EPIIC PEKING UNIVERSITY DELEGATION SELECTED PAPAERS

2015 EDUCATION FOR PUBLIC INQUIRY AND INTERNATIONAL CITIZENSHIP (EPIIC) INTERNATIONAL SYMPOSIUM

RUSSIA IN THE XXI CENTURY

北京大學 PEKING UNIVERSITY | Tufts UNIVERSITY | THE INSTITUTE FOR GLOBAL LEADERSHIP

Acknowledgements

The development of this Selected Papers has been made possible through the contributions of the following, whose expertise is gratefully acknowledged:

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The editors and contributors also wish to acknowledge the contributions of the many professionals whose suggestions was embodied during the completion of the EPIIC Peking University Delegation Selected Papers.

2015 Education for Public Inquiry and International Citizenship (EPIIC) International Symposium

SELECTED PAPERS

Of

Peking University Delegation

Russia in the XXI Century

Contents

Foreword

1. A New Perspective of “Pipeconomics”: Case Study of the Russia-EU Gas Pipeline Competition

DAI Guojun ——1

2. Reflections on the Russian Mentality through the Figure of Ivan the Fool

JIN Meiling ——14

3. The Extent to which Fuel Ambitions of the Arctic Countries Threaten the Stability within the Region

KIM Raphael Sangwoong ——22

4. 1854 and 2014: Russia’s Alignment Strategy in Crimean War and the Crimean Crisis—on the Cases of US and China

MA Xinyue ——31

5. Breaking the Resource Curse: On the Economic Transition in Russia

XU Boli ——45

About the Delegation

Foreword

Almost three decades have passed since I stepped in the field of Russian Studies in the 1980s. Today in the era of globalization, “Russia in the 21st century” is a topic that deserves the attention from every international citizen. It keeps pace with the times just like the previous subjects of EPIIC symposiums.

Also in the 1980s Peking University was invited to the EPIIC symposium for the first time. EPIIC is a great platform of communication for students of Peking University and Tufts University. It also provides a valuable opportunity for young leaders around the globe to learn to shoulder the responsibilities of our times. I am more than pleased to lead the delegation from Peking University this year, and thrilled to see our delegates from various academic backgrounds (international relations, literature, economics, medicine and sociology) share the same interest in Russia with me. I feel delighted to help them from the selection of research question to the completion of the Collected Papers during the past year. For me as a professor, no words can describe seeing my students’ academic interest in Russia increasing and to help increase their research ability and insights at the same time. These collected papers demonstrate their passion and progress. I sincerely hope that their efforts will receive fair comments from experts and student attendees of the symposium.

I believe that my students can make the most of their experience at Tufts University as the former delegates did, and I wish every success to the EPIIC 2015 Symposium.

我自20世纪80年代初接触俄罗斯问题，从事相关研究如今已近三十载。“21世纪的俄罗斯”是在全球化的今天每一个国际公民需要关注的重要议题，正如EPIIC项目历年来的选题一样紧扣时代脉搏。

也正是在上世纪80年代，北京大学开始受邀塔夫茨大学邀请参加EPIIC研讨会。研讨会成为两校学生交流互动的平台，更成为他们与来自世界各地的优秀学子承担新时代责任、提升领导力的宝贵机会。我很高兴领队今年的EPIIC北京大学代表团，并且看到来自不同学科背景（国际关系、文学、经济学、医学、社会学等）的本科生和研究生同我一样关注俄罗斯。一年以来，我时刻关注着他们的成长，并陪伴他们走过了从研究选题到成果集结成册的全过程。作为一名老师，我十分欣慰地看到他们在研究选题和开展过程中对俄罗斯议题的兴趣在增长，更看到他们的研究能力与洞察力的增长。这本小册子正是他们心血的凝结。期待他们尚显稚嫩却认真的研究能得到参会的各位专家学者及学生们的恳切批评。

最后，祝愿我的学生们同往届代表一样在这里有所思、有所获。预祝2015年EPIIC研讨会圆满成功。

Почти три десятилетия прошло с тех пор, как я впервые приступил к исследованию о России в 1980-х годах.“Россия в 21 веке” - это тема, которая заслуживает внимания каждого гражданина мира в эпоху глобализации.Она так же актуальна, как и все прошедшие темы EPIIC симпозиума.

В 1980-х годах Пекинский Университет был впервые приглашен в EPIIC симпозиум, который

служит отличной платформой для общения для студентов Пекинского университета и университета Тафтса. Это также ценная возможность для молодых лидеров со всего мира, чтобы научиться взять на себя ответственность за все, что происходит в современном мире.

Я очень рад возглавить делегацию в этом году и особенно рад видеть, что наши делегаты из различных академических областей(международные отношения, литература, экономика, медицины и социологии) разделяют те же интересы в России со мной. В течение года, я был с ними в тесном контакте от выбора темы для исследования до завершения этого сборника.

Мне было очень приятно увидеть растущий интерес моих учеников к России и повышение их исследовательских способностей и наращивание знаний. Этот сборник и является результатом их страсти к изучаемым вопросам и свидетельством их прогресса. Надеюсь, что их работы, хотя академически незрелые, могут получить искренние отзывы со стороны экспертов, ученых и студентов-участников симпозиума.

Я надеюсь, что наши студенты, как и наши предыдущие делегаты, смогут получить новый опыт и усовершенствовать свои знания и опыт в Университете Тафтса. Желаю новых успехов EPIIC 2015 симпозиуму.

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A New Perspective of "Pipeconomics": Case Study of the Russia-EU Gas Pipeline Competition*

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I. Introduction

The Russia-Ukraine crisis has been intensifying since the Russian military intervention into the Crimean Peninsula. Russia possesses nearly a quarter of the world's proven natural gas reserves and serves as the second largest gas producer. By 2008, about 80% of Russian gas pipelines to European market wend their ways through Ukraine. As a significant energy bridge, Ukraine has no trouble at demonstrating its role in recourses transportation, especially during the 2006 and 2009 gas conflicts with Russia, when European Union states were cut off gas supplies because of Russia's stalled negotiations with Ukraine regarding gas price and debt payment.

In order to increase security in terms of energy supplies and transportation, Russia has been putting efforts in building new pipelines around Ukraine to ensure its share in western market since the early 2000s. Meanwhile EU also seeks alternative gas sources to reduce the dependence over Russia, both with the aim to ease the negative impact of the unstable Russia-Ukraine relations.

Thus the early 2000s witnessed intense pipeline competitions between Russia and EU, and various programs of gas pipeline routes have been launched to serve their respective targets. Political ends are believed to call the decisive tune during the selecting process of the pipeline programs, meaning that as long as the scheduled pipeline serves a political goal well, the commercial or technical consideration is not of so much weight. Just as a representative of the Trans-Adriatic Pipeline consortium commented in 2011, "Pipes are 90% politics and 10% steel". Politics monopolized the analytic thinking as well as the research frame when it comes to pipeline battles.

Nevertheless, the recent tendency of commercial perspective gaining increasing persuasiveness, especially the 2013 outcome of EU's Southern Gas Corridor program, generates a considerable amount of literature dealing with the economic perspective, questioning the validity of politics-dominant analysis. The argument between the two analyzing focuses has just started recently. Therefore, aimed at demonstrating the tangled interaction between the stakeholders in the Russia-EU pipeline struggle, this research seeks to dissect the pipeline competition and clarify that the "Pipeconomics" calls the decisive tune.

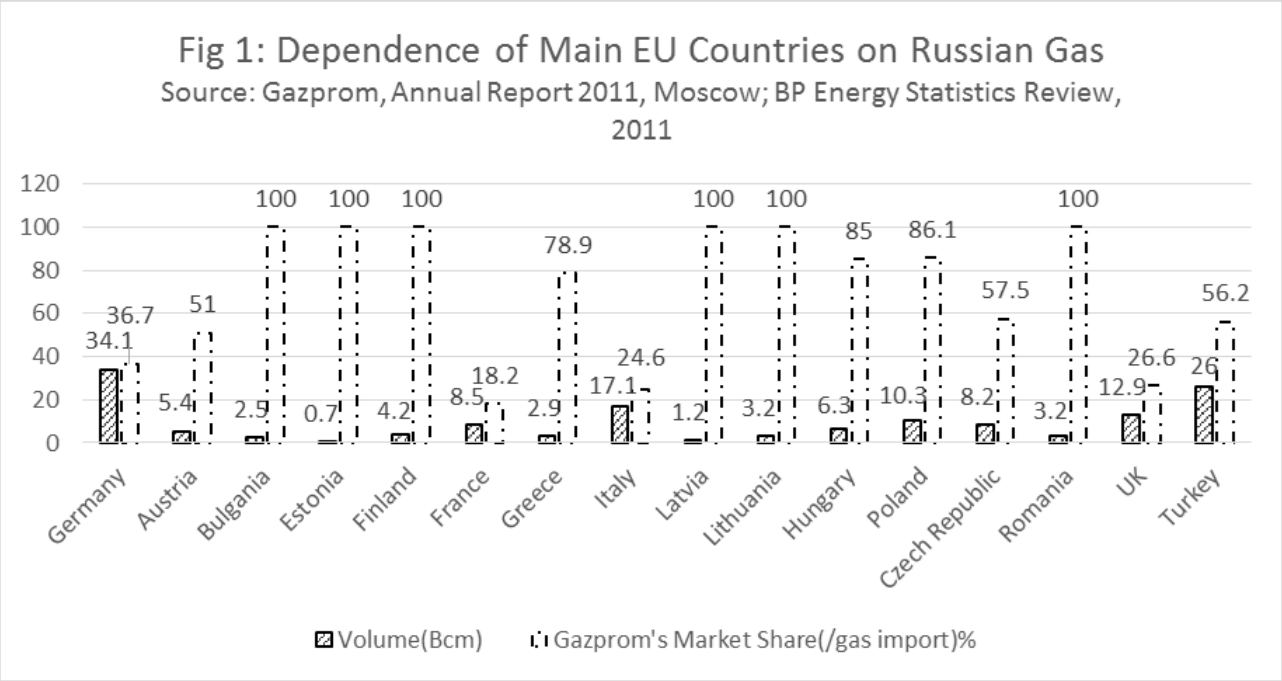
* "Pipeconomics" is a word created by the author, which is the combination of "pipe" and "economics". The meaning of this self-compounded word lies in the consideration of the key analytic element of the decision-making process in Russia-EU energy struggle proposed in this research.

II. Literature Review

Current researches over the pipeline contests between Russia and EU focus primarily on the following topics: ①Technical and institutional reasons for the complication of Russia-EU pipeline battle; ②Geopolitics of Russia-EU gas competition and Russia's political strategy of exploiting gas pipelines as well as EU's counterbalance of reducing its over-dependence on Russian gas; ③case-studies of the EU's Southern Gas Corridor program to figure out the geopolitical map in the pipeline battle. While since 2013, dissertations aimed at puzzling out the ④interactions among the stakeholders from the perspective of commercial interest have also grown in amount, but not as fully-discussed and systematically-analyzed as the former ones.

The nature of gas market is an in-negligible part for literature review. Natural gas differs from other energy by its relatively high cost of transportation, huge up-front investments, as well as significant heterogeneity in gas deposits and major consumption areas. Therefore, Yegorov and Wirl (1060) argue that path dependency characterizes the market structure on the basis of particular infrastructure plans, and the selection of pipeline programs is defined not only by cost, but to a greater extent by geopolitics.

It is the heavy reliance between both sides that makes the success of Russia-EU gas pipeline contest so desirable and imperative, pointed out by Finon and Locatelli (426). Similar strategic perspective lays foundation for the politics-priority approach to deal with the research. Russia-EU gas relations are characterized as interdependence rather than uni-rely. Gazprom, the Russian state-controlled energy company, is depicted by some researchers as instruments for its foreign policy towards



European states and Common wealth of Independent States (CIS). It has a monopoly in gas exports and transmission, alone occupying a dominant position in EU markets with a 33% share of imports, which is forecast to rise to 50% by 2020 as EU's import dependency rises over decades. As we can glance at EU's gas dependence over Russia in **Fig 1**, it is, on second thought, undoubted that the dependency is mutual. EU holds 78% of Russia's total exports, representing a vital and profitable

market for Gazprom, as well as Russia's revenue. Moreover, it is strongly argued that Russian domestic gas pricing system makes its European market extremely important, which further heats up the pipeline contest (Jensen 25-26).

Boussena and Locatelli (180), alongside other researchers, see the institutional differences as the fundamental reason for the gas pipeline battle. Apart from the economic stakes, they believe that gas trade relations between the EU and Russia are shaped by two different conflicts of interest and values around the question of energy security, namely the safeguarding of peace and the primacy of human rights, democracy and the rule of law for EU. While on Russian side, the value behind the strategic moves is state-centralism and pro-USSR complex to recover its control.

Analysis of the contesters' geopolitical struggle prevails among the majority of the current researches. The principle of distributing the risks and benefits along the gas chain is the central element in the gas security debate, which includes the security of supply and security of demand. On one hand, it is accepted that EU's biggest challenge is to ensure a secure and reasonably priced gas supply for the future, while the ''special Russian risk'' must be taken into account. Therefore, diversification of energy sources towards the Caspian Basin and absorption of the future energy partners into the EU's common regulatory framework are the optimal strategy to reduce political risks stemming from energy supply. While on the other hand, Russia wants to secure its long term investment through its European outlets. The multiplication of transmission network (Yamal-Europe, Blue Stream, Nord Stream, South Stream, Northern Lights, Soyuz, Bratstvo) and storage infrastructure, along with ownership rights in certain transmission networks, are seen as part of Gazprom's "Pipolicitcal" leverage to launch an energy invasion (Egenhofer et al. 52).

Typical case study in the related literature for Russia-EU pipeline competition is the case of Southern Gas Corridor (SGC) program, which, till 2013, seemingly undoubtedly showed how geography and politics perturb otherwise optimal economic decisions. Three pipeline projects bid for SGC, which are in turn the Nabucco, Interconnector Turkey-Greece-Italy (ITGI), and Trans-Adriatic Pipeline (TAP). The pipolitical analysis frame mainly relies on the political actors, discussing the bidding competition among the "candidates" in a conspiratorial tone. Most of the related literature tend to weave a relation network insisting of the governments involved (Baban 155; Nygren 6; Bilgin 4489). Therefore the strategic arrangement of Kremlin and EU is considered as the core decisive factor in the bidding process, segmenting into the political negotiation and pressuring.

But with a U-turn, in late 2013, the politically equitable project Nabucco and ITGI were officially beaten by the dark horse TAP who is short of political capital but more feasible in technical and economic terms. This outcome generated a considerable amount of literature reflecting on the pipeline struggle with an economic or dimensional perspective. According to Boussena and Locatelli (185), the EU-Russia pipe battle is related to the implication of the Third Party Clause and the Take-or-Pay contract. Russia intends to preserve its European market share through a strategy of downstream integration in distribution and transmission companies or gas-consuming industries, while the TPA could severely limit its investments in Europe, by forcing a spot market price into Russian gas pricing system replacing the existing contractual price. Domestic analysis of Russia is also stimulated by the failure of Nabucco. As Kropatcheva (6) illustrates in her dissertation, Gazprom was trying to define strategies flexible enough to adapt to the changing conditions in the European gas market. It is a fundamental issue as the company faces up to the challenges of a more competitive market not only in the EU but also at home, with the rise of independent gas firms such as Novatek and LUKoil contributing increasingly to Russia's production in recent years (Lunden et

al., 669).

Current Dissertations dealing with economic perspectives and multi-dimensional angles in the Russia-EU pipe contest surely revise the monotonous perspective of geopolitical analysis, most of which, however, are suspected of simply switching perspective, or piling up dimensions without appropriate analysis and logical organizing. It brings on the brooding of this research to explore the entwined interactions in the Russia-EU pipeline battle with a comparatively comprehensive analytical framework.

III. Analytical Framework

Existing related researches are mainly divided into two streams by the criteria of which factor plays the key role in Russia-EU pipeline competition: political manipulation and economic calculation. Researches from economic perspective discuss the motives and commercial transactions between each actor. Thereof the assumption for this research is as followed:

- **Hypothesis:** The sub-national actors' commercial consideration plays the key role in the decision-making process and actual game behind the curtain of politics.

To examine its validity, two cases will be included in the research to help understand the battle involving political and commercial interest, covering most of the Ukraine-replaced pipelines, which are in turn SGC initiated by EU, South Stream by Russia.

- **Case 1:** Southern Gas Corridor Program including contesting projects consisted of Nabucco, TAP and ITGI
- **Case 2:** South Stream Program

An actor-dependent analytical framework is set to apply to this research, within which different initiatives and activities of the actors involved in the pipeline game will be analyzed. Related stakeholders are to be categorized into two branches and four secondary types as shown in **Table 1** below. Adding sub-national actors into the analysis frame will refine the explaining system composed only of political groups. After defining the leading decisive role in every single case, it will be not as hard to conclude with a much clearer map of battlefield and to grasp the thread running through it.

Table 1: Actors (Stakeholders) in the Russia-EU Pipeline Competition

State:	Corporate:
▪ Central Government ·Russia Federal Government; ·European Commission; ▪ National Government	▪ International Gas Company ·i.e.: BP, Statoil; ▪ National Gas Company ·i.e.: Gazprom, Novatek, SOCAR, RWE.

