrest at the time of elections foment instability. President Rahmon remains a disputed—and for many odious—figure.⁴⁵ But parliamentary elections have been held, marred as usual by violations of electoral rules, and Rahmon's ruling party has won with large majority.⁴⁶ It is unlikely that Russia may distance itself from the standing powers even if a temporarily silenced opposition may burst into street revolts with unpredictable results. At the informal summit of the CIS nations that brought together the Heads of Belarus, Kazakhstan, Kyrgyzstan, Russia, Tajikistan, and Uzbekistan, Tajik President Rahmon called on his CIS counterparts to take immediate measures to strengthen the CIS southern borders and jointly address threats and challenges emanating from Afghanistan, “since the appearance of Islamic State militants poses threats to all in the CIS.”⁴⁷ Distancing himself from this position, Kazakhstan's President Nazarbaev after the events in Crimea made forcefully the point that the country will not cede its sovereignty to anyone.⁴⁸ The EAEU, indeed, has no military/security obligations towards its members. Nonetheless one cannot rule out that sometime in the future the threat of Islamic fundamentalists equipped to fight for power in the region may help coalesce around common security concerns Russia's more reticent allies.

6.2. China: economic partnership and beyond

Russia's turn to the East has been met with scepticism from abroad and warnings about the dominant role that China would play in any such strategy (see Lo, 2014; Galeotti, 2015). Russian observers are also divided regarding Russia's rapprochement with China whether for historical, economic or political reasons.⁴⁹

⁴¹ <http://www.interfax.ru/russia/440813>. See also <http://www.kommersant.ru/doc/2724492>.

⁴² As noted by Kazakh media, <http://www.kazinform.kz/rus/article/2772993>.

⁴³ The US objects to Russia's intention of modernising the Tadjik army and see with suspicion integration into the EAEU, http://www.ng.ru/cis/2015-02-06/8_gosdep.html?print=Y.

⁴⁴ http://www.ng.ru/cis/2014-07-03/6_tajikistan.html?print=Y.

⁴⁵ <http://www.newtimes.ru/articles/print/95721/>.

⁴⁶ <http://www.rferl.org/content/tajik-elections-rahmon-party-victory/26877105.html>.

⁴⁷ <http://news.tj/en/news/tajik-president-calls-cis-heads-state-strengthen-security-csi-southern-borders>.

⁴⁸ <http://www.themoscowtimes.com/news/article/as-kiev-looks-west-putin-turns-east-to-build-eurasian-dream/496967.html>.

⁴⁹ For different views see the following: Inozemtsev (2014b) and http://www.ng.ru/economics/2014-04-21/4_silkway.html?print=Y, arguing that Russia cannot turn its back on modern/innovative/larger trade partner Europe and eventually should look beyond China to Japan, South Korea and other advanced Asian countries, and Karaganov (2013), noting Russia's skills in networking with China, and also India, Japan and South Korea, but also the need to upgrade its human capital to that of advanced economies and Asia. On the importance of India, see <http://www.kommersant.ru/doc/2725653>. On China's increasing relevance after tensions with the West, see Lukyanov (2015a) noting that the Silk Road project was announced exactly in Fall 2013 at the time when confrontation between Russia and the EU over Ukraine had reached its peak. That Russia is an economic loser, unable to compete with China, is argued by Gabuev (2015).

