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Will coronavirus affect Russia's 'pivot to the East'?

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Over the past decade, one of Russia's key policy objectives has been the 'pivot to the East', that is, a shift in policy emphasis to the East, to Asia.[1] This policy reorientation gained added urgency after 2014 as relations with many Western countries deteriorated. From Russia's standpoint, the pivot to Asia has made sense both economically and politically.

Asia is home to the world's largest and fastest growing markets, and the demand for Russia's main

export goods continues to grow in many Asian economies. Gone are the years when Russia, the world's largest hydrocarbon fuel exporter, and China, the world's largest hydrocarbon importer, did not engage in energy trade with each other. In this sense, the pivot to the East is first and foremost about acknowledging the new realities of energy trade. Priority has shifted to a more realistic appraisal of what each side has to offer. As an economic policy goal, the refocus on Asia is also important for reducing Russia's dependence on European markets for its goods exports. After all, diversification of export markets in itself is a reasonable objective.

With respect to domestic policy, the need for the eastward pivot readily understandable as it symbolises at least some effort on the part of the government to improve conditions in Russia's otherwise isolated Far East regions. Maintaining Russia's territorial integrity must include a modicum of economic advancement in the Far East regions, which on their own have very limited means to keep pace with nearby Asian economic titans. The demonstrations in Khabarovsk this summer provided a concrete reminder that Moscow needs to pay more attention to its own Far East issues.

The pivot to the East and closer cooperation with China support Russia's foreign goals of breaking US hegemony and the creation of a multipolar world order. Indeed, China and Russia have increased their cooperation on many fronts, including cooperation in the defence sphere with e.g. high-profile joint military exercises. Both countries also share doubts about the dollar's preeminent status. Cooperation has resulted in increased use of the ruble and yuan in bilateral trade, and Russia's central bank now holds some of its forex reserves in yuan. Despite high-profile statements, however, changes on the ground have been more incremental. Less than 10 % of Russian exports to China and imports from China are invoiced in rubles. China's Cross-Border Interbank Payment System (CIPS) works in Russia, but Russia's Mir-based system still only works in five member countries of the Eurasian Economic Union and Turkey.

China has become one of Russia's main trading partners over the past ten years, leading to a significant diversification of Russia's oil and gas export markets. Economic relations of Russia and China are discussed in e.g. Nuutilainen and Rautava (2020) (BOFIT Policy Brief 2/2020) and Rautava (2018) BOFIT Policy Brief 9/2018.

Russia's embrace of Asia's rising superpower does not come without its own set of problems. Russia's economy is dwarfed by the Chinese economic behemoth. Growth in Russian exports to China has only increased Russia's dependence on hydrocarbons. In many branches, the competitiveness of Chinese manufactured products, refined in the crucible of international competition, is much better than that of Russian products. Even in the defence industry, Chinese expertise is beginning to outstrip Russia's arms export offerings. From China's perspective, the Russian economy is small in size and lacks the growth dynamics of many emerging economies. As a

result, the Chinese are always the stronger party in any discussion about developing significant future energy projects. Exclusive dependence on China's markets certainly is no better than exclusive dependence on European markets.

If anything, the coronavirus pandemic has made China-US tensions explicit. The biggest foreign policy challenge for both Russia and the EU in coming years will be finding ways to balance the waning US global presence against China's ascendance onto the world stage.

While intensifying economic relations with other major Asian countries is critical in cementing the success of Russia's pivot to Asia, Russia's relations with other Asian economic giants, particularly Japan, India and South Korea, are lukewarm at best. China's growing tensions with its neighbours could also hamper Russian efforts to maintain good relations with China's neighbours and China itself. Moreover, Russia's new constitution makes normalisation of relations with Japan practically impossible as the status of the Kuril Islands is non-negotiable.

China is the region's rising superpower, deliberately transmogrifying the local environment to suit its own interests. Russia hardly dares challenge this trend. And despite the pivot to the East, Russia still needs to maintain focus on the West, where its largest export markets lie. A pandemic will not change this fundamental reality.

Notes

1. 'Поворот на Восток' or 'Pivot to the East' has a dual meaning. "East" implies both Russia's Far East and Asia more generally. ↑

Keywords

BOFIT, China, COVID-19, economy, Russia