Case 1: Southern Gas Corridor (SGC) Program

1. Introduction to the Southern Gas Corridor Program

SGC project is launched by European Commission to safeguard its gas supply security from Russia-Ukraine conflict and most importantly, the monopoly of Russian Gazprom, by establishing its own pipeline exporting the newly spotted gas by BP (British Petroleum) and Statoil (A Norwegian Oil and Gas Company) in Azerbaijan to European market. But in terms of the transporting route the divergence emerged. As marked in the above **Fig 2,** among the tangled pipeline "candidates" across the continent, three main competing routes in SGC are in turn Nabucco proposed by BP, Interconnector Turkey-Greece-Italy (ITGI) proposed by Statoil, and Trans-Adriatic Pipeline (TAP).

Fig 2: Route Map of Russia-EU Pipeline Battle in SGC Program

2. Examining the Hypothesis

The campaign among three pipeline route programs is often described in a politically conspiratorial tone in most of the current literature, among which the Brussels-backed project Nabucco is mostly discussed. Azerbaijan, as the main gas source for Nabucco, is the key actor that the EU and Russia tried to win over. The success of Nabucco will provide a basis for unbundling, transparency and Third Party Access provisions in Azeri energy sector, as Saritori (29) points out in his paper. Meanwhile, Kremlin pushed pressure on Baku against its supplying gas for Nabucco, with Gazprom's proposal to buy at European prices all Shah Deniz's future output. Not only did Russia launch a rival pipeline project South Stream which planned to run across the seabed of the Black Sea, it also tempted the countries along Nabucco's planned route and their immediate neighbors into

bilateral deals that could abort EU's program, by offering supply agreements and extensions of Gazprom's South Stream to them. The confrontation in the supplying sector was similar in the downstream market, witnessing the governments of Austria, Bulgaria, Hungary, and Romania investing heavily in the Nabucco project to ease their overdependence on Russia.

In June 2013 however, TAP, which is equipped with anything but strategic capital and geopolitical support, ended up the winner of the SGC program. Until June 28, 2013, the sign of politics-dominance in the case of SGC Program was still prevailing and received little doubt. But the bidding result of the program turns over all the Pipolitical analysis, attracting more attentions on the initiatives and activities of non-governmental actors, which in this case is the BP-led Shah Deniz II consortium joined by other energy corporates, SOCAR, Statoil, Lukoil, Total, NIOC, Naftiran Intertrade and Turkish Petroleum. The consortium has a final say in the selection of pipeline projects. Here below is the revised interaction chart as shown in **Fig 3.**

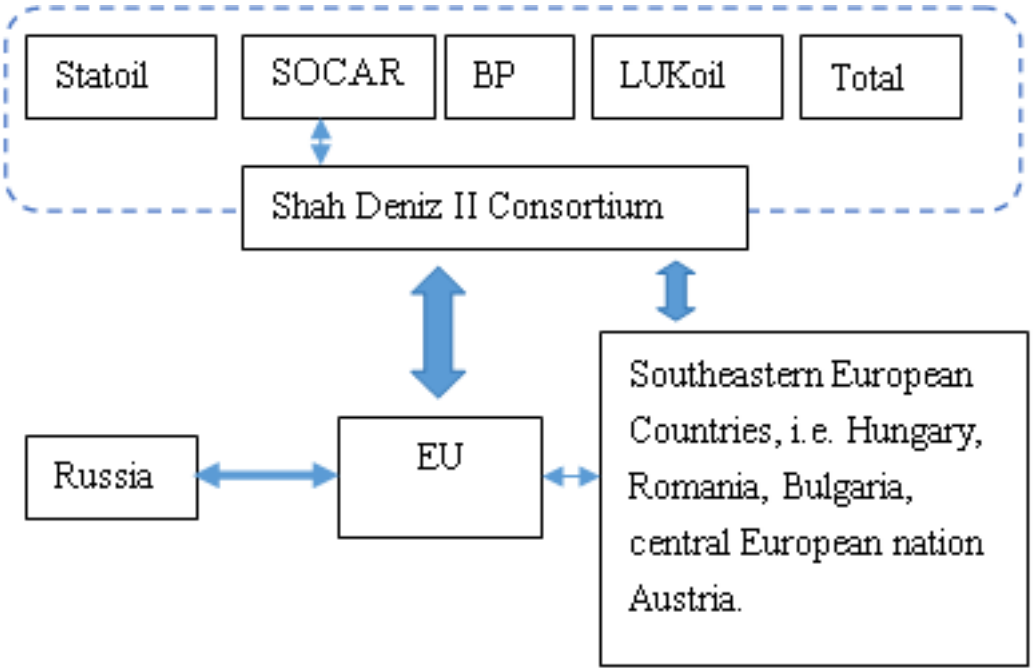


Fig 3: Commercial interaction in the SGC program

In the first phase of launching SGC program, the EU's strategic scheme eclipsed other clues, making it uneasy to notice the relations of the gas-field discovery and geopolitical strategy declaration. BP and Statoil discovered a new gas field in Shah Deniz II, Azerbaijan. While discussing the way to transmit the gas to the central and southeastern European countries, EU was at that time promoting the scheme of diversifying its energy suppliers. Rather than the impression that Shah Deniz II field was discovered due to EU's geopolitical strategy, it's more of a coincidence of political agenda meeting the commercial energy cooperates' pursuit for economic benefits.

The SGC selection process was formally based on the eight criteria set out in 2011 by the Shah Deniz II consortium. [1] Seven of them, namely commerciality, project deliverability, financial

[1] Shah Deniz Consortium, "Principles for the Selection of an Export Route to Europe for Shah Deniz Gas," February 2011. 16, May, 2014 <http://www.bp.com/liveassets/bp_internet/bp_caspian/bp_caspian_en/STAGING/local_assets/downloads_pdfs/pq/Principles_for_selection_of_an_export_route_to_Europe_for_Shah_Deniz_gas.pdf>

deliverability, engineering design, alignment and transparency, safe and efficient operability and scalability, have clear technical, economic or commercial dimensions. Political aspect was relegated to the eighth selection criterion, public policy considerations, which covered the EU's stated objective of enhancing the supply diversity.

Gaining an explicit sight from the selection criteria, it's less confusing that the commercial aspects, such as the cost of shipping Azeri gas, the expected prices and demand forecasts in the respective markets, as well as potential access to Western Balkans' transmission systems, have determined the consortium's preference for TAP project instead of Nabucco.[2] For example, TAP was granted the exemption from Third Party Access by the EU, in which sense it allows to offer the Shah Deniz II consortium the pipeline's entire initial export capacity (10 billion cubic meters; Bcm) for a period of 25 years, while in the second phase a further 10 Bcm will be allocated through an Open Season process.[3] When it comes to Nabucco, not until May 2013 did the national regulators of Austria, Hungary, Romania and Bulgaria confirm a 50% exemption from TPA, which bears much less attraction than TAP.

To rebut the politics-dominant analysis more directly, the political arrangement of Nabucco attached it with complex organizational and decision-making procedures, which serves as a huge commercial disadvantage. The Nabucco Committee adopted its complicated negotiating methods in order to match its coordinating structure of the public and private stakeholders involved in the development of the pipeline, which cost it much more time than the other two candidate projects to achieve similar consensus.

The Azeri energy company SOCAR's commercial interest in the Greek gas market has also contributed to the success of TAP. During the evaluation phase, SOCAR expressed its commercial interest in acquiring the Greek natural gas grid operator DESFA. A few days before the announcement of the Shah Deniz II's decision, SOCAR reached an agreement with the Hellenic Republic Assets Development Fund for the acquisition of a 66% stake in the company. For SOCAR, controlling DESFA meant entering the European gas transmission and distribution sector for the first time. [4] Coupled with the selection of TAP, the acquisition of DESFA was strongly consistent not only with SOCAR's goal to strengthen its position in the Greek market, but also with its objective of expanding its export capacity to Greece's Balkan neighbor countries.

Through the above analysis from the perspective of Pipeconomics, the validity of the hypothesis has been proved. Since the TAP route does not compete with any Russian project, it allows Gazprom to keep its nearly-monopolistic position in Southeastern European gas market, without being challenged by the new supplies coming from the Caspian, which is nowhere near EU's original strategy. Thereof in Case 1, it is "Pipeconomics" that calls the final tune.

[2] S. Aliyev, "BP: TAP and Nabucco Had Big Commercial Difference," *Trend,* 28 June 2013. 16, May 2014 <http://en.trend.az/capital/energy/2165695.html>

[3] TAP, "Trans Adriatic Pipeline Secures Third Party Access Exemption," 17 May 2013. 16, May 2014<http://www.transadriatic-pipeline.com/it/news/news/dettaglio/article/404>

[4] SOCAR, "SOCAR Purchases a Major Stake in Greece Natural Gas Transmission System Operator -DESFA S.A.," 21 June 2013. 16, May 2014<http://new.socar.az/socar/en/news-and-media/news-archives/newsarchives/id/6221>

V. Case 2: South Stream

1. Introduction to the Project

South Stream is a planned gas pipeline to transport Russian natural gas through the Black Sea to Bulgaria and through Serbia, Hungary and Slovenia further to Austria. Its offshore section with the total length of 930 km will run under the Black Sea through the exclusive economic zones of Russia, Bulgaria and Turkey, while the onshore section crosses Bulgaria, Serbia, Hungary and Slovenia.

Construction of the Russian onshore facilities for the pipeline started in December 2012. The Project is first organized by a joint venture between Gazprom and Italian-owned ENI, with Bulgaria, Serbia and Greece embed in the supportive list later. [5]

Fig 4: Route Map for South Stream

2. Examining the Hypothesis

At first the South Stream project was proposed as an alternative to the EU's Southern Gas Corridor. Southern Gas Corridor is intended to bring gas to Europe from the Caspian region and the Middle East, bypassing Russia. As Vladimir Putin put it, South Stream meant energy security in Europe, whose gas and oil needs are growing, indicating the opposition between these two pipeline projects.[6] The majority of analyses in the public domain focus on South Stream as a pipeline project whose goal is to foreclose potential competition coming from the Corridor, to avoid transit through Ukraine and thereof to improve security of Russian gas supplies to Europe.

[5] For introduction and detailed description of the project, it is suggested to refer to Gazprom.com, where the basic information for South Stream project is explicitly displayed. 20, July, 2014<http://www.gazprom.com/about/production/projects/pipelines/south-stream/>

[6] Please Refer to Gazprom website with the term of "South Stream-Significance". 15 Oct. 2014 <http://www.gazprom.com/about/production/projects/pipelines/south-stream/>

As the rival to Southern Gas Corridor, South Stream was attached with strategic worth, being seen as a diversion of gas transported through Ukraine, instead of providing a new source of gas for European. The project's value lies in eliminating Ukraine's transit monopoly while preserving the value of Ukrainian gas market as much as possible without risking Gazprom's access to the EU gas market. The accusation points at its pipeline re-routing through Turkish waters to avoid Ukrainian exclusive economic zone, which is doubted by experts since it would cost at least twice as much as Nabucco instead of providing a new source of gas.[7] In June, 2014, the head of Austrian energy group OMV called for accelerated negotiations to approve the South Stream pipeline, saying that it was unrealistic to think Europe could entirely wean itself off from Russian energy supplies. The criticism is not unidirectional, as Russian officials once accused, EU Commission is putting pressure on Bulgaria to give up or at least delay joining South Stream for political reasons.[8]

Similar to the turning point for Nabucco and TPA in Southern Gas Corridor Program, the abrupt cancellation of South Stream puts an end to the further construction of South Stream, as on December 1st, 2014, Putin announced the surprising news.[9] The result has explicitly denied the political factor as the decisive role among the interaction, meanwhile proving the necessity for the ground of economics.

The principle of EU's internal energy market, namely the Third Party Access principle, has been dimming the prospects for South Stream since the beginning. The European Commission ruled in December 2013 that the existing South Stream plan was illegal, since, under the rules of the EU's liberalized gas market, a company cannot own both a pipeline and the gas that flows in it.[10] EU has repeatedly blocked its southern counterpart by citing antimonopoly policies. It is considered that the South Stream countries would not only lose energy guarantees, but also lose lucrative transit fees, new jobs, and the potential for better trade with Russia. From the technical point of view, huge amounts of money would have been spent to build an additional supply route to Europe, which is not necessarily needed and as claimed, the demand curve of traditional consumers is not favorable for the project's construction. Not to mention the most obvious obstacle, that the western financial institutions, under the effect of anti-Russian sanctions, were reluctant to provide loans for the construction of expensive offshore section of South Stream pipeline.

Focus on the growing Asian market is increasingly apparent in Gazprom's activities. In May 2014, after ten years of tough negotiations, Gazprom and China's CNPC concluded a gas deal. Under the 30-year contract, Russia will provide China with gas supplies gradually increasing up to 38 bcm/y via the eastern route pipeline.[11] It is not surprising that assumptions suggesting the share of eastern markets will rise at the expense of European markets can be found even in official Russian policy documents. According to the Energy Strategy of Russia for the period up to 2030, the volume of gas supply to the European market will be retained at the necessary level, while the eastern direction of

[7] Energy Security: South Stream vs. Nabucco gas pipeline, SETimes.com, 14, Feb. 2008. 15 Oct. 2014 <http://www.setimes.com/cocoon/setimes/xhtml/en_GB/features/setimes/features/2008/02/14/feature-02>

[8] Update 3-Bulgaria signs up for Russian natural gas project. Reuters, Jan. 18, 2008. 15 Oct. 2014 <http://uk.reuters.com/article/2008/01/18/bulgaria-putin-idUSL1871461920080118>

[9] South Stream Fell to Political Crises and Tough Brussels Stance, On *Natural Gas Europe*, 25 Dec. 2014. 29 Dec. 2014 <http://www.naturalgaseurope.com/the-fall-of-south-stream>

[10] Please refer to the internal market rules for energy infrastructure by European Commission. 29 Dec. 2014 <http://ec.europa.eu/energy/infrastructure/exemptions/exemptions_en.htm>

[11] Alexey Miller: Russia and China Signed the Biggest Contact in the Entire History of Gazprom, 21 May, 2014. 15 July, 2014<http://www.gazprom.com/press/news/2014/may/article191451/ >

export will be multiplicated.[12]

Moreover, concerns that tankers of new LNG exporters will reach Asian customers before Russia manages to develop its enormous yet untapped gas resources in the Eastern Siberia are another factor to impact the revised Gazprom strategies, apart from the international background set up by western sanctions. Gazprom has been facing increasing domestic competition from its rivals, namely the Novatek's Yamal LNG and Rosneft's Sakhlin I. projects. Last year, the Russian government discontinued Gazprom's monopoly over LNG exports in a clear effort to boost Russia's share of the global LNG market to around 10 % by 2020. An enacted amendment package to the "Gas Export Law" opened up a possibility of exporting LNG from the particular sources what clearly favors Gazprom's rivals and their project partners. On the other hand, Gazprom's monopoly on pipeline gas export stayed untouched. Still, if Gazprom fails to penetrate the lucrative Asian market in the next few years, it could soon face competitive supplies from the independent producers as well as other Russian state-owned oil companies.

Therefore it proves the hypothesis of the research that sub-national actors' commercial consideration is an indispensable role in the decision-making process and attached with a final say in the actual game behind the curtain of politics.

[12] Ministry of Energy of the Russian Federation, "Energy Strategy of Russia for the Period up to 2030," 13 Nov. 2009. 29 Dec. 2014< http://www.energystrategy.ru/projects/docs/ES-2030_%28Eng%29.pdf >

VI. Conclusions

Based on the above analysis on Case 1 Southern Gas Corridor and Case 2 South Stream Program, it is concluded that underneath the geopolitically strategic cover lies the ultimate logic of economics. Pipeline programs are always composed of intertwining political and economic factors, the inseparability of which denies the unilateral emphasis on either side. Therefore, it is not suggested in this research that the EU-Russia pipeline competition is all about economics, but rather the preference order between these twine factors, placing the logic and consideration for economic interest as the core and ultimate cause of involved activities. And thus the myth of politics-dominance should be disenchanted and a comparatively integrated perspective of "Pipeconomics" is presented.

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Reflections on the Russian Mentality through the Figure of Ivan the Fool

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I. Introduction

Reflection on the historical experience of the last century, analysis of the causes of cultural conflicts and the revaluation of foreign policy realities of modern society have caused a revival of interest in the issue of national mentality (Latin word "mens", "mentis"- spirit, thinking, reasonableness and a way of thinking)[13].The study of national mentality in the contemporary world is of great importance, particularly for international communication and mutual understanding. It is neither fair nor objective to hold an ethnocentric attitude, to judge another culture solely by the values and standards of one's own culture. The lifestyle and mentality of one ethnic group are always related to unique condition of the specific country, such as climate, geography, history, religion and many other factors.

It is well-known that Russian culture has been shaped by tensions involved in its unique position on the margins of both East and West. The history has witnessed continuous effort by Russia's various groups of thinkers to define a national identity. Since Peter the Great's reign the Russian people had been split between those in favor of Westernization and those who wished to return to pre-Petrine customs. The history from the reforms of Peter the Great till now shows that most Russian reforms undertaken by western scenarios have led to unpredictable and mostly adverse outcomes because the former did not take into account the peculiarities of the Russian mentality. Up to now, "does Russia belong to East or West" still remains a problem unsolved to outsiders, as well as to Russians themselves. Foreigners, who are confused and puzzled by many behaviors, customs, characteristics and ideas of native Russians, have brought up the term "mystifying Russian soul" to describe the "weirdness" of this nation.