Sceptical comments were raised around the gas deal with China as soon as it was announced. After the conclusion of the contract and publication of few details, sceptics focused on the apparently high price Russia was to pay for the deal. Projects concerning pipelines to be built from the Far East to China also provoked a large number of acid comments. After the gas deal with China, the announcement that a) Russia will halt gas supply to the EU through Ukraine from 2019, b) retreated from the ever hanging/never started South Stream project and c) will shift to other projects, such as the (nowadays improbable) Turkish stream also aroused a burst of antagonistic passions.⁵⁰ Diversification out of Europe—though symmetrical with EU's efforts to minimise oil dependence from Russia—was met immediately with warnings by EU's officials that supply of gas from Turkey to Europe via Greece would not be viable and finally with EU's anxious search for alternative gas routes and allegedly reliable partners in Turkmenistan and Azerbaijan. The author does not dwell on these issues, exposed to geopolitical turbulence, that would require better focus and expertise.⁵¹ Two remarks are instrumental to this paper: a) *ex ante*, striking a “take or pay” deal in May 2014 for \$400bn over 30 years at an estimated price of \$350 for thousand cubic meters of gas,⁵² even if relatively costly for Russia at that time (also depending on the cost of new pipelines), was a major strategic breakthrough for diversification out of increasingly hostile Europe; b) *ex post*, in the light of falling and/or highly unpredictable hydrocarbons prices (though details on contractual terms remain unknown and possibly subject to adjustment) that may prove to be a good deal for Russia. At any rate, there is no indication to date that the two parties wish to recede from this deal. On the contrary, Gazprom seems to be pursuing original plans to deliver hydrocarbons through Sila Sibiri with even increased determination.⁵³

With the gas deal Russia and China exchanged engagement rings. Not a marriage, but, as also understood by the population,⁵⁴ a serious commitment on both parties to take all steps necessary to bring the project to fruition and look forward to further economic and commercial partnership.⁵⁵ A number of other deals have followed and/or are in the pipeline; the most important are large infrastructural projects as discussed below. These projects are costly and need an adequate horizon. That of the gas deal—thirty years from now—can be taken as a benchmark. Implementation is delayed by technical difficulties and problems with financing. By March 2015 Gazprom's special and particularly skill-intensive seismic survey at Chayanda gas condensate field was reported to have been completed with construction schedules under control. But seven exploration wells and drilling of more than 15,000 meters of rock have been planned to have a clearer idea of

⁵⁰ More details on such issues are in Malle (2014). See also Lukyanov (2014b) arguing that the turn eastward is inevitable and compelled by Western attitudes to Russia.

⁵¹ See for an expert overview, Paik (2015).

⁵² <http://www.gazeta.ru/business/2014/05/21/6042329.shtml>.

⁵³ Of the Gazprom's 2016 investment programme of 842bn rubles, about 20% (168bn rubles) are assigned to the construction of Sila Sibiri pipeline to China, with the plain intention not to derail and eventually cut funds to other projects in the event of financial constraints, see <http://www.vedomosti.ru/business/articles/2016/03/28/635271-gazprom-vipolnil-programmu-zaimstvovaniy>.

⁵⁴ On people's altogether positive reactions see the opinion poll taken in December 2014, <http://www.levada.ru/13-01-2015/vneshnyaya-politika-rossii-orientiry-i-kritika>.

⁵⁵ Bradshaw (2014) discusses the current Russian energy strategy aiming at larger volumes of oil and gas to the Asia-Pacific with their share in total exports rising from 12% today to 23% by 2035.

the effective gas deposit. The new reserve estimates must be submitted to the State Commission for Mineral Resources for approval. Such complications may explain successive delays. Putin, having inaugurated the construction of the Sila Sibiri gas route on 1 September 2014, only eight months later ratified the project.⁵⁶ While the deadline for completion of the first 3,200 km tranche of Sila Sibiri—Yakutia, Khabarovsk, Vladivostok—was originally 2017, now 2019 is evoked as possible target.⁵⁷ Delays, however, do not suggest the project will be halted.