As for the uniqueness of Russian spirit, Leo Tolstoy made a famous poetic depiction of "Natásha dance" in the novel "*War and Peace*":

> "Natásha threw off the shawl from her shoulders, ran forward to face "Uncle", and setting her arms akimbo also made a motion with her shoulders and struck an attitude.
>
> Where, how, and when had this young countess, educated by an émigrée French governess, imbibed from the Russian air she breathed that spirit and obtained that manner which the pas de châle[the French shawl dance] would, one would have supposed, long ago have effected? But the spirit and the

[13] A systematic study of mentality is usually associated with the Annales School, which was developed in France in the 1920s and 1930s under the banner of the so-called "new history",represented by M.Bloch and L.febvre.However, the term itself appears to have been coined by L.lévy-bruhl in his book Primitive Mentality, which was published in 1921.

> movements were those inimitable and unteachable Russian ones that "Uncle" had expected of her.…
>
> She did the right thing with such precision, such complete precision, that Anísya Fëdorovna, who had at once handed her the handkerchief she needed for the dance, had tears in her eyes, though she laughed as she watched this slim, graceful countess, reared in silks and velvets and so different from herself, who yet was able to understand all that was in Anísya and in Anísya's father and mother and aunt, and in every Russian man and woman."(1996)

To seek the answer of the question what exactly are the "inimitable and unteachable Russian ones", we need to further study the concept of *mentality*, especially Russian mentality, which is now one of the most popular terms in modern Russian sociology, psychology and related sciences.

Before the socialist revolution of 1917, by Artem'eva, Russian researchers did not use this term, preferring other identical concepts, such as national character, psychic makeup of the nation, the spirit of the people, etc(2010). The very concept of mentality appeared in the national psychology relatively recently, in the 1990s. According to G.V. Akopov, the reason why Russian researchers nowadays show a growing interest in mentality problems is related to the transition of Russia to democracy, market economy, and reorientation of its West-East mental dichotomy. It is noted that "in the past 15 years, the term mentality in its most diverse interpretations has been increasingly used in social sciences" (Semenov 2007) and that "the relevance of studying the problem of mentality does not require proof. Affecting the reflection of what is happening in the world and in the country, the mentality is a factor in building an integral image of reality(worldview) and, therefore, a regular of human behavior"(Gostev 2010).

In the past 20 years, with the rapid changes in Russian society and the development of in-depth study of the language and cultural linguistics, Russian researchers have started to pay more attention to their own national history, traditions and religious culture, which leaded to the emergence of a large number of productive relevant results. The study of folk tales is one of the important dimensions.

II. The Figure of Ivan the Fool in Russian Literature

Folk tale is one of the oldest and most common forms of every ethnic group's oral creation, showing their standards of life, philosophy, psychology, and features of national character. It is very important and meaningful to investigate the deep and organic relations between Russian folk tales and national mentality because these two aspects cannot be separated in the history of Russian culture nor in the formation of Russian literary language.

Ivan the Fool (Russian: Иван-дурак or Иванушка-дурачок) is one of the most popular and most beloved characters of Russian folklore14. He is a very simple-minded but nevertheless lucky young man. A lot of great Russian writers, such as Pushkin, Tolstoy, and Dostoevsky have used this figure

[14] Our analyze is based on the texts from *Russian Fairy Tale*s—a collection of Russian fairy tales, collected by Alexander Afanasyev and published by him between 1855 and 1863. Vladimir Propp drew heavily on this collection for his analyses in his Morphology of the Folktale. As for the study of Ivan the fool, we used Andrei Sinyavsky's works as a reference.

directly or indirectly in their works. It is also closely related to the tradition of Russian people to worship of the Holy Fool[15].

In most cases, the social status of Ivan the Fool is very low. He is usually portrayed as either a peasant or the son of a poor family, usually being the youngest of three brothers who appear to be much smarter than him, yet unkind and sometimes envious of him. Ivan the Fool spends most of his time lying on the stove, catching flies, spitting at the ceiling or blowing his nose, sometimes digging aimlessly in the ash. He is often called to perform menial tasks. For example, his older brothers, when in need of guarding the field against thieves over the night, will send Ivan the Fool to the field while they themselves stay at home and sleep. Unlike typical heroes, it is Ivan's simplicity and lack of guile that turn out to help him in his adventures. Whenever faced with difficulties, instead of sparing effort to overcome them, he silently obeys. He listens to his heart rather than his mind and easily forgets offences and personal endeavors in order to help others even at his own expense. As a reward to his naivety, kindness and braveness, there always are miracles happening at the crucial moment, helping him fight villains, make friends, win princess's heart and ultimately gain happiness.

Before we talk about how Russian mentality is reflected in the figure of Ivan the Fool, we need to first acknowledge the fact that the character of a fool is by no means a “patent” of Russian folk tales. In those of various nations there are also heroes portratyed as fools who behave almost the same. For example, *The Golden Goose* in Grimm’s Fairy tales begins off as:“There was a man who had three sons, the youngest of whom was called Dummling, and was despised, mocked, and sneered at on every occasion.” We also have Hans dumm in Andersen’s Fairy Tales, Pietro pazzo in Italian folk tales, Jean le Idiot in French folk tales, silly Jake or simple Simon in English folk tales. Besides from Europe, Asian and African oral literature also contain hero characters portrays as fools.

So what differentiates Ivan the Fool from other similar characters from different culture? Firstly,as famous Russian scholar Y.Meletinsky noted, such characters in Europe folk tales are seldom given the title of a “fool” as their names, but in Russian stories the hero is directly called Ivan the Fool(1958). Even some of the titles of Russian stories contain the name of Ivan the Fool, while in other European folk tales this is a rare phenomenon. Secondly, it is inevitably the case that Ivan the Fool is a positive character in all Russian tales that he is mentioned in, and he always gets luck and happy ending without much effort, while in other European folk tales it is not the case.

By comparison we can draw a conclusion that although we cannot say Ivan the Fool is the only and most typical representative of Russian mentality, it contains nevertheless the possibility of reflecting the certain worldview, some intellectual and spiritual specifics of national character of Russian people.

The folk tale «Ivan the Fool» is about the farmer’s third son Ivan the Fool, who went to the field and killed 40 insects with one whip. Regarding himself as a bogatyr (hero), he left home and went on an adventure to a kingdom. After meeting two other bogatyrs, he won the first two battles against the king. In the third battle the furious king sent his giant bogatyr, which scared off the two bogatyrs, while there was no time for Ivan the Fool to escape. He managed to kill the the gaint

[15] The Holy Fool or yurodivy (юродивый) is the Russian version of foolishness for Christ, a peculiar form of Eastern Orthodox asceticism. The yurodivy is a Holy Fool, one who acts intentionally foolish in the eyes of men. The term implies behaviour "which is caused neither by mistake nor by feeble-mindedness, but is deliberate, irritating, even provocative. By Ivanov, S. A. (2006)

bogatyr and marry the king's daughter.

At the first glimpse, it appears to be not such different from other adventure stories. But how the main character is described need to be studied in details.

The story starts like this:

> In a certain kingdom, in a certain country, there lived an old man and an old woman. They had three sons; the third's name was Ivan the Fool. The first two are married, and Ivan the Fool is single; two brothers were engaged in business, kept the house, plowed and sowed, but the third did nothing (AfanasyevIII.No.430).

Ivan the Fool considers himself as a bogatyr and went on an adventure. He won the first two battle under the help of other bogatyrs. The description of third battle is interesting.

> Dobrynia(the giant bogatyr) rode up to him(Ivan the Fool) and laughed, is this truly the strong, mighty hero? How small and thin! He bent his head to Vanyukha[Ivan the Fool]and looked at him, admiring. Somehow Vanyukha was not scared, drew out his sablëshku[small saber], and chopped his head off (III.No.430).

Rather than a typical story of clever, diligent and active hero who defeats the enemies by his own talent, wisdom or hard-work, it is more a story of the stupid, lazy, and reckless Ivan the Fool who through the help of others and his simple mind achieves success.

Here is another folk tale *The Flying Ship* (I.No.144).

> Once lived old man and an old woman. They had three sons, two smart, and the third - a fool. The couple liked smart sons and the old woman gave clean shirts to them every week, while everyone scolded the fool and laughed at him. The fool sat on the stove everyday with a dirty shirt and no pants….

The king said that if anyone can build a flying ship and come to the palace to have lunch on that ship, then he will marry his daughter to this man. And in the end the fool turns out to be the lucky guy with the help of an old man with magic power.

The dialogue happened when the fool and the old man met is quite meaningful:

> - Hello, Grandpa!
> - Hello, son!
> - Grandpa, where are you going?
> - I go around the world, helping out people from distress. And where are you going?
> - To the king for lunch.
> - Do you really know how to make such a ship to fly to him?
> - No, I don't.
> - Then why are you going?
> - God knows why! I have nothing to lose, and maybe I can find my happiness there. (I.No.144)

After that the old man told the fool the magic way to get to the flying ship. Needless to say, the fool

is rewarded luck and success almost for no reason. His actions consisted only of sharing his bread and water with the old man. Of course, it seems unreasonable to talk about logic and motive for the plot of a folk tale, but the term “god knows why” make us associate the popular Russian proverb “Авось Бог поможет”(perhaps God will help).

As one of unique representatives of Russian mentality, the figure of Ivan the Fool got specific development and evolution in Russian Literature. Many Russian writers have created famous figures based on the concept of Ivan the Fool in their works.

For example, Leo Tolstoy in his later years has collected and rewrote a lot of folk tales, including Ivan the Fool. "*Ivan the Fool,and of his two brothers,Simon the Soldier and Taras the Stout; and of his dumb sister Martha, and of the old devil and the three little imps*" is a fairy tale by Leo Tolstoy first published in 1886.

Ivan is called a fool because he lacks keen intelligence and understanding of how the materialistic world works. He has two brothers: the eldest has a military career, and the other is a merchant. Ivan stays home, runs the peasant farm and takes care of his parents and sister, who lacks physiological vocal abilities. Tolstoy's story turns the fool into a wise man and the dumb sister into the guardian of right living: it is Ivan the fool who leads others to a life of happiness, and it is his "dumb" sister who can differentiate between the person of true value and the arrogant, false boaster. Together they demonstrate Tolstoy's theme that simple living, open generosity, and manual labor represent how people ought to live. While Tolstoy borrowed the structure and part of the plot from folk tales, the content of his story is an expression of his religious ideology, moral philosophy and social ideals. The story points out the unadmirable, destructive, and devious aspects of militarism and commercialism while idealizing the peasant life.

III. Ivan the Fool and Russian Mentality

Many Russian intellectuals held various points of view on this aspect of national mentality. In the early 20th century, Russian philosopher Yefgeni Troubetzkoy regarded this passivism as a flaw of Russian people, who wait for all the good things of life while completely forgetting about his or her personal responsibility. The traits in the Russian folk tale about Ivan the Fool, such as parsing the fool over the bogatyrs, replacing personal heroism to the hope for miraculous help, generally passive heroic elements, composes a lovely poetic dream in which Russian people are looking for peace and repose; stories inspire their dream, but at the same time, dispel their enthusiasm and motivation (2001).

Another famous Russian thinker I.Ilyin has given us another interpretation. According to his opinion, the first expression of Russians’ love and faith is contemplation, which is taught by plain landform of the country, their nature, with its expanses and clouds, rivers and forests, thunderstorms and blizzards. Here comes their reverie, dreaminess, and contemplating “laziness”, behind which is the power of creative imagination. In contemplation hides the captivating Russian beauty , and this beauty is soaked into everything - from fabrics and laces to the houses and buildings of serfs, which makes the soul become gentler and deeper. Contemplation is inherited in the internal culture: in faith, prayer, art, science and philosophy. Ilyin explains that the historic Russian monarchy is not because Russian people have been gravitated to dependence or political slavery, as many people think in the West, but because that in the understanding of Russians the state must be artistically and

religiously embodied in a single unity with universal love (1992).

So to what extent this figure is meaningful to modern Russians? As far as folk tales are peculiar to modern conditions of family education, we have adopted the results of a poll conducted among primary school students by Fyedina Anastasiya Yuryevna from Novosibirsk (6/7- 10/11 years).

Question	Boys	Girls
How do you think of Ivan the Fool? Do you think he is a good guy or a bad guy?	25% think that Ivan the Fool is bad because of his laziness 5%- think that Ivan the Fool is bad because of his dirtiness 10% think that he did everything only for himself 30% show respect to him,because he is just good 5% think he is a good guy because he showed his love to girls 5%- think he is a good guy because he found the thief. 5%- think he is a good guy because he heated the stove 5%- think he is a good guy because he let go of the pike 5%- think he is a good guy because he fulfilled his promise 5% argue that Ivan the Fool is not lazy	12% think that Ivan the Fool is bad because of his laziness 12% just think that he is a bad guy 20% think he is a good guy because he helped the queen 8% think he is a good guy because he is always lucky 20% think he is a good guy because of his kindness and braveness 12% show respect to him, because he is just good 16% show respect to him, because he did good things to the society

As we can see from the result, most of the children nowadays think that Ivan the Fool is a positive figure. Of course we don't deny that as their life experience expands, their perceptions of fairy tales will change. But the first impression that their parents left on their children is the introduction of

these wonderful stories that will always play their parts in a person's life full of obstacles and injustice.

Speaking about the Russian mentality, we have to mention their fatalism, the passive-contemplative attitude toward the world, which is somehow related to the figure of Ivan the fool. In the West, there is a saying: "Do not put off till tomorrow what you can do today", which indicates the practical desire to get good results as soon as possible. Whereas in Russia, there are other words: "Morning is wiser than the night", which means: "Do not rush into making a decision. Who knows what will happen tomorrow? " Here comes the wisdom of Russians:"Never plan anything in advance!"

Harsh climate, numerous economic and historical difficulties taught them how to cope with all of them by their endurance. Humanity and endurance belong to one aspect of the Russian mentality, which have long been surprising foreigners. "Russian maybe" certainly makes life easier, but it can also lead to some bad results, such as non-professionalism and irresponsibility. They can always blame the God and bad fortune.

The history shows that, faced with the most unfavorable circumstances, rather than actively searching for effective measures to cope with the problem, Russian people tend to passively endure, rely on the "magic" and wait for good things to happen. This to some extent explains their longing and worship for a powerful leader and government. They are good at accepting the reality and compromising with it. Nevertheless, this passivism doesn't mean that they are manipulated or lack of ideas. As Yuri Lotman pointed out, "passivity is an action" (1992), it's also an option of way of life.

Ivan the Fool in Russian folk tales contains much more meaningful aspects than it sounds like. This work is only a preliminary attempt to interpret Russian mentality through the figure of Ivan the Fool and to demystify certain misunderstanding of Russian people. We believe that the idea of Russian mentality deserves to be studied in detail since it continues to provide a very fruitful perspective for demystifying and understanding the modern Russian society from politics, diplomacy and social doctrine to daily behaviors and basic worldview of ordinary Russians.

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The Extent to which Fuel Ambitions of the Arctic Countries Threaten the Stability within the Region

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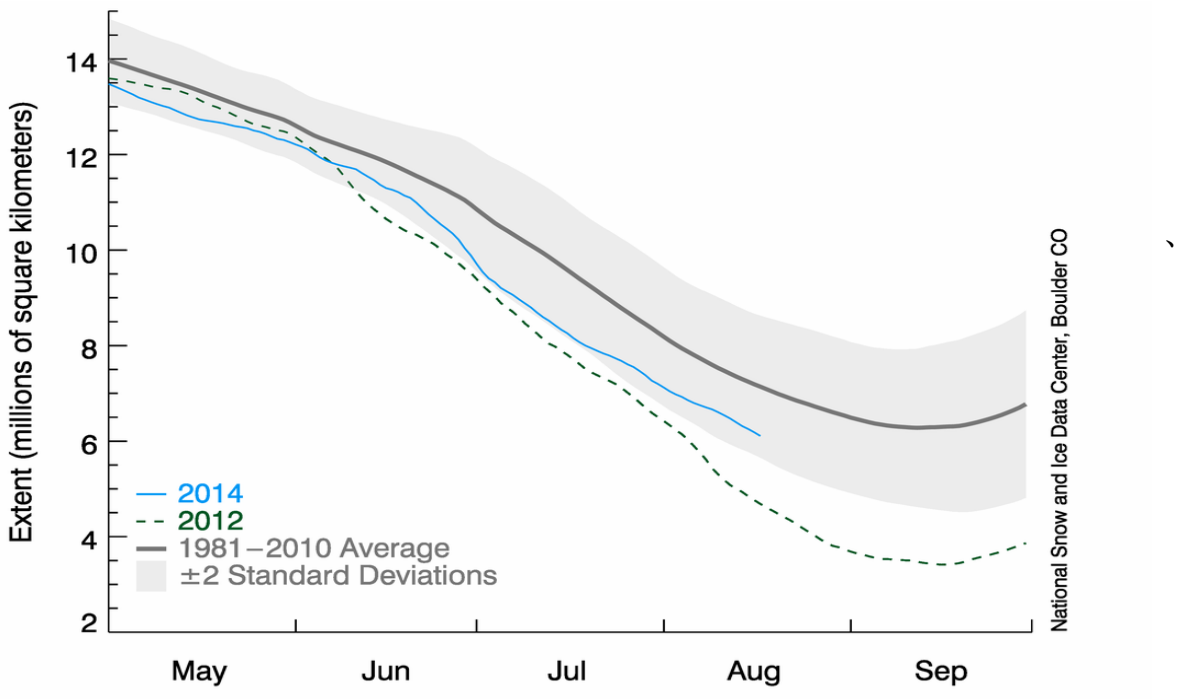
I. The Arctic as Viewed in the Past

Located at the northernmost polar region of the Earth, the Arctic is in most part shared by Russia, Alaska (United States), Canada, Greenland (Denmark), and Norway. It is centered around the Arctic Ocean, topped by an ice cover that varies not only seasonally, but annually as well. According to Gorenburg of the Washington Post (2014), "the Arctic region was primarily a zone of military interests, used by both NATO and Soviet strategic forces…as testing grounds for intercontinental ballistic missiles" during most of the late 20th century. Of course, "with the end of the Cold War, the Arctic initially lost its strategic significance" because there was no longer a need for countries to showcase their military might. Akulov (2012) raised the point that right after the Cold War, the arctic "region was viewed as nothing more than a useless desert covered by ice". For these reasons, it is needless to say that the Arctic in the past was for the most part uncontested, and as such its "borders are [to this day] not clearly defined and tested by international law". The Arctic disputes, which currently enjoys frequent media coverage, stems in part from this negligence of the past. Because borders have not been solidified in the past, the five Arctic littoral states are contending to seize a bigger portion of the Arctic.

II. The Arctic as Viewed in the Present

So what gave rise to the burst of interest in the Arctic? The past negligence and disregard melted and started evaporating with the onset of climate change. The World Wildlife Fund (2013) stated that the Arctic sea ice extent16 has decreased 14% in just the past couple decades and in 2012 hit the lowest level ever recorded. Its future forecasts regarding the melting rate of Arctic ice are even more favorable: estimations have been made that "by 2040, summer sea ice could be limited to the northern coast of Greenland and Canada". The following graph retrieved from the National Snow and Ice Data Center of the University of Colorado Boulder (2012) confirms the decreasing levels of Arctic sea ice:

[16] Area of Arctic ocean with at least 15% ice.



Graph 1: Average Arctic Sea Ice Extent (1979 – 2012)

With the reduced amount of sea ice in the arctic region, the notion of harvesting fuel deposits have become a reality for Russia and the other countries surrounding the Arctic Sea. Akulov (2012) of the Strategic Culture Foundation stated that "the Arctic region has 22% of the world's undiscovered energy resources – and 84% of those resources are expected to occur offshore", which equates to 18.5% of undiscovered resources lying on or under the Arctic seabed. And according to Gorenburg (2014) of the Washington Post, "Russia's natural resources ministry has stated that the parts of the Arctic Ocean claimed by Russia may hold more petroleum deposits than those currently held by Saudi Arabia". In light of the sheer quantity of natural resources in the Arctic and the growing possibility of harvesting them, it is no surprise that the region has started gaining so much attention in recent years. The race for natural resources, and the inextricable race for Arctic sea territory, is in full motion.

III. United Nations Convention on the Law of the Sea and Extension of the Sea Bed

According to present research, 84% of the Arctic's energy resources are offshore in the seabeds. The territory that the Arctic Council member nations are vying for then is ocean territory, and this is the geographical nature of the region. In validating or acquiring ocean territory, nations must refer to the United Nations Convention on the Law of the Sea (UNCLOS). According to the United Nations Division for Ocean Affairs and the Law of the Sea (1982), the convention "lays down a comprehensive regime of law and order in the world's oceans and seas establishing rules governing all uses of the oceans and their resources". Drafted and opened for signature in December 1982 and entered into force in November 1994, it is the globally recognized protocol dealing with all matters relating to the sea. Article 77 of the UNCLOS (1982) contains two clauses that are essential to the problem of exploiting resources within the sea and have direct relevance to the Arctic dispute:

a) Coastal States have sovereign rights in a 200-nautical mile exclusive economic zone (EEZ) with respect to natural resources and certain economic activities, and exercise juris diction over marine science research and environmental protection;

b) Coastal States have sovereign rights over the continental shelf (the national area of the seabed) for exploring and exploiting it; the shelf can extend at least 200 nautical miles from the shore, and more under specified circumstances;

The exclusive economic zone (EEZ) in both clauses refers to the 200-mile stretch of distance from the shore of coastal nations. In regards to "claiming more seabed territory under specified circumstances", Chase (2013) of the Globe and Mail offers explanation: "under the UN Convention on the Law of the Sea, a country can secure control of the ocean floor beyond the internationally recognized 200 nautical mile limit if it can demonstrate the seabed is an extension of its continental shelf". In accordance, he claims that the Arctic "countries are tabling scientific evidence… to win rights to polar sea-floor assets". And of course, adhering to global protocol and providing evidence to claim the seabed is the most diplomatic solution.

Countries have already started making claims in the Arctic Ocean and submitted relevant territorial extension applications towards the United Nations Commission on the Limits of the Continental Shelf (CLCS). Inside the submissions portion of the CLCS (2015), Russia, Canada, and Denmark (in respect to Greenland), have all applied for extensions of their continental shelf. Russia's submission, made in 2001, was rejected. According to Mioh Song's (2014) report made in Xinhua, approval of its submission would have increased its 200 nautical mile Exclusive Economic Zone by another 150 miles, equivalent to 1.2 million square kilometers, and would have increased its potential fuel resources by 5 billion tons. Canada and Denmark's submissions are still pending. The situation with the United States, however, is more complicated. According to Hargreaves of CNN, the United States has not ratified the UN Convention on the Law of the Sea. It does not recognize other countries' submissions to the CLCS, and although has made claims to parts of the Arctic, makes no submissions of its own. The following image provided by BBC News (2014) illustrates the current territorial situation in the Arctic region:

Image 1：Territorial Situation in the Arctic Region

A strict diplomatic adherence to the UN Convention of the Law of the Sea would ensure military aggression does not break out between the Arctic countries, as the treaty was designed to do. Increasing militarization in the region, however, gives concern to potential armed conflict.

IV. Military Status in the Arctic

The Arctic is bordered by eight nations: Canada, Russia, the United States, Norway, Denmark, Sweden, Finland, and Iceland. Every country is entitled to defend its own borders, more so now in the Arctic with growing possibility of harvesting energy. The latter three Arctic countries however are not pursuing active militarization in the region. As such, this section of the essay will discuss the defense policies and military presence of the first five nations with added reference to their future plans for military strengthening. Stability within a region is intermittently related to the level of militarization. As military capability becomes greater, both the scale and possibility of armed conflict grows exponentially. Each country will be assessed in regards to their air, land, and sea military capabilities with the goal of outlining the amount of military tension in the Arctic, and also the degree to which each nation contributes to this tension.

1. Canada's Military Status in the Arctic

According to the Canadian Department of National Defense (2009), the Royal Canadian Air Force currently operates 18 anti-submarine warfare aircrafts (CP-140 (P-3C)) that have the range to patrol the Arctic region, and will be replaced by 10-12 new aircrafts from 2020. Canada also has 80 combat aircrafts (F/A-18) supported by 7 tanker aircrafts all of which are stationed throughout

Canada, and will be replaced with 65 Joint Strike Fighters from (F-35) 2020. According to the International Institute for Strategic Studies (2011), Canada's purchases are due to repeated Russian long-range bomber aircraft operations over the Arctic.

In terms of surveillance and arctic missions, the Canadian Department of National Defense (2011) reports Canadian helicopters, transport aircrafts, and rescue aircrafts operate regularly in the Arctic region. Purgliese and Huebert (8) state that Canada has invested 1.5 billion Canadian dollars in the Joint Uninhabited Surveillance and Target Acquisition System (JUSTAS) project which calls for 6 unmanned aerial vehicles for maritime and Arctic patrol. Huebert (54) also mentions already existent surveillance systems: the North Warning System which operates an extensive network of air surveillance radars; the Northern Strategy which entails satellites and underwater surveillance systems to monitor ship movements in the Arctic. It can be concluded that the main purpose of Canada's air force in the Arctic is defense and surveillance.

In regards to land capabilities, Huebert (55) states that the Canadian Rangers, responsible for patrol and reconnaissance in northern Canada, has been increased to 5000 personnel in 2012 from 4100 in 2008 and will be granted greater firepower. O'Dwyer and Pugliese (2009) adds that a regular army unit of 500 and a reserve force of 100 will be established in the Arctic by 2019. According to Huebert (54), Canada currently owns 15 major surface warships and 4 conventional submarines that can operate in the Arctic. Also, most of the current icebreakers that patrol the Arctic can only be used in the summer and falls under the Canadian Coast Guard; 6 to 8 large Arctic offshore patrol vessels and one large icebreaker are to be dispatched respectively to the navy and coastguard by 2017.

2. Russia's Military Status in the Arctic

According to Saunders (682), Russia currently operates 100 long range Tu-22 bombers and Il-38 maritime reconnaissance aircrafts which are regularly deployed on missions near or over the Arctic. Saunders (683) also comments that Russia's first Arctic special forces brigade had been dispatched in the Arctic in 2011 in order to balance the situation with NATO forces in the region. He (711) adds that the Northern Fleet, which operates in the Arctic and is the largest of the five Russian Navy fleets, consists of nuclear-powered ballistic missile submarines (SSBNs) protected by surface ships, one large icebreaker, four small icebreakers, and 20 civilian icebreakers (former navy ships). Huebert (17) points out that Russian SSBNs have restarted operations near or under the Arctic ice since 2009, with older SSBNs being modernized and new ones being built, which in turn is leading to an increase in the number of surface ships.

3. United States' Military Status in the Arctic

The US attitude towards the Arctic is a bit detached compared to that of Russia and Canada. Admiral Robert Papp of the US Department of Defense (2012) voiced that "strategic interests" in the Arctic is not significant enough to support anything but planning and small scale deployments in the region. Also, the United States operates two Alaskan bases that can house a significant number of combat and support aircrafts, but is currently not exercising its potential. Although the Alaskan Army of the US consists of mechanized infantry and airborne troops, they are not specifically trained for Arctic operations. Instead, most of the US Army cold weather training is geared towards extreme cold weather operations in Afghanistan. Although the equipment and training for cold weather operations in Afghanistan may be useful in the Arctic, it does not seem to be a big concern for the US army.

According to Saunders (912), the US Navy has only one surface ship, MV Susitna, specifically constructed for operation in the Arctic ice environment. However, most of the approximately 53 US nuclear attack submarines are capable of operating under the Arctic ice and breaking through to the surface from below. In addition, the US Pacific Fleet has an Arctic Submarine Laboratory with the purpose of enhancing Arctic capabilities of submarine and dispatched two submarines to participate in the Ice Exercises of 2011 in the Arctic. The US Coast Guard also operates three unarmed icebreakers but they are known to be used mainly for Arctic research.

4. Norway's Military Status in the Arctic

According to the Norwegian Armed Forces (2012), a large bulk of the 60 combat aircrafts (F-16) that Norway operates is based in Bodø, the main base of the Royal Norwegian Air Force, but may be moved further north to Ørland by 2024. These combat aircrafts however have short range and is not suitable for operations outside Norway within the Arctic Circle. Furthermore, Norway has announced plans to purchase around 55 aircrafts (F-35) to replace the F-16s starting from 2018. These combat aircrafts however have short range and are not suitable for operations in the Arctic circle. The Norwegian air force compensates for this shortcoming with plans to modernize the six P-3 long-range maritime patrol aircrafts, which make up the main component of Norway's Arctic force.

According to the Norwegian Ministry of Defense (24), neither is Norway's land force, known as Brigade North, specifically geared for the Arctic; it is equipped for carrying out operations in Norway. What's more, there are plans to reduce the brigade's two battalions to one. Norway has given greater attention to its navy in respect to operations in the Arctic, possibly because of its extensive coastal border. According to Saunders (571-576), the Royal Norwegian Navy replaced its five small frigates with five much more powerful and larger frigates that are able to operate in Arctic waters. Plans have also been drawn to obtain a large support ship in 2015; the support ship will grant the frigates a great increase in range.

5. Denmark's Military Status in the Arctic

Huebert (10) states that Denmark has three unarmed maritime patrol aircrafts operating on the Baltic Sea and Greenland. Deployment of F-16 combat aircrafts to Greenland and the renewal of Thule Air Base in northwest Greenland are being considered. According to the Canadian American Strategic Review (2005), Denmark's frogman corps Special Forces and the sledge patrol Sirius have a limited Arctic force operating on Greenland to a small degree. According to Saunders (190), Denmark has 5 frigates that are not ice-strengthened but capable of operating in Arctic waters. Four more Thetis class frigates can break ice up to 1 meter thick, and two smaller but better armed ice strengthened frigates, known as Knud Rasmussen, are also dedicated for patrol. The Royal Danish Navy has a base at the south of Greenland.

V. Conclusion

The reason for growing interest in the Arctic territories was acknowledged as global warming. With the melting of the polar ice caps, harvesting the natural resources became a possibility. As a result, the Arctic countries became more concerned with expanding and defending their exclusive economic zones. Military buildup in the region ensued. This essay outlined the level of militarization by each Arctic nation in order to assess the possibility of armed conflict in the region.

Upon observing the figures, it seems that the media has somewhat exaggerated the threat imposed by the military buildup in the Arctic. The so-called militarization is in actuality more of limited modernization and increase in equipment. Also, the majority of newly made mechanical and personnel deployment is geared towards patrolling and surveillance in the Arctic. The actions of the Arctic nations indicate a defensive stance, and the amount of preparation seems to correlate to the length of the Arctic coast that needs to be defended. Thus Canada and Russia's military investments are most conspicuous, followed by Norway. But these statistics do not imply greater aggression, but a need for extra fencing around greater territory.

There seems to exist a mutual agreement to follow the rules set out by the United Nations Council on the Law of the Sea. The Arctic council members have and still are sending submissions to increase their Arctic territory diplomatically, and not militarily. In an additional note, although there are large deposits of natural resources in the Arctic, the availability of fuel in other regions combined with the difficulty of harvesting projects in the North should be able to ensure relative stability in the short future.

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1854 and 2014: Russia's Alignment Strategy in Crimean War and the Crimean Crisis—on the Cases of US and China

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I. Introduction

"It doesn't have to be this way", said Barack Obama in a speech in Estonian capital, Tallinn, ahead of the NATO summit in Wales September 2014. "Reaching back to the days of the Tsars, trying to reclaim lands lost in the 19th century is surely not the way to secure Russia's greatness in the 21st century." (NBC News) Despite the overwhelming rejection from the international society, *de facto* annexation of Crimea has been performed as the Russian Federation Council ratified the treaty signed by President Vladimir Putin on Crimea's entry to Russia, after Crimea's parliament formally declared independence from Ukraine and asked to join the Russian Federation. (ITAR TASS, 2014; BBC, 2014) Even though Russia was free from the use of force in this case, and situations have been fundamentally different in the context of the 21st century, the peninsula whose government yielded itself to Russia reminds us of the war in which Russia lost it in 1856.

Needless to say, Crimea is of great strategic value for Russia. Whether in the 19th or 21th century, Russia's possession of Crimea would equally mean greater access to the sea, bringing with it manifold implications to the world. However, this research does not intend to force any argument of artificial correlations between irrelevant points in history. Rather, discoveries might be made about Russia and its relationship with the world by historical comparison from the perspective of two Crimean crises that revolved around the same peninsula but in utterly different contexts and of very different natures. This research will focus on the study of Russia's alignment strategy in the two 'Crimean incidents'.

America was the 'Distant friend' (Saul, 1991) of Russian Empire during the Crimean War. While during the Crimean crisis this year, America was the prime country to antagonize Russia. China becomes the major power that did not directly contradict Russia's behavior and the 'strategic partner' that Russia turned to after the sanctions were put to place. Apparently the situation has been very different. The two world wars, the Cold War, the alliance of EU, and the 'rise of the rest' have all contributed to the shift of the world order as well as Russia's shift of position in the world order. However, there are abstract patterns that could be extracted from the two cases of alignment and tested in other cases in between the time span of 160 years. Meanwhile, the variables that have changed would manifest. I will try to find out whether the result of the comparison would reflect a trace of continuity of Russia's national character and regional structure, or is it a recurrence of similar logic of international relations under certain similar conditions, or is it simply a coincidence of history that did not carry much historical implication of any significance.

This empirical research on Russia's alignment strategy might indicate that Russia's alignment strategy has been more practical than ideological, and is generally in agreement with the realist tradition of alignment formation. I will start by scrutinizing alignment theories, providing a framework of analysis. The process would also be a conceptualization of the nature of the four pairs of relationship as 'alignment'. Upon this, I will go on with the historical comparison of the Sino-

Russia relationship and US-Russia relationship around the 19C century Crimean War and around the recent Crimean Crisis, using available historical literature based on US Archives and latest diplomatic records. Taking into consider Russia's alignment with England and Ukraine before the crises emerged, it would appear that Russia's alignment strategy has been reinforced by national security emergencies since the 19C or even earlier—which might still seem to be in agreement with the formation pattern of political alignments in international relations. Furthermore, the research will attempt to analyze reasons why the commitments have been inefficient to upgrade into more stable alliances.

II. Alignment theories and conceptualization of the nature of the four pairs of relationship

The study of alignments has long been defined by various realist explanations. Systemic explanations identify a state's relative position in the structure of the international system as the primary determinant of alignment outcomes. Balance of power theory highlights the distribution of capabilities as the most critical variable in determining alignment behavior. These theorists suggest that states tend to balance for two reasons—aligning against the strongest power and potential hegemon to ensure no state dominates the system to stabilize and create a new equilibrium; or to join the weaker and more vulnerable side to increase the relative influence in the weaker coalition. This rationale is prefaced on a strong belief in the anarchic structure of the international system. As a consequence of the socialization of anarchy, states seek self-preservation and pursue security to ensure their survival. (Waltz, 1979)

In refinement of balance of power theory, Stephen Walt argues that states ally to balance against threats rather than against power alone. (Walt, 1987) Walt sees the level of external threat as a function of four factors including: the distribution of capabilities, geographic proximity, offensive capabilities, and perceived aggressive intentions. Thus a state might not necessarily balance against the most powerful state, but consider through these factors which state poses the greatest threat and balance accordingly. Nonetheless, Waltz and Walt are in agreement that the dominant behavior of states is to be balanced, although they disagree as to why balancing would occur.