Gas transport to China should become accessible from nearby Blagoveshchensk. This town is 583 km distant from Khabarovsk that lies in the middle of the existing pipeline from Okha (Sakhalin) and Vladivostok.⁵⁸ The capacity of Sila Sibiri is 38bn cubic meter per year with a potential of 64bn cubic meter. The complex of three Far East pipelines—including the existing Eastern Siberia-Pacific ocean oil pipeline run by Transneft—could feed a planned LNG plant for export of liquefied gas to Japan.⁵⁹ While the gas deal has been pre-eminent in building commercial ties with China, increasing oil supply is also considered. China's increased import of oil from Russia in 2014 and in 2015, despite economic troubles in both countries, while imports from Saudi Arabia and other potentially troublesome petrostates had been downsized.⁶⁰

Investments in transport infrastructure are also pursued, despite even more problematic obstacles due to the number of interested parties involved. A high speed rail-link Beijing—Moscow through Kazakhstan 7,000 km long for a preliminarily estimated cost of \$242bn is already planned. It should cut the journey from ten days to two and will take ten years to be realised. The cost of the Russian section to the border is estimated at \$60bn.⁶¹ China promised to finance the Moscow-Kazan section with \$6bn. Apparently investors are expected on the Chinese side,⁶² but implementation takes time and one may expect delays in the light of current economic difficulties.

Though far-reaching, perhaps too ambitious, these plans seem to confirm Lukyanov's (2015b) view that Russia is gradually “much more quietly than thought” diversifying out of Europe to the East. Both “Russia and China are looking for ways to protect their own sovereignty from external influence and prevent political autarky turning into economic autarky as a liberal approach to internal development is precluded.”⁶³ In his view Russia and China together will win their

⁵⁶ See on timing <http://www.gazprom.ru/press/news/2015/march/article220413/>; on seismic surveys http://www.ngv.ru/news/gazprom_zavershil_3d_seysmiku_na_chayandinskom_mestorozhdenii/?sphrase_id=884705; on Putin's ratification <http://lenta.ru/news/2015/05/02/gasforchina/> and on delays <http://www.vz.ru/news/2014/9/30/708157.html>.

⁵⁷ <http://tass.ru/en/russia/733044>.

⁵⁸ <http://www.gazprom.ru/about/production/projects/pipelines/ykv/>.

⁵⁹ Though interested, Japan fears Gazprom's lack of funding and commitment to the project, see <http://asia.nikkei.com/Politics-Economy/International-Relations/Uncertainty-engulfs-Russia-Japan-gas-project-in-Vladivostok>.

⁶⁰ <http://www.warandpeace.ru/ru/news/view/97731/>.

⁶¹ Cf. <http://www.bloomberg.com/news/print/2015-01-22/china-russia-plan-242-billion-beijing-moscow-rail-link.html> with Dvorkovich's outlook six months later in <http://www.rg.ru/printable/2015/08/27/ekonomika-site.html>.

⁶² <http://tass.ru/ekonomika/1956815>; <http://www.kommersant.ru/doc/2723633> reports the estimated cost at 1.07 trillion rubles.

⁶³ This view is shared by Kashin (2014), that cites the memorandum of understanding on construction of a floating nuclear power station between Rosatom and the Chinese Atomic Energy Agency as a major breakthrough since the issue had been hanging for years between the countries.

fight against isolation, a threat for both. This vision is long term. Such vision is necessary and may help to assuage concerns for immediate impediments while looking forward to laborious negotiations which each party will try to bend to its own advantage.

Russia may have to sacrifice some hopes for benefits while having to bear the cost of development of the Far East in the expectation of Chinese investment. Foregone benefits might have already been suffered with the projected shipments of regional aircraft SSJ 100 to the Chinese market from which Russia expected to be the main beneficiary.⁶⁴ At the same time the cost of Far East's development through the establishment of territories of accelerated development (TORy) to which tax and other material and regulatory benefits specifically apply may well exceed returns in the short to medium term.⁶⁵

At the meetings in Moscow cooperation in railways, banking, energy, innovation and industry was envisaged. China was invited to join gas exploration in the Arctic and Sakhalin. Cooperation in the production of microelectronic components to be used for space projects by Glonass and Beidou and joint production of a large civilian helicopter were also discussed.⁶⁶ Most of such projects are still at the stage of memorandum of understanding (MoU), a stage that could justify scepticism as to a happy ending (Kaczmarek and Kardas, 2015). A similar attitude preceded the gas deal that in the end was signed and is being implemented. Mutual will and the practical feasibility of each project may still need efforts on both sides.

On a broader long-term horizon, two major developments need attention: military cooperation and economic integration.⁶⁷ If successfully pursued, they may bring Russia's long-term strategy and foreign policy diversion from Europe to a point of no return. With regard to military cooperation one notices acceleration and expansion of joint military exercises. With regard to economic integration, the proposal of a Free Trade Area between the two countries—which *prima facie* should be more beneficial to China than Russia—was raised by Putin. If pursued, the countries will need to build its bases from scratch. Both developments reflect geopolitical concerns. The presence of Fan Chanlun, deputy Head of the Chinese Central Military Council at the Victory Parade in Moscow on 9 May 2015 gave the opportunity to Minister of Defense Shoigu to stress the contribution of military cooperation to the strategic character of Russian-Sino intergovernmental relations.

Joint naval exercises for the first time took place in the Mediterranean on 17–21 May 2015.⁶⁸ China has long been the major importer of Russian arms, a posi-

⁶⁴ Bilateral negotiations from 2014 aimed to deliver a few years from now SSJ 100 aircraft worth a total of \$3bn to China and South East Asia. Though the Russian company remains the producer of SSJ 100, the final agreement suggests a division of labour that could turn more favourable to China. See on risks for Russia http://expert.ru/expert/2015/20/ognennyie-ob_yatiya-drakona/; and <http://sputniknews.com/world/20150508/1021864975.html>. On location in China's Shaanxi province, see http://www.chinadaily.com.cn/china/2015-05/11/content_20686619.htm.

⁶⁵ There are to date 12 TORy with 110 resident companies. But from the expected 442bn rubles (\$6.5bn at the exchange rate end of March 2016) of investment only 287bn (\$4.2bn) (two thirds) have been disbursed *de facto* while Chinese companies are slow to come, as officially reported by Iuri Trutnev, the plenipotentiary in charge of the Far East, <http://government.ru/news/22316/>.

⁶⁶ A sign of progress in this field are orders of Russia-produced robots by the Chinese company Keysi Microelectronics, http://www.i-mash.ru/news/nov_predpr/77297-kitajskaja-kompanija-keysy-microelectronics.html.

⁶⁷ These topics are discussed in Malle (2017).

⁶⁸ See <http://tass.ru/armiya-i-opk/1960566> and <http://www.vz.ru/news/2015/5/11/744684.html>.

tion that may be consolidated with Russia's turn eastward. The agreement to sell abroad, for the first time, 24 Su-35 fighters to China for a total sum of c. \$2bn, was reached in November 2015. Managers involved noted that the agreement was the result of a political decision to deepen Russia's strategic partnership with China. From the Chinese side, strategic advantages in the Pacific vis-à-vis Japan and the Philippines have been evoked.⁶⁹ The contract is expected to be ratified in 2016.⁷⁰

Steps have been taken also with regard to economic integration. In Putin's view, combining the EAEU project with the Silk Road project announced by Xi Jinping in 2013 during his visit to Kazakhstan and discussed with Putin in early 2014,⁷¹ could prelude to the creation of a Free Trade Area (FTA) between the EAEU and China. The Silk Road project is being cautiously pursued by China in an attempt to deepen its expansion to Central Asia and gain support from EAEU member countries to further penetrate into the European market. Both the Silk Road and the FTA with China sound fanciful in the present context. The effective locations of the Silk Road have not yet been decided. China is also mulling the idea of a revised Maritime Silk Road that would help its economic expansion into the ASEAN (Tiezzi, 2014, 2015).