Bandwagoning theory suggests that states may join the stronger side in order to avoid immediate attack and divert it elsewhere or in hopes of sharing in the spoils of victory with the stronger side. Both Waltz and Walt conclude that bandwagoning is most likely to occur in cases of weak and fragile states. (*Ibid.*, 1987)

Building upon Walt's argument. Steven David argues that the most pressing threats are domestic rather than external. (David, 1991) Recognizing the role of external threats from the anarchical international system, he argues that it is the interaction between the distribution of systemic and domestic threats that determines a state's alignment behavior. (Harknett and Jeffrey, 1997) As David writes, leaders may even "protect themselves at the expense of promoting the long-term security of the state and the general welfare of its inhabitants." (David, 1991) According to this logic, a bandwagoning explanation might mischaracterize the true motivations behind an alignment, which would be to balance a leader's more pressing internal threats. David acknowledges that his theory was rooted in the distinctive character of Third World states. To generalize, the character of the conditions that are more likely to bear such a pattern is in countries where political legitimacy is weak and power is concentrated in a strong state apparatus. (Miller, 2006)

Further, Richard Harknett and Jefferey VanDenBerg refined David's theory of omnibalancing. They suggested that interrelated threats require leaders to keep an eye on both external and internal

forces, and that balancing and bandwagoning are the basic responses to these threats. Thus, leaders do not always balance their internal threats and may bandwagon with them. (Harknett and Jeffrey, 1997)

For the purpose of definitional clarity, there seems to be a necessity to differentiate the concept of alignment and alliance. Realist theorists like Walt and David have used the less binding term of alignment as their dependent variable. They define alignment as a relationship between two or more states, which involves mutual expectations of some degree of policy coordination on security issues under certain conditions in the future. (Walt, 1987) Yet the less formal arrangements such as alignments can perform similar functions and can exert equally significant effects as alignments. Apart from the realist tradition of increasing security in response to a perceived threat as mentioned above, the liberal/idealist approach recognizes the role of natural affinity of state with similar domestic characteristics in the formation and commitment of an alliance or an alignment. (Krieger, 2001) Most indicatively, alliances are distinguished from informal alignments by their codification in a written document; while states that share interests and tend to coordinate behavior may be termed aligned, only states that have made an international legal commitment to assist one another are allied. (Badie, 2011)

Looking at cases of Sino-Russia relationship and US-Russia relationship around the 19th century Crimean War and around the recent Crimean Crisis, the efforts above might indicate the nature of the four pairs of relationship as closer to the pattern of alignments. Then questions could be asked as to what bound Russia and America together during the Crimean War? What is it that drew closer together Russia and China today? Which pattern indicated above is the closest to each of the cases? Are there other factors that are playing in the relationship? Under this framework of analysis, I would like to go on with the historical comparison to empirically examine the issue.

III. Historical Comparison of Russia's Alignment Strategy Pattern with America and China Around the 19th Century Crimean War and the Recent Crimean Crisis

1. Russia-America Relationship around the Crimean War

Although the United States preserved strict neutrality during the Crimean War, it should be noted that Anglo-French alliance was directed not only against Russia, but also against the United States. Lord Clarendon, in his speech at the opening of Parliament, made it clear that England and France were also united in their efforts to thwart American expansion.[17] Beyond the European center theater of war, America had been Russia's 'distant friend' during the Crimean War. This friendship manifested itself in various ways as summarized by Frank Golder (1926):

a) America had forced England to accept the principle that the flag covers the goods, and helped Russian commerce;

b) America permitted the sale of the Russian merchant marine interned in her ports after the declaration of war;

c) American naval vessels rescued the crew of the Russian ship *Diana* in the Far East;

[17] Cited from Golder, F. A. (1926). Russian-American Relations During the Crimean War, *Hansard's Parliamentary Debates*, third ser., CXXX. 43. Jan. 31, 1854. "The Union between the two Governments has not been confined to the Eastern Question. The happy accord and good understanding between France and England have been extended beyond Eastern policy to the policy affecting all parts of the world, and…that there is no portion of the two hemispheres with regard to which the policy of the two countries, however heretofore antagonistic, is not now in entire harmony.

d) America put a stop to recruiting for the English army;

e) America protected the S. S. *America* (steamboat ordered by Russian government in New York, owner supposedly American, which was threatened by an English warship to be seized as a Russian vessel as it pulled in at Rio) at Rio Janeiro;

f) American prestige and the fear of America prevented the allies from accepting the Spanish terms (guaranteeing Cuba) and consequently the Spanish help against Russia;

g) American doctors traveled to the front in Russia to treat casualties of the Crimean War in 1854 and 1855.

Whether America did all the above under consideration of its 'friendship' with Russia, objectively, it had been in alignment with Russia, especially in terms of commerce and at sea under declared impartiality. As the bloody war proceeded, one European state after another left the neutral column and went over to the side of the Tsar's enemies. By the time it was over the United States was the only nation in the world that was neither ashamed nor afraid to acknowledge boldly her friendship for Russia. (*Ibid.*)

Why

Long before the Crimean War, when discussing the possibility of a future conflict between Russia and England, both the Russians and the Americans considered their countries as potential allies.[18] Therefore, the intimacy between the two countries during the Crimean War should not be considered as an independent alignment action, but responses on the testing ground for the traditional friendship of Russia and the United States.

As the bloc of Britain, France, and Turkey began to grow against Russia, records could be seen that Russia began to try the attitude of America. On November 28, 1853, Russian Foreign Office wrote to Bodisco, Russia's appointed minister to the United States, to inquire whether in case of war the United States would be neutral and, if so, whether her citizens would be permitted to accept commissions from foreign powers. (*Ibid.*) By this time, Turkey had declared war on Russia, even though to the dissatisfaction of Britain and France. Nevertheless, by the time that response was received from the American side February the next year, the Anglo-French fleet had already entered the Black Sea. Diplomatic pressure had escalated to the point that Russia must retreat or fight the war against the alliance. (Fang, Wang, Liu, 1999) America still seemed to diplomatically take the war as a hypothesis questions, and left the impression that America would be neutral. However, we could imagine that Russia must be more than willing to strive for the support of America, since all major European powers had defected to the opposing side of Russia, and war was totally on the brink.

Russia's expectations for America might have been higher than it could be, since the young diplomat Stoeckl who succeeded Bodisco tended to over-interpreted America's antagonism against England. It appeared that America's neutrality would do enough favor for Russia in the war. Yet Russia never stopped at America's neutrality as it declared, but kept trying to preserve and generate "friendship" with America.

[18] Cited from Dvoichenko-Markov, E. (1954). *Americans in the Crimean War*, As early as 1832, the Russian Foreign Office wrote to the Russian envoy to the United States, Krudener, that in case of war between Russia and England, the United States would necessarily become "nos allies obligees," and, in 1836, Secretary Forsyth assured Krudener that in case of war with England, Russia might count on the United States. (See F. Golder, Guide to Materialsfor American History in Russian Archives, I917, vol. I, pp. 58 and 62.)

How

Bodisco told his government not to lose hope at America's reserved response, pointing out that if American self-interest were aroused by commercial favors, by permits to import not only the products of their own country but also the merchandise of other neutral lands, a situation might arise that would lead to *d'autres combinaisons*. St. Petersburg accepted the suggestions and advised Bodisco to dangle before the eyes of the Yankee traders the golden opportunity to snatch the Russian markets, now and forever, from the hands of the British shopkeepers. (Golder, 1926)

Common commercial interest had been the foundation of Russian-American relationship, with the *Russian-American Commercial Treaty* signed in 1832, formalizing practices already followed in the growing trade between the two countries and providing general bilateral trading rights and most-favored-nation treatment. The American Russian Commercial Company was organized in 1853, established large ice houses in Sitka, and eventually dominated American trade with the Russian territories to the north. (Archive for the U.S. Department of State) The need for each other's products added to their shared pervasive Anglophobia. Common antagonism and interconnected self-interest held the two countries together. However, this alignment could be as unstable as the broken Russian-Britain relationship. At such moments they were ready to admit to themselves that a day might come when differences in traditions and institutions would outweigh common hatred, and the bonds that drew the two nations together would weaken. Thus Russia was determined, as well as instructed, to retain this friendship as long as possible and to do everything in their power to stimulate American self-interest and hatred towards the common foe. (Golder, 1926)

Against the British policies of blockading Russian ports and intercepting Russian marine transports, the U.S. Secretary of State declared that the United States would defend to the utmost her rights as a neutral to carry on legitimate commerce, that she would not recognize a paper blockade, and would dispatch orders to the squadron then on its way to Japan to go to the Baltic to protect American shipping. (*Ibid.*)

Nevertheless, however positively the Russians perceived this relationship, probabilities are that at the very outbreak of the struggle America will be neutral, not so much because of friendship for Russia as on account of the material advantages to be gained. Thus besides instigating the conflicts between the two-English speaking countries and inducing Americans to trade with Russia, Russia's strategy of securing the support of America included supporting or compromising to Russia in various diplomatic occasions.

Firstly, early in April 1854, Russia demonstrated no hesitation agreeing on a treaty with America covering the rights of neutrals in time of war, which America had tried to reach from almost the very beginning of our diplomatic intercourse with Russia.

Secondly, a few months later, Russia responded with zero objections for the annexation of the Sandwich Islands by the United States, against which England and France had protested. In his reply to the American Secretary of States, the Minister of Foreign Affairs said that any act tending to antagonize England and America would not be looked upon with "mauvais æil" by his Imperial Majesty. (*Ibid.,* p.467)

Thirdly, March 1855, the U.S. Secretary of State intimated to the Russian charge d'affaires that America would like to become a commercial rival of England in Persia. In response to this request, the Russian Legation at Teheran was instructed by the Russian government not only to aid the negotiations but to extend its protection to the American citizens in Persia until the establishment there of a diplomatic representation of the United States. (Dvoichenko-Marko, 1954)

In addition, affinity on the individual dimension of the American diplomats towards Nicholas I pushed further for a more favorable position towards Russia. The admiration of Thomas Seymour of Connecticut, appointed Minister to Russia, who arrived in St. Petersburg in March 1854, for Nicholas I was shared by other American diplomats of the time and even by the American press. (*Ibid.*, pp.137-139) Serfdom in Russia and slavery in the United States also posed parallel moral questions and economic dislocation. (Saul, 1991)

In June 1854, Beverly Sanders, President of the American Russian Commercial Company, brokered a deal with Russia that gave Americans a monopoly over the marketing of the Russian America Company's products (such as ice, fish, coal, lumber) throughout the Pacific. In return, Sanders agreed to help supply Russian America and Siberian coastal settlements during the war, and arranged for the fictitious sale of Russian ships to his American Russian Commercial Company, thereby allowing them to sail under the American flag. Other private American citizens also concluded supply deals with the Russians during the war. (Archive for the U.S. Department of State) In this way, America assisted the Russians, particularly in the North Pacific, by allowing Russian ships to sail under American neutrality and by supplying the Russians, whose shipping was frequently disrupted by the British.

Besides, the United States also offered to broker peace between the British, French, and Russians in the summer of 1854, recalling that in times past Russia had tendered a similar service (War of 1812) and that it was only fair that the United States should reciprocate. Although no U.S.-led peace mediation took place, all parties eventually agreed to basic principles of neutral rights at sea. (Golder, 1926)

After the War

The loss of the Crimean War impacted Russia hugely. Had not America supplied Russia at sea and offer to broker peace between the warring countries, Russia's isolated diplomatic situation might have led to worse outcomes. The 1856 Treaty of Paris granted the lost land of Crimea back to Russia. However, the treaty also curtailed Russia's influence in the former Ottoman Empire, the Danubian Region, and the Black Sea Coastal Regions. Thus sovereignty over the peninsular would mean much less as its access to sea was deprived of.

Nevertheless, the commercial intimacy between Russia and America remained to benefit both parties. As agreed upon in the early 1850s, American shipbuilders at the New York shipyards began the construction of warships for the Russian Navy in 1857. Russia's efforts to maintain its alignment with America also lasted after the war had ended. When the United States could not accept the Declaration of Paris, Russia refused to join the other powers in urging her to do so. By the end of the Crimean War, American trading houses had been established on the Amur River in Eastern Siberia and on Sakhalin Island. Although, for international reasons, no foreign consuls could, for the time being, be admitted on the Amur and on Sakhalin Island, the American merchants there were protected by secret orders of the Russian government. (*Ibid.*, p.475) During the American Civil War, the role of the two nations was reversed. Russia took its turn to give moral support to the United States. When in the course of commercial and territorial expansion the Russians and Americans met in the Pacific and misunderstandings began to arise, the Tsar, rather than lose the friendship of the United States, sold Alaska. (*Ibid.,* p.476)

From the perspective of America, it is clear that the alignment with Russia benefited the country much more than its sacrifice, since most of its activities in support of Russia were commercialized. Not only did America secure its commercial benefit from the wartime demand of Russia, it won plenty of support on commercial and territorial expansion not on in Siberia but also against the

traditional European powers. Furthermore, America also managed to achieve a balance of power from outside the European theatre of war, aligning with Russia and constraining the major expanding power—England. It seemed that the Russians were more eager than the Americans to preserve this friendship, and there was some question about proposing an alliance. But after thinking it over Russian statesmen came to the conclusion that mutual interest, honest and straightforward dealing, avoidance of causes of quarrel, would do more to bring the two peoples together than a union "qui nous lierait trop étroitement". (*Ibid.*)

2. Sino-Russia relationship around the Crimean War

It is quite unimaginable that China be involved in the system of international relations in mid-19th century, since by the time of the Crimean War, the Western countries have already started colonizing coastal areas of China and waging wars against the declining imperial government of Qing. China had been outside the circle of power competition between the major states in Europe, let alone the religious issues and the 'Eastern Question'. However, Russia and China were not isolated during the Crimean War.

Border trade between Russia and China had been prospering by the beginning of 19th century. Throughout the 1850s, Russian delegations had been negotiating with Chinese government over trading agreements. The Treaty of Kulja was signed in 1851, and trading developed soon. However, Russian government's anticipation to extend their relationship was not satisfied by the Qing government. The outbreak of the 1854 Crimean War added to their desire to establish trade relations with Kashgar, as war escalated the confrontation between England and Russia. That the English marine trade burgeons, particularly in terms of tea, prompted Russia to grasp an edge in the continental commerce. After the First Opium War of the 1840s, England had penetrated China by the coastal area. St Petersburg was especially worried that the English might infiltrate the heart of Chinese mainland through India. The military impotence of China as a wartime partner had been revealed in the Opium War. And it is also unlikely that Russia might go very far with Chinese government since England had planted its interest in China after the 1842 Treaty of Najing. In 1854, the Russians strengthened their control over the Kazakhs and Khalkhas on the borders of Qing, and explored the path to Kashgar through the Qing border. By the inking of the Sino-Russia Treaty of Beijing in 1860, the Crimea War was over, but the confrontation between England and Russia remained intense. (Fairbank, 1978) China was obviously an insignificant political partner to Russia. However, Russia did waste a chance of economically backing up the competition against its wartime enemy.

3. Russia-America Relationship around the 2014 Ukraine Crisis

Apparently the world has shifted 160 years later. The US has been explicitly against Russia's annexation of Crimea, and has accused Russia of its actions in Ukraine. Four rounds of sanctions have been imposed on Russian individuals and businesses in response to the annexation of Crimea and the crisis in eastern Ukraine. US officials have repeatedly aired its support for the new Ukraine government, placed troops in the Baltic NATO member states to warn against Russia. And Russia in return, has also been confronting the US accusations. Russian President Vladimir Putin accused the United States of endangering global security by imposing a "unilateral diktat", attempting to shift the blame for the Ukraine crisis onto the West. Further he said Russia would not cut back its ties with the U.S. and Europe but would build new relations with South America, Asia and the Middle East. (NBC News, 2014)

From a realist perspective, the confrontation could be interpreted as a competition between the two countries over the influence of the former Soviet states in East Europe. For Russia, Crimea and

Ukraine mean much to its pursuit of restoring its regional influence. The discourse of referendum and civil conflict in Ukraine justifies Russia's authority by the universally acknowledged rules of self-determination. However, Russia cannot vindicate itself from being supportive of the pro-Russian troops in Ukraine. The US could very well play by the principles of supporting democracy and opposing Russia for its attempted interference. Nevertheless, it is reported that the National Democracy Foundation funded by the US Federal Government has been supporting Ukraine non-governmental democracy ever since 1988. (Polese, 2011) America's determination to contain Russia's prestige is firm, since Russia's geopolitical situation straddling Europe and Russia, its large nuclear arsenal, and its permanent seat on the United Nations Security Council give it enduring leverage. (Stent, 2014) Judging from the resolute attitude of both countries, bilateral relationship between the Russia and the US does not promise to improve at least on the issue of Ukraine. Notwithstanding, the American and EU sanctions would not be too deadly to Russia, as long as Russia does not lose its "friendship" with China.