The outlook is long-term. In the best of circumstances the FTA will not be attainable earlier than 2025–2030.⁷² Despite the apparently eccentric character of such proposals in a difficult time marked by impressive slowdown in China and recession in Russia, for Russian officials even a framework cooperation agreement signed at the highest level would be a break-through as it would make mutual trade flows more transparent and elicit business interest.⁷³ There is hope that joint projects could benefit from the Silk Road Fund and the recently established Asian Bank for Investment in Infrastructure.⁷⁴

Both Russia and China look beyond their joint partnership initiative. Russia to Japan and South Korea, and further to Vietnam and India in Asia, but also to other continents; China to all ASEAN and further to the West, to Europe. The interests of Russia and China do not overlap, and may even diverge in time. Pressures against liberalizing access to land for agricultural or industrial use are coming to the surface interfering with state projects. Hard core nationalists are suspicious of China and many fear China's expansion in the Far East.⁷⁵ Militant Russia will have to show restraint in committing to further integration. But in the foreseeable future both Russia and China will focus on Asia. It is in their interest to cooperate rather than compete. In a world of tumultuous changes, Europe and the US remain in the shade.

⁶⁹ See <http://rg.ru/2015/11/19/su35-site.html> and <http://vz.ru/news/2015/11/19/779136.html>.

⁷⁰ The transfer of sophisticated military technology to China may be a source of concern in some Russian circles, see http://www.bbc.com/russian/russia/2014/11/141110_new_fighter_su35_china_russia. Effective supply may take time. According to Sergei Chemezov, the head of Rostech, delivery will not start before 2017, see <http://www.ng.ru/news/535300.html#print=Y>.

⁷¹ In February 2014 the two leaders agreed on connecting the Silk Road with Russia's Euro-Asia Railways. For a chronology of this project see http://news.xinhuanet.com/english/2015-03/28/c_134105435.htm.

⁷² <http://www.kommersant.ru/doc/2724437>.

⁷³ <http://www.vedomosti.ru/economics/articles/2015/05/12/kitai-i-evraziiskii-ekonomicheskii-soyuz-mogut-sozdat-zonu-svobodnoi-torgovli> and <http://tass.ru/ekonomika/1957292>.

⁷⁴ See <http://government.ru/media/files/QTqv2SI5qYEuu2zOHkOAwguydbKD9Ckf.pdf>.

⁷⁵ On restrictions to the sale of land to foreigners proposed by the Russian Ministry of Agriculture see <https://www.vedomosti.ru/newspaper/articles/2015/08/30/606807-russkaya-zemlya-dlya-rossiyan>. For a nationalist view calling for prudence, see <http://www.vz.ru/politics/2015/5/19/745927.print.html>.

7. Concluding remarks

Russia is engaged on a process of political and economic transformation in the direction of a model of “economic sovereignty”. This process is linked to economic and political ostracism enacted in 2014 against the country by major international powers as a consequence of developments in Ukraine. While the country rejects autarky, and is determined to maintain large openness to foreign trade as demanded by its economic structure, a selective approach to partnership is being developed. This paper discusses the current process as Militant Russia—an order that emanates out of a blend of patriotic sentiments and security concerns. While policies are still based by and large on a market approach, major concerns regarding the policy of containment and isolation from international markets are laying the ground for a pervasive security approach to growth and development. In this context, MR re-discovers in culture and history its own values and identity of which to be proud.

Two elements of the Russian “sovereign economy” have been discussed in this paper: enhanced import substitution in areas of concern to security; increased focus on Asia for the re-direction of commercial flows and establishment of new partnerships. Both need militant support from society that cannot be taken for granted and will need policy determination on the part of the authorities.

Some preliminary conclusions are drawn. First, food security is being upgraded to priority for the first time, complementing military and energy security. The Russian embargo on basic foodstuffs and agro-processing technology is primarily a means to achieve self-sufficiency in targeted areas no matter how costly. Second, Russia’s turn to Asia is planned to last but will need to be sustained by appropriate strategies. The path is insidious and fraught with problems, but to a large extent is obligatory. Some steps have already been taken for the diversification eastwards of gas and oil supply, despite overwhelming skepticism at home and abroad; other policies are at the stage of MoU and/or preliminary agreements that will need further negotiations before being implemented. A Free Trade Area between Russia and China is being discussed between high level Russian and Chinese officials, while a number of Asian countries manifest their interests in the existing five member-Eurasian Economic Union that went into force on 1 January 2015 or other FTA structures.