4. Sino-Russia Relationship around the 2014 Ukraine Crisis

How

Against the backdrop of escalating violence in Ukraine, Sino-Russian relations were on the fast track in 2014 in three broad areas: strategic coordination, economics, and military relations. Beijing declared neutrality from the beginning of the Ukraine crisis, and did not join the Western powers' condemnation of Russia's intervention in Crimea. On the eve of his Shanghai trip, Putin said to Chinese reporters that Russia's cooperation with China had reached its all-time best and that the two sides were ready to expand ties in numerous spheres. This was particularly evident during President Putin's state visit to China in late May when the two countries concluded a 30-year, $400 billion gas deal after 20 years of hard negotiation. In terms of bilateral economic cooperation, the two countries have focused on financial coordination to expand the scope of direct national-currency settlements in trade, investment, and loans. Concerning the gas cooperation, the Ukraine crisis seemed to provide Russia with strong impetus to compromise on the pricing gap that had prevented closing the deal. Meanwhile, the two navies were drilling off the East China Sea coast while the Conference on Interaction and Confidence Building Measures in Asia (CICA) was being held in Shanghai. Beyond this, Moscow and Beijing were instrumental in pushing the creation of the $50 billion BRICS development bank and a $100 billion reserve fund after years of frustrated waiting for a bigger voice for the developing world in the IMF and World Bank.

The two countries published a joint communiqué after the talks, calling for more growth in mutual capital investments, including in transport infrastructure, projects for the integrated development in fields of mineral resources, energy production, building affordable housing in Russia, and military-technical cooperation. In the area of international security, the two emphasized their coordination in the fight against terrorism and cross-border criminal activities, cyber security, missile proliferation, peaceful use of outer space, multilateralism, dialogue between civilizations, and peaceful resolution of regional issues such as Libya, Syria, Palestine, Korea, Iran, Afghanistan, and Ukraine. In this context, global, regional, and multilateral dialogues and cooperation mechanisms were viewed as the preferred solution for problems. Among those forums, the G-20 and BRICS were seen as vital for sustained and fair global economic development. Other projects either jointly or singly managed by Moscow and Beijing—such as the Shanghai Cooperation Organization (SCO), Eurasian integration, Russian-China-Indian trilateral dialogue, New Silk Road Economic Belt—were also discussed. The two also would work together in other multilateral forums such as the East Asian Summit, ASEAN Regional Forum, APEC, and CICA. As a final touch to their joint effort for regional and global stability, the history issue was also prominently featured. As the 70th

anniversary of the end of World War II was approaching (in 2015), Xi and Putin emphasized in their joint statement that "Russia and China will hold joint events to celebrate the 70th anniversary of victory over German fascism and Japanese militarism ... and continue to resolutely deter the attempts to falsify history and to disrupt the post-war world order." (Yu Bin, 2014)

Why

Basically, China has had good relations with both Russia and former Ukraine, and has had nothing to do with any of these crises (the ouster of President Yanukovich, the Crimea takeover, and the downing of MH17). Furthermore, there is little China could do to defuse the crises. However, China is a traditional major economic partner of Russia, and a country with increasing influence over both Eurasia and America. Russia has a reason to reach out to China rather than other rising powers such as India. As Russia has suffered from huge capital flight, economic support from China was imperative for Russia. According to Central Bank of Russia, $151 billion has left Russia in 2014. (Hexun, 2014) In 2013, Russia's capital outflow was $62.7 billion. Already in the first quarter of 2014, Russian enterprises borrowed $13.16 billion from China, a huge rise from $32 million in the first quarter of 2013. With the first round of Western economic sanctions against Russia explicitly focused in the financial area, Moscow will turn to China, at least for the time being, for more financial and economic inputs. According to Xinhua News Service, the heightened crisis in Ukraine and uncertain future of Russia's energy exports to Europe were apparently stimulus for the gas line construction. However, both sides denied the "Ukraine factor" in reaching the agreement.

Limits of the Partnership

All the above do not suggest a breakthrough of intimacy between China and Russia caused by the Ukraine Crisis. Firstly, all were scheduled long before the Ukraine crisis, particularly the CICA conference. The Ukraine factor, however, added urgency to closer coordination between Moscow and Beijing. Putin's trip to Shanghai was just a few days before Ukraine's presidential election on May 25. China's support, or at least its understanding, seemed particularly desirable at this point. (Yu Bin, 2014)

Secondly, while there were plenty signs of Russia's eagerness for closer relations with China, the two sides also seemed to side step the Ukraine issue. In an article in the official People's Daily just two days before Russian Foreign Minister Sergey Lavrov's working visit to Beijing, a leading Chinese Russia expert, Feng Yujun, director of the Institute of Russian Studies at the China Institutes of Contemporary International Relations, indicated that the Ukraine crisis "will be mentioned, but it will not be a key topic." Russian Ambassador to China Andrey Ivanovich Denisov also believed that the Ukraine crisis would not "steal the show," particularly against the backdrop of the CICA conference where most participants were from Asian countries. In an interview with the Chinese media prior to his visit, President Putin did not discuss the Ukraine issue except at the end when he mentioned the neo-Nazis in Ukraine. Most of the published versions of this interview in the Chinese press, however, did not even mention Ukraine. There was no question that relations between China and Russia were far beyond the Ukraine issue. Both sides, however, understood that the Ukraine factor was in the background.

Thirdly, many of the issues and declared goals were "routine" for leaders of the two countries whenever they have met in the past. Even Putin's comment of Sino-Russian relationship being at its best has appeared in media once every few years. Yet, the Ukraine crisis seemed to add some urgency to the "new stage" for the current "comprehensive partnership relations of strategic coordination". For this, they would maintain and deepen the current dialogue and cooperation mechanism, and "create new venues of coordination if necessary."

With the deepening of the Ukraine crisis, there has been talk in both Russia and China about elevating the current strategic partnership into an alliance. President Putin, however, said many times this year that Russia would not pursue any type of military and political alliance with China, because such an alliance had become outdated. Other top Russian officials were also wary about the compulsory and intrusive nature of a formal alliance. In his July visit to China, Russian Presidential Administration Head Sergei Ivanov stated several times despite fruitful cooperation with China, that Russia and China had no plan to build a military alliance, and Russian-Chinese mutual trust has nothing to do with Ukraine. He said, "I do not see any significance for a new military alliance with China, and China, too, also does not see any significance," and "Russia and China are alliance partners without alliance responsibilities." (Huanqiu, 2014) According to the analysis of Alexei Arbatov, head of the Center for International Security at the Institute of World Economy and International Relations of the Russian Academy of Sciences, "Russia will not fight for China in the Taiwan Strait nor in the Sea of Japan. And China won't engage in combat in Crimea for Russia, either."

Indeed, considering its advantageous economic situation over Russia and the prices the Russia has offered under the emergency of diplomatic isolation, China might have more to gain from the economic and energy cooperation plans. However, China's interests had already been seriously undermined by the crisis. By the end of February 2014 when President Yanukovych was toppled, what was seen as an opportunity for China in late 2013 (Yanukovich's visit to China and $8 billion loan package to Ukraine) was fast evaporating. So were China's extensive interactions in the areas of military-technological connections, a major source of China's military modernization that was not particularly liked by Russia. (Yu Bin, 2014) Too close a tie does not bring these interests back. Rather, it would damage the "strategic opportunity" for China to keep the US strategic attention engaged in other places other than China, and alleviate China's pressure from the US's "pivot to Asia" strategy. Not to mention China would not risk it with its trade volume with America and EU five to six time larger than that with Russia.

Rather than grasping the opportunity to ally with Russia, it might be more appropriate to comprehend China's position as "showing understanding to Russia" (Wilhelmsen, 2014), since the Ukraine and Crimea Crisis is presenting similar domestic concerns for China. Both China and Russia have been fearful of the events which led up to the 'color revolutions' in the former Soviet Union (2003-6), considering them to be greatly influenced by elements in the West. In his speech made in the Central Conference on Work Relating to Foreign Affairs held in November 2014, President Xi Jinping made the point that "We should seek other countries' *understanding* of and *support* for the Chinese dream, which is about peace, development, cooperation and win-win outcomes." (FMPRC, 2014) Putin faces even more urgent challenges to his legitimacy of regime. To resist suspected erosion from Western-backed interests seeking to undermine pro-Russian regimes in the Former Soviet Union and the potential challenge for China, Putin and Xi must support each other's governance in the two authoritarian states. For better or worse, the current policies of the Obama administration—punishing Russia and hedging against China with a largely militarized Asia pivot—are driving Russia and China into each other's arms.

IV. Comparison of the two cases of Russia's action of alignment

It wouldn't make much sense to elaborate on America and China's switch of roles in the two cases but to place the two countries in their contemporary international structures, since 160 years have passed with structural shifts in the world order. Nevertheless, both alignments happened in times when Russia is diplomatically isolated and when the legitimacy of its political claims challenged. The strategic meaning of Crimea might remain the same, but in 21st century, the consideration of

Russia would also include its credit of regional influence in the legitimate manner of annexation, which is different from the time of 1854. The role and the interest of the United States in today's international relations has also changed from a rising power to the single dominating power legitimizing its influence by promoting the value of democracy. Military intervention has been outlawed by the international principle of the world after the two world wars.

Russia in both incidents faced a time of relative decline of power. Similar pride of the 19th century regional empire and dominating state of the Former Soviet Union area drives it to insist on its claim in regional affairs. However, the role of the Anglo-French alliance in the 19th century has been taken by the US and the EU in the case of the recent Ukraine Crisis. As to the alignment strategy of Russia, both America during the Crimean War and China in the 21st century, which Russia reached for, are rising powers of the time. This defines that the structure of the two alignment occasions where balance of power theory is flexiblized, since on the one hand, the current inferior state of both parties of the alignment attract each other to balance the traditional powerful states, on the other, tendency of structural change promises a bandwagoning structure in the possible scenario. In both cases, the potential challenge for the rising powers comes from the same group of countries which opposes and constrains the ambition of Russia. Thus it is rational of Russia to seek for their support. Structural tendency of approaching each other in such international power distribution could be corroborated by the fact that both America in the middle of 19th century and China had shared a friendly relationship with Russia before the crises. This foundation of cooperation further paved the way for the enhanced alignment under the emergency of Russia's predicament situation. Moreover, both the US and China are fundamentally outside the circle of conflict that Russia was and is involved in. While the aligned country would have less to lose cooperating with Russia, they would find it in accord with their own interest to align with Russia, so that the alignment balances the dominating power of the conflict system in case they lose their potential allies to the traditional threat of the predominant group of powers, and might establish credit for global influence as rising powers.

Partly because of the fact that the two partners during the crises were both outside the center of conflict, rather than being actively involved in the conflict politically or militarily in support of Russia, both the alignments of Russia in the two incidents displayed considerable restraint. Economic interests have been the biggest motivation for both the alignments to take shape and sustain, and commercial support has played the major role in both the alignment actions. International economic interdependence has been playing a role in defining international relations since the 19th century. The same logic recurs as economic blockades are put to place in parallel with the confrontation in political and military "battlefield".

Last but not the least, the internal issues have both played an important role in the two cases of Russia's alignment. During the Crimean War, serfdom in Russia and slavery in the United States posed parallel moral questions and economic dislocation; and in the recent Crisis, shared worries against "color revolutions" and ethnic issues in domestic politics also tie China and Russia together. But still, none of the two cases of alignment managed to upgrade into stable alliance.

V. Stable Alliance Unlikely

As properly expected both in the 19th century partnership with the United States and in the 21st century with China, neither Russia nor its alignment partner proposed to form stable alliances. The Russia-US partnership did not deepen to this level, even though friendship and cooperation remains for quite some time until the birth of communism in Russia. Sino-Russia relationship is not likely to grow into solid alliances as expected by some remarks. This is to say that Russia might never ally

with another major power, and might never be secured. Neither might another major power appear to be willing forge such a binding tie with Russia.

We could also come to some structural conclusions for the unlikeness of stable alliances for Russia. Firstly, Russia's traditionally high self-esteem observable in more cases than the two mentioned does not contribute to its ability to sustain an enduring alignment. The Tsar's insistence on the religious control over Turkey, led to the defection of its possible allies. Its acceptance and actual support of Crimea's independence and annexation into Russia challenges the authority of the UN. Uncertainties of history do not predict its future behaviors. However, any country would think twice before reach a politically and militarily binding agreement with Russia.

Secondly, the geopolitical position of Russia with its vast area of land, far reaching in width span, and surrounding neighbors of major powers, puts the country in constant possibilities of complex challenge and dissatisfaction. From the 19C until the Second World War, Europe was an assembly of especially instable elements, and China had been a weak state and a target of prey. Therefore Russia-American relationship used to be a more securable but loose tie. After the 1990s, the appeal of the EU has nurtured the East European and Caucasian states into a potential threat to the supremacy that Russia pursues in the Eurasian region. China as an emerging power grows closer to Russia with the intimidation of America. Russia and China could act as each other's buffer zone against the dominance of America. However, there lacks a buffer zone geopolitically between these two big countries. Security dilemma is always potentially possible between two neighboring states as such.

Thirdly, there is an absence of institution to sustain the alignment between Russia and its allies. Judging from its major engagement with the European countries in the 18th and 19C, also from its efforts in the Eurasian Alliance and its cultural identity inclined to Europe, the ideal alignment for Russia has always been on its Western periphery. However, the identities of these nations are mixed and split, including Russia itself. Russia is not materially strong enough to provide substantial support and protection to these countries with the preeminence of NATO. The contrast in size and power between Russia and any East European or Caucasian countries makes it almost impossible to create an equal and democratic cooperative platform to form an alliance as stable as the EU. The only powerful leverage that Russia has is its energy and resource export. However, it is also a fatal leverage for itself because Russia's economy is highly dependent on energy export to the European market. Therefore an effective institution to sustain Russia's is not available here.

Considering Russia itself in the two crises, a common problem could be found that in both cases, it was on the periphery of the integrating structure of the world. Neither the contemporary Russia nor the 19th century Russia is as actively involved in the globalization process as China today or America in the 19th century. It appears that it is not that likely to commit another country to an alliance, which is more open to the world than the country itself, because reservation could be expected to any aligning commitment since the network of international relations of the partner has much more interest to consider outside the circle of conflict.

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Breaking the Resource Curse: On the Economic Transition in Russia

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I. Introduction

Natural resources had long been treated as a blessing from the nature until the phenomenon of *Dutch Disease* gave rise to a reflection of natural resources' role in developing economies. It was then discovered that most countries enriched with abundant natural resources turned out to be overindulged by the natural blessing, in that they did not grow as rapidly as those strictly constrained by natural resources. Though the phenomenon of resource curse proved to be pervasive across countries, there still exists no Bible to help economies break the curse.

The symptoms of resource curse vary greatly. Countries in Middle East are suffering from the low institutional quality resulted from government corruption. The coal-oriented cities in western China are struggling to look for the next cornerstone of the economy after the exhaustion of natural resources. For the microstates in central Pacific, the volatility of international commodity price turns out to be a great threat to the economic stability. Though cursed by natural resources in different ways, these economies share a common suffering that they all over-rely on the export of natural resources. Once the global demand for a specific natural resource shrinks suddenly, it will be difficult for these economies to find a new engine of economic growth and thus results in a long period of recession.

The Russian Federation, as a great power in global economy, also fails to flee from the resource curse. As a reaction to Russia's hawkish diplomatic policy in East Europe, the United States imposed several rounds of economic sanctions on Russia in 2014. During the fourth quarter of 2014, the WTI crude oil price decreased by over 40% and the ruble also depreciated by around 50%, which mainly resulted from the global reduction of crude oil production led by the United States. The steep depreciation of ruble has become a great challenge to President Putin and indicated the vulnerability of Russia's economy. Clearly, the current situation of Russia's economy is not compatible with the diplomatic policy that Russia would like to hold against the United States.

It is worth noticing that Russia should seek economic transition in the near future, not to support unfavorable diplomacy against the international order, but to build up a healthier pattern of economic growth and increase the welfare of Russian citizens. The key question is to find an effective way of economic transition.

This paper is basically committed to two goals. Firstly, we will provide some empirical evidence to show that Russia is really suffering from resource curse. Details will be covered in Section III. Secondly, we try to seek the potential way forward for Russia to implement economic transition, which will be covered in Section IV. Besides, Section II provides a brief literature review on the underlying mechanisms of resource curse, and Section V aims to give a concluding remark on what we have found.

II. Literature Review

Natural resources have long been treated as a blessing from the nature until Auty (1993) discovered for the first time that the abundance of natural resources was not always favorable to developing economies. The notion of *Resource Curse* then became one of the central issues in development economics and led to plenty of research. Sachs and Warner (1995) expanded Auty's work to a global perspective, empirically claiming that the growth rate of a country is negatively related to its abundance of natural resources after controlling the most influential macroeconomic variables. The rigorous econometric analysis utilized by Sachs and Warner's research makes the existence of resource curse a consensus among most economists.

Why would the natural blessing turn out to be a trap for some economies? Various studies endeavored to explain this counter-intuitive phenomenon and currently there are three widely accepted explanations.

Crowding-out Effect. Gylfason (2001) argued that the over-reliance on export of natural resources would crowd out the investments in other industries and thus make natural-resources-related industries the exclusive cornerstones of the entire economy. Such mechanism best explained the phenomenon of *Dutch Disease* - the exploitation of natural gas severely crowded out agriculture and other industries in Netherlands around 1970s. Shao (2008) also found similar empirical evidence in China that there was a significant negative relation between a county's abundance in mineral fuels and its direct investments in industries irrelevant of natural resources. As is mentioned by Sala-i-Martin (2012), there is even a clear tendency of *Deindustrialization* in some African cities, as the original industries were completely driven out of the market as a consequence of a serendipitous discovery of natural resource.

Degeneration Effect. Asea and Lahiri (1999) firstly put forward the notion of *degeneration effect* to mention the degrading tendency of production factors in some energy-oriented economies. The rapidly developing East Asian countries shared a common trend to shift from a labor-intensive economy to a technology-intensive one, which partly accounts for the East Asian Miracle. However, the energy-oriented countries were going in an opposite direction that the major factor inputs are turning back to raw materials, the least-value-added production factor.

Corruption Effect. A quantity of empirical studies found clear evidence of corruption effect in some economies cursed by natural resources. Murshed (2004) made a distinction between *point-source economies,* referring to countries enriched with natural resources that can only be exploited in a capital-intensive way, and *diffuse-source economies*, referring to those enriched with natural resources that set a low threshold for labor-intensive enterprises. It was discovered that point-source economies are more likely to lean towards government corruption, since the production threshold could keep the potential enterprises outside the market and leave the incumbents with a huge benefit from market power. Maconachie and Binns (2007) applied an econometric analysis to further justify Murshed's argument. Their empirical results showed that the mineral-fuels-oriented countries in MENA and Latin America were typical point-source economies and there was a clear connection between natural source's exploitation and political misbehavior. In general, it is worth noticing that countries enriched with mineral fuels bear a certain risk in dealing with weakening institutional quality, which constitutes part of resource curse.

III. Has Russia Got Caught by Resource Curse?

1. Data

Whether Russia is suffering from resource curse has been a focus of debate in the academic community in recent years. Various researches contribute to verify the existence of resource curse in Russia. Guo (2009) applied a co-integration test to discuss whether the rising international oil prices led to the exchange rate appreciation before 2008. Tian (2014) utilized the most recent data collected in 2013 and also found a clear evidence of crowding-out effect in Russia.

In this study, we will empirically discuss the existence of Russia's resource curse from the perspective of foreign trade. We collect the yearly trade flows data by country and commodity from 1999 to 2013 from *UN Comtrade Database* in terms of the HS classification system (Harmonized System). This database provides trade flow data in terms of both HS classification system and SITC classification system (Standard International Trade Classification), and the HS classification system is chosen for our study subject to the availability of data. About our choice of period for investigation, as the database is not complete before 1999, we limit our scope within the past fifteen years.

2. The General Pattern of Russia's International Trade

Before making a judgment on whether or not Russia is caught by resource disease, we first take a snapshot of Russia's international trade pattern.

As is shown by Figure 1, Russia's international trade pattern is unbalanced. Mineral fuels take up a proportion of 70% in Russia's total export, which is rare among mid-income countries. Intuitively, it is risky to bear with such high dependence on mineral fuels. The trend shown in Figure 2 further illustrates how Russia increasingly relies on the export of mineral fuels. Within fifteen years, the share of mineral fuels raised from 43% to 70%, indicating a deteriorating situation.

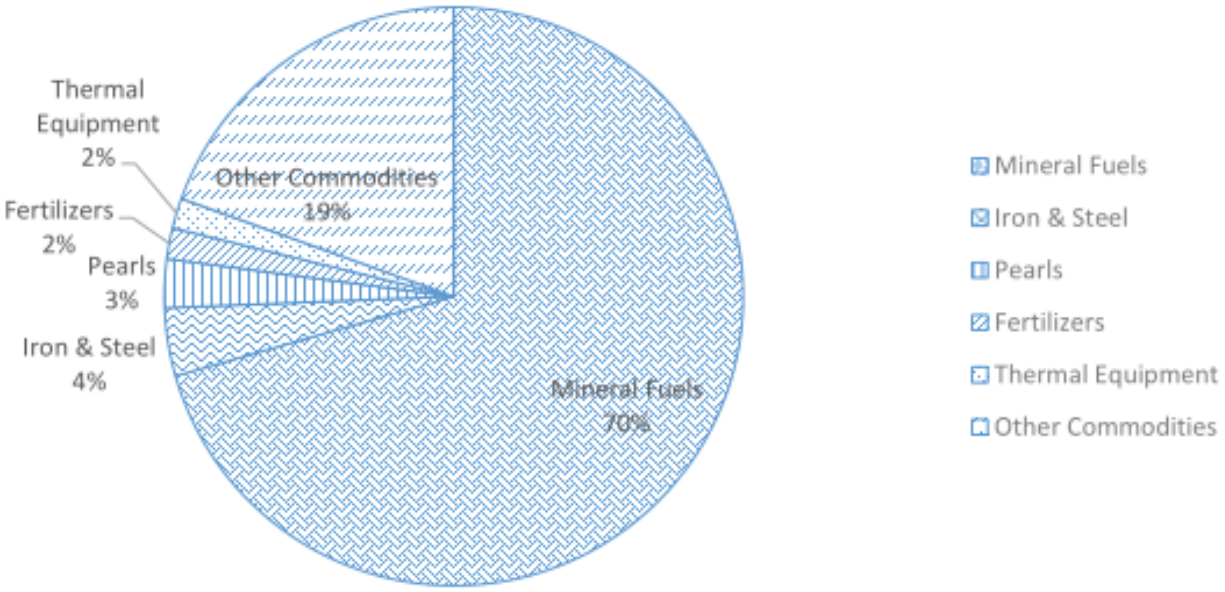

Figure 1-Share of Russia's Top 5 Export Commodities (2013)

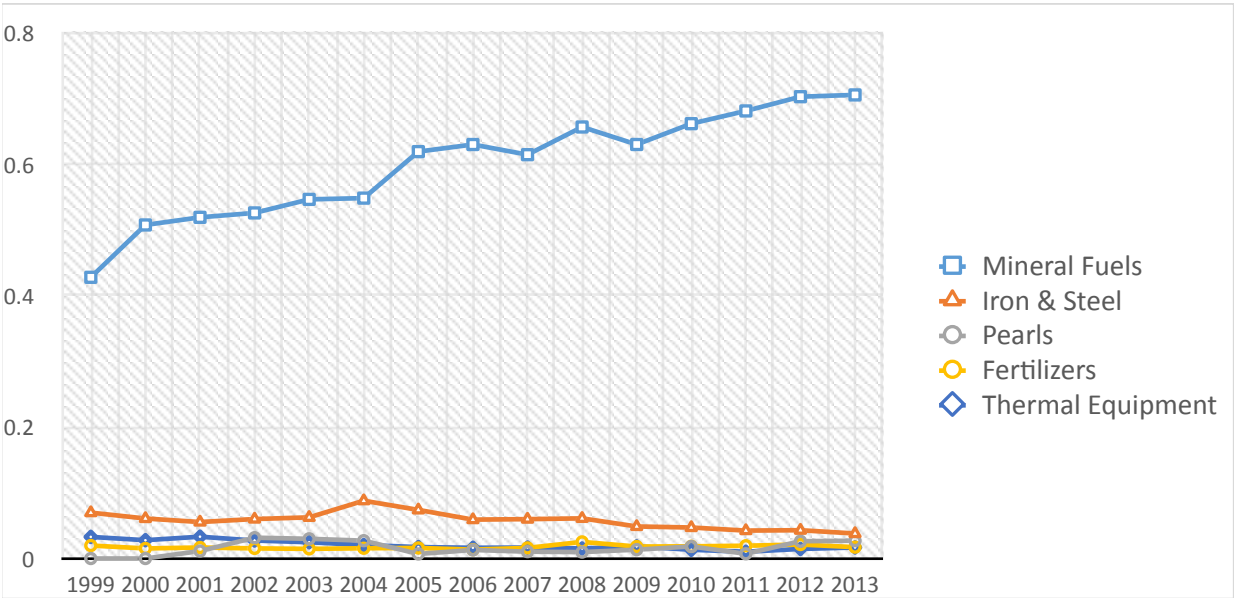

Figure 2-Share of Russia's Top 5 Export Commodities (1999-2013)

To demonstrate how Russia's export over-relies on mineral fuels, we can also make a cross-country comparison among the BRICS countries in that these five countries are always regarded as the typical emerging economies. HHI (Herfindahl-Hirschman Index) of export is a frequently used index to indicate the degree an economy's foreign trade is centralized to. A higher HHI indicates that the corresponding economy is more severely relying on some particular commodities and thus more centralized. As is shown by Figure 3, Russia's HHI stayed above 0.2 along the past fifteen years while the remaining BRICS countries never exceeded 0.1 in a particular year. Meanwhile, it is also worth noticing that Russia's HHI is going sharply upwards as a result of the strengthening of

mineral fuels export, expanding the gap with other BRICS countries.

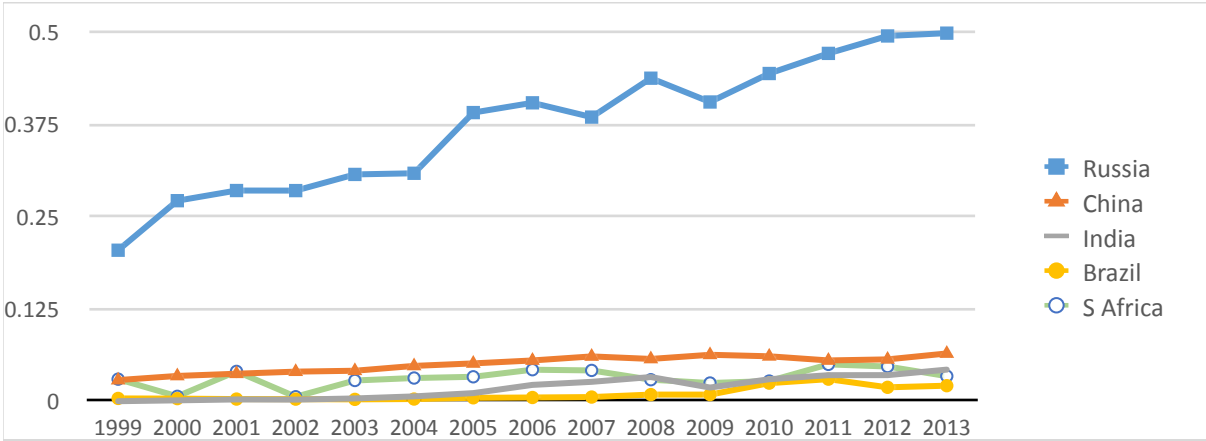

Figure 3-Herfindahl-Hirschman Index of Export for BRICS Countries (1999-2013)

3. The Symptoms of Resource Curse

Resource curse is taken as a set of symptoms by current literature, as is illustrated in our literature review. With the international trade data in hand, we are able to assess two of the most detrimental symptoms.

Firstly, we assess the vulnerability of Russia's export volume in reaction to an external price shock. There is a clear co-movement between the export volumes of mineral fuels and crude oil price, as is shown by Figure 4. The pattern remains the same when we substitute mineral fuels' export volumes by total export volumes, as is shown by Figure 5. The empirical result is coherent with our observation that the sanctions led by United States in 2014 has pushed downwards the crude oil price and thus gave rise to the mistrust in Russia's economy as well as a massive capital flight. One-third of Russia's foreign exchange reserve had been used to defend the exchange rate of ruble but it still depreciated by around 50%.

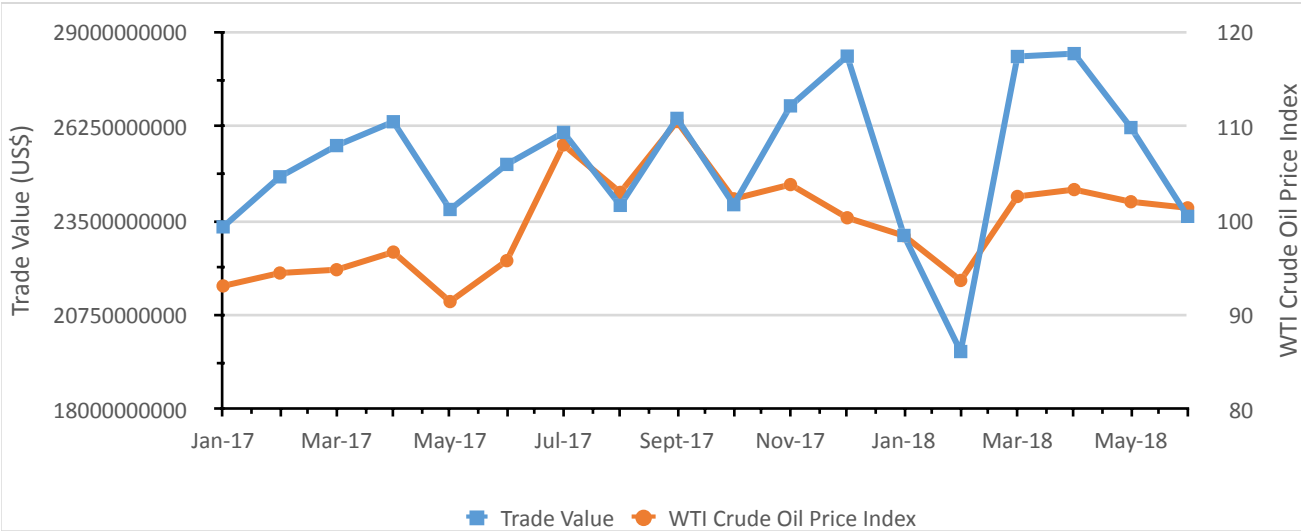

Figure 4-Russia's Mineral Fuels Export Volumes vs. Crude Oil Price (2013-2014)

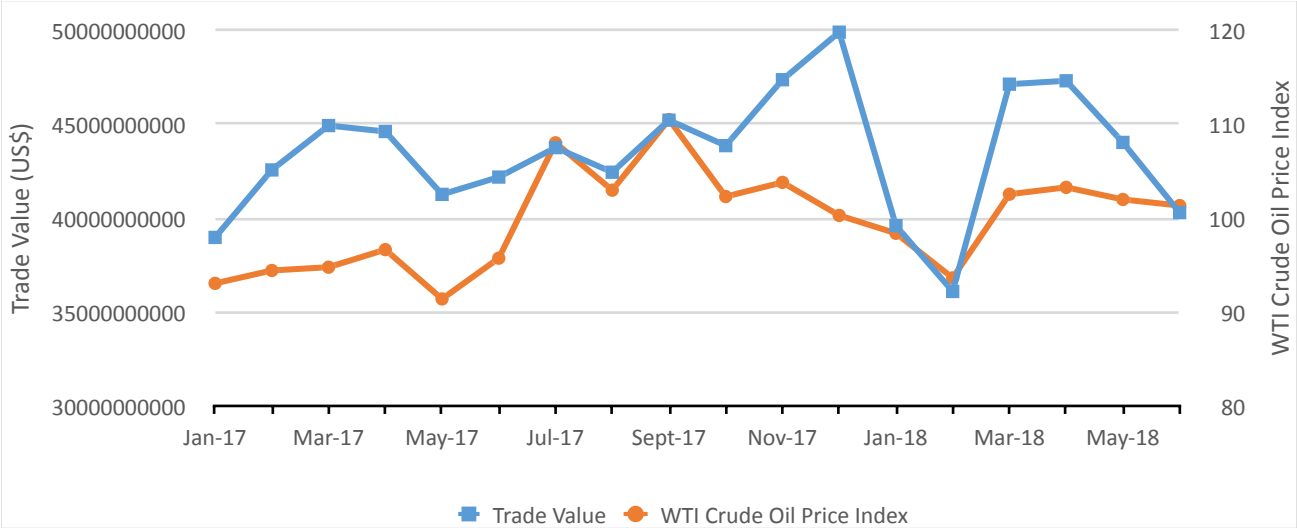

Figure 5-Russia's Total Export Volumes vs. Crude Oil Price (2013-2014)

Secondly, we seek to determine whether there is a crowding-out effect in Russia by assessing the competitiveness of Russia's industries that are irrelevant to mineral fuels in a framework of comparison. TSI (Trade Surplus Index), the index of our concern, indicates an economy's comparative competitiveness in global market regarding a particular commodity. We make tracks for the most representative export commodities for the BRICS countries and try to determine whether the industries are gaining or losing competitiveness.

Figure 6 shows a pessimistic pattern regarding Russia's industries after excluding mineral fuels. The general trends of TSI for most commodities are going downwards, indicating a loss of competitiveness, with chemicals being the only exception. Figure 7 to Figure 10 provide the parallel pattern in the other BRICS countries. China and Brazil exhibited an evident trend of increasing competitiveness while India and South Africa remain steady along the past fifteen years. The comparison across countries reveals Russia's current situation of losing competitiveness in the global market when excluding mineral-fuels-related industries, which stands as an evidence of natural resources' crowding-out effect in Russia.