The militant path to economic sovereignty is likely to produce fundamental changes to both state organization and the model of growth. A lower dependence on the West combined with stronger ties with the APR and China will need to be built almost from scratch and be made sustainable. Changes will take time and be costly. All the more, to be enduring, they need to be based on a security approach to new partnerships and people’s sustained empathy. The perception of any new threat can only reinforce Militant Russia. The analysis of these developments suggests that Russia may rapidly, albeit painfully, reach a point of no return to past economic relations and political alliances.

Acknowledgements

The author is grateful to Ron Amman, Richard Connolly, Julian Cooper and Andrei Yakovlev, for valuable comments.

References

- Bradshaw, M. (2014). *Russia's energy shift to the East: Should Europe be worried*. International Relations and Security Network (ISN). 9 October. <http://www.isn.ethz.ch/Digital-Library/Articles/Detail/?lng=en&id=184112>.
- Connolly, R. (2015). Western economic sanctions and Russia's place in the global economy. In A. Pikulicka-Wilczewska, & R. Sakw (Eds.), *Ukraine and Russia: People, politics, propaganda and perspectives* (pp. 223–232). Bristol, UK: E-International Relations.
- Connolly, R. (2016). The empire strikes back: Economic statecraft and the securitisation of political economy in Russia. *Europe-Asia Studies* online. <http://dx.doi.org/10.1080/09668136.2016.1156056>.
- Cooper J. (2015). The military face of Militant Russia. *Rossiia v Globalnoi Politike*, 13 (6), 92–100 (In Russian).
- Danilov-Daniliyan, A. (2013). Eastern extraordinary commission. *Expert*, 44, 24–25 (In Russian).
- Gabuev, A. (2015). *Smiles and waves: What Xi Jinping took away from Moscow*. Carnegie Moscow Center, May 12. <http://carnegie.ru/2015/05/29/smiles-and-waves-what-xi-jinping-took-away-from-moscow/ik0k>.
- Galeotti, M. (2015). Moscow is playing second fiddle to Beijing. *The Moscow Times*, May 5. <http://www.themoscowtimes.com/opinion/article/moscow-is-playing-second-fiddle-to-beijing/520216.html>.
- Inozemtsev, V. (2014a). Novoasia. *Moskovskiy Komsomolets*, October 21 (In Russian).
- Inozemtsev, V. (2014b). Will Russia be saved with the turn to the East? *RBK-Daily*, April 24 (In Russian).
- Ishchenko, R. (2015). *Deescalating the conflict in Ukraine*. Valdai International Discussion Club, March 23. http://valdaiclub.com/opinion/highlights/deescalating_the_conflict_in_ukraine/.
- Kaczmarek, M., & Kardas S. (2015). *Russia-China: Ritual demonstrations against the West?* Ośrodek Studiów Wschodnich, May 13. <http://www.osw.waw.pl/en/publikacje/analyses/2015-05-13/russia-china-ritual-demonstrations-against-west>.
- Karaganov, S. (2013). Strategy XXI: One-sided power. *Vedomosti*, December 4 (In Russian).
- Karaganov, S. (2015). The Ukrainian crisis has strongly hit the European project. *Lenta.ru*. February 25. <https://lenta.ru/articles/2015/02/25/karaganov/> (In Russian).
- Kashin, V. (2014). The second world: Russia has started the process of accelerated rapprochement with China. *Vedomosti*, May 22 (In Russian).
- Kortunov, A. (2015). *Seven steps beyond the horizon of the crisis*. Russian International Affairs Council, February 4. http://russiancouncil.ru/en/inner/?id_4=5191.
- Li Jingjie (2013). Sino-Russian strategic partnership cooperative relations and the US factor. *The Asan Forum Online*, 1 (3). <http://www.theasanforum.org/sino-russian-strategic-partnership-cooperative-relations-and-the-us-factor/>.
- Lo, Bobo (2014). Russia's Eastern direction—distinguishing the real from the virtual. *Russie.NEI Reports*, 17. Paris: IFRI.
- Lukyanov F. (2014a). Perestroika–2014. Part two. *Gazeta.ru*. July 10. <http://www.gazeta.ru/comments/column/lukyanov/6108737.shtml> (In Russian).
- Lukyanov, F. (2014b). *Russia's ostpolitik*. Valdai International Discussion Club, December 8. http://valdaiclub.com/opinion/highlights/russia_s_ostpolitik/.
- Lukyanov, F. (2015a). China will win the war over Ukraine. *Russia Beyond The Headlines*, March 19. http://rbth.com/opinion/2015/03/19/china_will_win_the_war_over_ukraine_44623.html.
- Lukyanov, F. (2015b). Stalin as a percentage. *Gazeta.ru*, July 5. <http://www.gazeta.ru/comments/column/lukyanov/6671709.shtml> (In Russian).
- Malle S., Cooper J. (2014). The pendulum moves from Europe to Asia. Modernising Siberia and the Far East. Economic and security issues. *Journal of Eurasian Studies*, 5 (1), 21–38.
- Malle, S. (2013a). Russia, the Eurasian Customs Union and the Asian dimension. In R. Dragneva, & K. Wolczuk (Eds.), *Eurasian economic integration: Law, policy and politics* (pp. 100–118). Cheltenham: Edward Elgar.
- Malle, S. (2013b). State corporatism in Russia. An outline of the main features and problems. *CRCE Briefing Paper*, January.

- Malle, S. (2014). Militant Russia moving to the East. *Il Politico*, 3 (Settembre–Dicembre), 15–40.
- Malle, S. (2016). The All-Russian National Front—for Russia: A new actor in the political and economic landscape. *Post-Communist Economies*, 28 (2), 199–219.
- Malle, S. (2017). China: a partner or a competitor? In S. Beretta, A. Berkofsky, & L. Zhang (Eds.), *Understanding China today: An exploration of politics, economics, society and international relations*. Springer (forthcoming).
- Paik, Keun-Wook (2015). Sino-Russian gas and oil cooperation—Entering a new era of strategic partnership? *OIES Paper, WPM 59*. Oxford Institute for Energy Studies.
- Sakhuja, V. (2014). *Russia and China: Icy latitudes for cooperation and competition*. Valdai International Discussion Club, February 6. http://valdaiclub.com/opinion/highlights/russia_and_china_icy_latitudes_of_cooperation_and_competition/.
- Spanger, H.-J. (2016). Russia's turn eastward, China's turn westward: Cooperation and conflict on the new Silk Road. *Valdai Papers*, 47.
- Tiezzi, Sh. (2014). China “New silk road” vision revealed. *The Diplomat*, May 9. <http://thediplomat.com/2014/05/chinas-new-silk-road-vision-revealed/>.
- Tiezzi, Sh. (2015). Where is China's silk road actually going? *The Diplomat*, March 30. <http://thediplomat.com/2015/03/where-is-chinas-silk-road-actually-going/>.
- Trenin, D. (2015a). Europe's nightmare: Ukraine's massive meltdown. *The National Interest*. April 10. <http://nationalinterest.org/feature/europes-nightmare-ukraines-massive-meltdown-12597>.
- Trenin, D. (2015b). Russia's Victory Day celebration: Much more than just a parade. *The National Interest*. May 11. <http://nationalinterest.org/feature/russias-victory-day-celebration-much-more-just-parade-12860>.
- Weafer, C. (2015). No end in sight for the ruble's downward slide. *The Moscow Times*. August 17.
- Wolff, A. (2015). What China's currency devaluation means for the world's trade deals. *Fortune*. August 19. <http://fortune.com/2015/08/19/what-chinas-currency-devaluation-means-for-the-worlds-trade-deals/>.
- Yakovlev, A. (2015). Devaluation of opportunities. *Gazeta.ru*. March 15. http://www.gazeta.ru/comments/2015/03/05_a_6436745.shtml (In Russian).