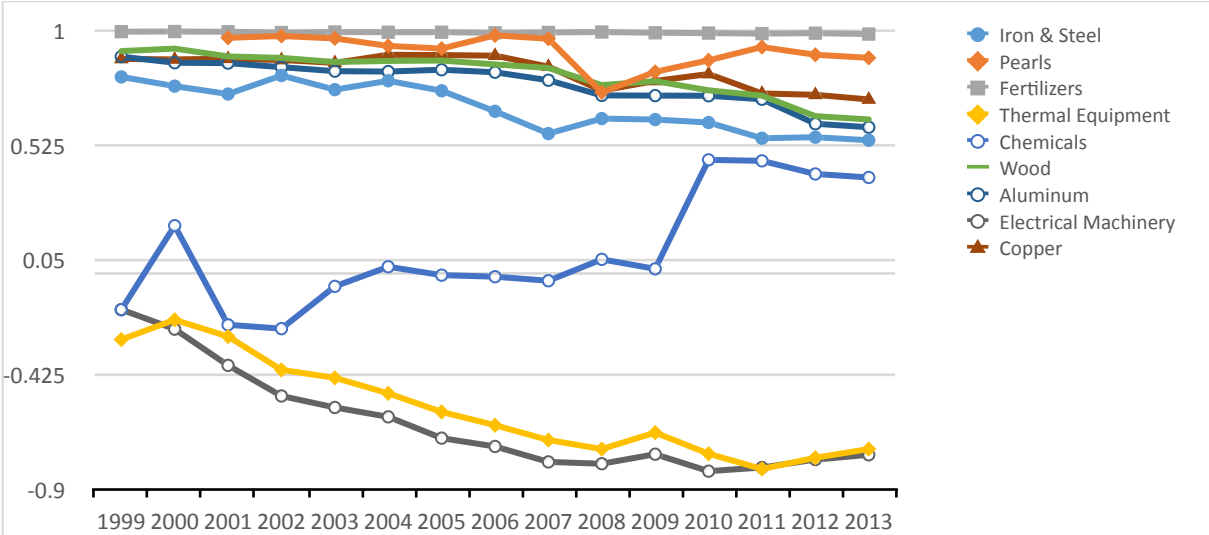

Figure 6-Trade Surplus Index for Russia's Top 10 Export Commodities (Excluding Mineral Fuels)

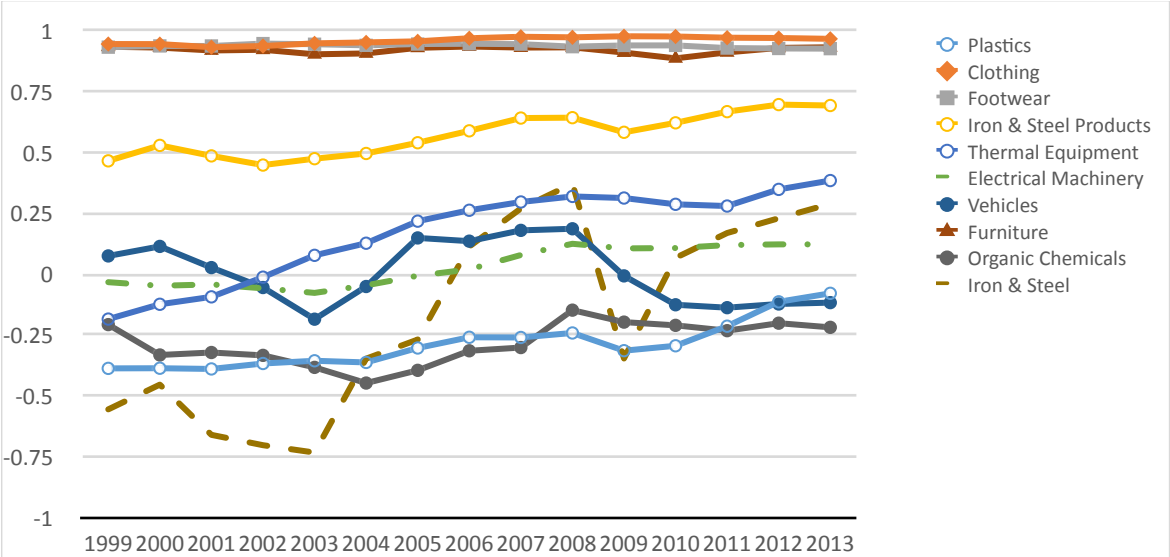

Figure 7-Trade Surplus Index for China's Top 10 Export Commodities

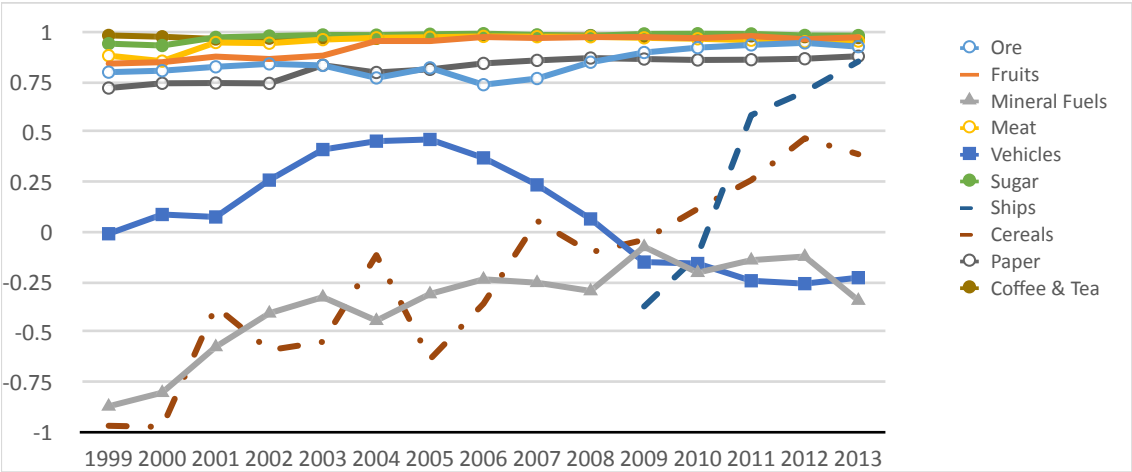

Figure 8-Trade Surplus Index for Brazil's Top 10 Export Commodities

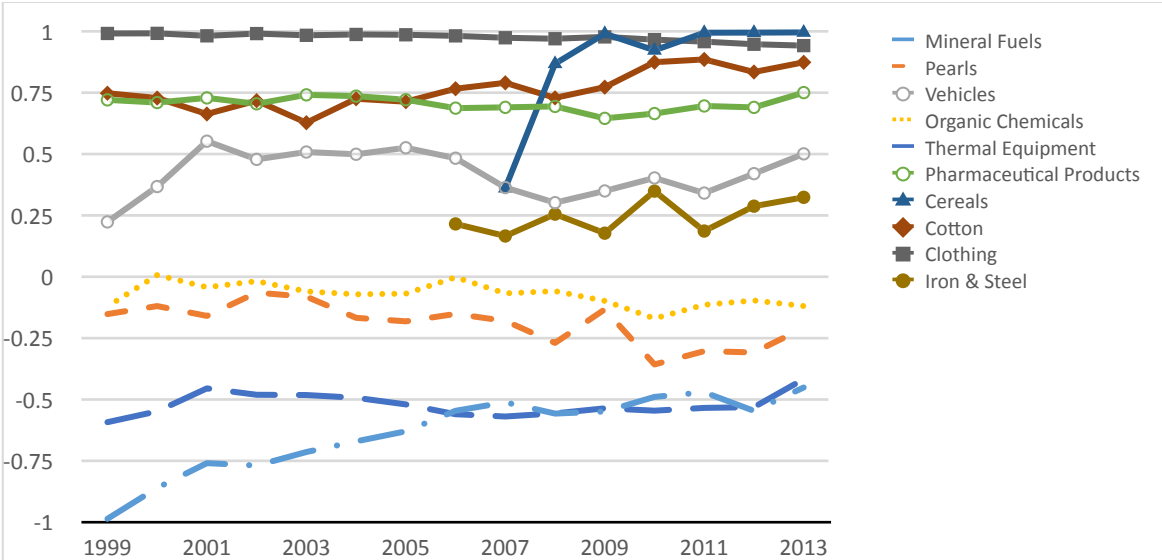

Figure 9-Trade Surplus Index for India's Top 10 Export Commodities

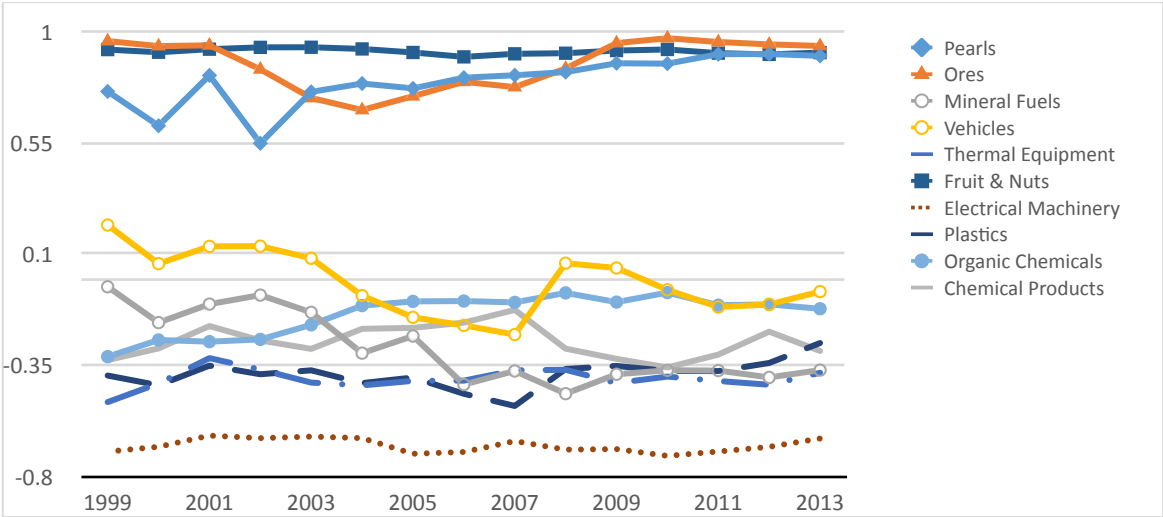

Figure 10-Trade Surplus Index for South Africa's Top 10 Export Commodities

IV. The Possible Way Forward For Russia

1. The Essence of Resource Curse: a Curse of Comparative Advantage

As we have mentioned in the introduction, the economies suffering from resource curse share a common pattern that they all over-rely on the export of natural resources. Once the global demand for a particular natural resource shrinks, the economies will have trouble finding an alternative engine to sustain the economic growth and might even cause a long period of recession. This story happens in almost every economy that had gone through a period of prosperity with the abundant natural blessing but fell firmly to the ground along with its exhaustion. Therefore, over-reliance on natural resources is a myopic strategy.

An interesting finding is that similar stories also happen in economies over-relying on other production factors. China is a typical economy over-relying on its cheap labor in the past thirty-five years. The Chinese economic reform successfully involved itself in global market. Taking advantage of its huge population, China became the global factory and enjoyed an average GDP growth rate of 9%. However, the life cycle of China's labor-intensive industries gradually went to its termination after 2008. Emerging economies in Southeast Asia, such as Vietnam and Philippines, have gradually taken China's role in providing the global market with cheap labor. The 2008 financial crisis initiated in the United States severely damaged the global consumption power, resulting in a sharp decrease of demand in made-in-China products, deteriorating the situation faced by Chinese enterprises. Wages in China started to be pushed onwards as the one-child policy gradually came into effect. The Labor Law amended on January 1st of 2008 also imposed more social responsibilities on China's enterprises when recruiting labors. In light of the various challenges faced by China's labor-intensive economy, it might be recognized as a cheap-labor curse for China.

With the process of globalization, economies are assigned with different roles to play in terms of their comparative advantages. That is the reason why Russia became the global energy provider while China became the global factory. Therefore, resource curse, as well as the cheap-labor curse, is essentially a curse of comparative advantage. Resource curse and cheap-labor curse share a lot in common in that they both crowd out the investments in other industries, leave the economy in a vulnerable position to external demand shock and deteriorate the gap between the rich and the poor.

Breaking the curse of comparative advantages is a systematic project, and an economic transition is recognized as a potential efficient measure. Having lost the power over the labor-intensive industries, Chinese government implemented a series of policies aiming at a structural transformation in China's economy. It is much too optimistic to declare the success of these policies, but they might be somewhat enlightening for understanding the possible way forward in Russia.

2. Lessons from the Economic Transition in China

Export, investment and domestic consumption constitute the three engines of economic growth. Having lost the comparative advantage of cheap labor, China endeavored to restart the economic engines via a series of policies.

a) Export

Recognizing the difficulty of finding a promising comparative advantage other than cheap labor, China tended to seek the institutional bonus by further opening up to the global market. The setup of Shanghai Free-trade Area in September of 2013 was a milestone of China's open-up policy, by which China for the first time completely removed governmental regulations over foreign trade. In September of 2014, China started the One Belt and One Road national strategy, seeking more cooperation with the neighborhood countries in central Asia and Southeast Asia. Besides, China also launched a Free-trade Agreement with Korea in November of 2014. By further opening up to the global market, China has enjoyed an institutional bonus on sustaining the export.

b) Domestic Consumption

Among the three engines, domestic consumption is the only one closely-related to social welfare. In 2008, the sudden shrink of external demand led China to launch a series of pro-consumption policies, such as a countrywide subsidize on the electrical appliances in rural area. However, the policies were not effective as expected for its long-run unsustainability.

Pro-innovation policies, launched almost simultaneously with pro-consumption policies, turned out to be more farsighted. China makes a strategic move to completely break the deadlock of governmental dominance in R&D and encourage innovations from the private sector. There was also a reform of financial system to increase the compatibility with small-and-medium-sized enterprises' financing demand. Pro-innovation policies proved to be more efficient than the pro-consumption policies as it more successfully activated the participants in the whole economy.

c) Investment

Within the three years from 2008 to 2010, China spent four trillion RMB in infrastructure, aiming to stimulate the economy in the financial crisis. The reasonability of this policy is still a focus of debate as it sustained China's steady growth but brought about economic disorder as well. We argue that the Four-trillion Stimulus Policy did contribute to China's economic transition in a way that it sustained a steady growth rate, guaranteed employment and improved the infrastructure. But it failed to optimize the investment structure by screening out the programs where investment will play a better role. A better way to implement the economic stimulus project is to get more economic participants involved and allow the market to determine where the investment should be launched. Administrative orders might be to blame for the misallocation of investment resources.

3. What is Special about Natural Resource?

We are not going to argue that the Chinese way of breaking cheap-labor curse will apply

symmetrically and sufficiently well in Russia. Not only is there a huge gap between the social-economic conditions in China and Russia, but also the essential difference between natural resource and cheap labor should not be neglected. However, lessons from China would still be somewhat enlightening. It clearly pointed out the institutional bonus of further opening up to global market, and it also emphasized the advantage of a decentralized policy in propelling the economic transition. When a policy abandoned the domination of governmental regulation and activated the economic participants, it would hold a high propensity of making a difference to China's economic structure.

But we still have to point out a caveat concerning the effectiveness of imposing market-oriented policies in Russia. As we have mentioned above, the economic structure in Russia is a more concentrative one, which was led by the resource-intensive industries. By contrast, the underlying keyword behind the Reform and Opening-up Policy in China is decentralization. Though the problem of inequality still prevails in China and there is no clear tendency of improvement, we should recognize that ordinary private enterprisers share a great proportion of social wealth. For the past thirty-five years, China has already established a decentralized economic environment for private enterprises to root and thrive. For this reason, the market-oriented policies will be easier to play a role in China.

Getting the market mechanism involved in the process of economic transition turns to be promising, but Russia should still endeavor to improve its domestic market environment simultaneously so as to put the policies into full play. In particular, the investment in market infrastructure, such as a well-operated financial system and a widely spread transportation networks, will be favorable to improve the performance of market in Russia.

V. Concluding Remarks

This study first applies brief data description to verify the existence of resource curse in Russia by showing the vulnerability of Russia's export to external price shock and the decreasing competitiveness of Russia's industries excluding mineral fuels. With the empirical evidence in hand, we attempt to look for possible ways forward for Russia. Recognizing the similarity of resource curse in Russia and cheap-labor curse in China, we briefly retrospect the policies taken by Chinese government for an economic transition and seek the potential policy implications for Russia.

In general, the year of 2008 can be regarded as a watershed for China's economic transition. The lessons learned from the shrinking external demand for China will be somewhat referential to Russia, who is going through a tough period under the challenge of a shrinking demand for mineral fuels. Firstly, there will be a potential institutional bonus that could be achieved through further involvement in globalization. For instance, Russia can remove some existing restrictions on foreign trade and seek more cooperation with neighborhood countries in Asia. This will surely be favorable to Russia at least from an economic perspective though its diplomatic rationality might be questioned.

Secondly, getting the private sector involved will help improve the performance of economic transition. As an example, the pro-innovation policies will effectively encourage domestic consumption by raising the demand as well as the purchasing power in private sector. Meanwhile, intensive investment in market infrastructure should be accompanied along with these policies, since the existing market environment in Russia is not mature as other emerging economies. As long as the investment structure is optimized, the investment in infrastructure will put the private sectors into better play, and it will also provide stimulus to the economy, which will meet with a

tough period of insufficient demand along with the shrink of the original cornerstones.

A caveat of this study is that its analysis is merely from an economic perspective, ignoring other social issues such as diplomacy and politics. An economic analysis is far from enough for a comprehensive understanding of the current issue, which calls for further research.

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About the Delegation:

GUAN Guihai was born in Heilongjiang province of China in 1965. He is an Associate Professor and an Associate Dean of the Institute of International and Strategic Study at Peking University. Professor Guan is a director of the Center for Modern Russian Studies of PKU, a consultant of Sino-Russian subcommittee of cooperation in Education MOE PRC.
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DAI Guojun is a first-year graduate student in the School of International Relations, Peking University. Having her undergraduate major as international politics, she finds not only the curiosity to understand how international actors interact with each other, but also the academic interest in what is the mechanism behind these interactions, which keeps her passion in what she studies. Guojun grew up in Guangdong Province, and came to Beijing for college education in 2010. She is keen on learning languages, and so far she can speak Mandarin, English, Spanish, Cantonese and also Hakka dialect. In her sophomore year, she had an exchange stay at the Autonomous University of Barcelona, Spain. Specializing in contemporary international relations especially energy-related studies, she has done several subject researches to improve her academic quality. She conducted case-studies on issues of mining industry in South America and their root causes, which won the third prize in the 22nd "Challenge Cup" May-4th Youth Science Competition of Peking University. With her bachelor's degree thesis studying on the Energy Integration in South America, she is also interested in the energy game regarding Russia in the 21st century. Outside of class, she is the chairwoman of the Graduate Union in the School of International Relations and also having an internship at Shell (China) Limited. Being a genuine and curious learner, she would be more than pleasured to be part of the EPIIC program and have exchanges with all the excellent attendees.

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JIN Meiling (b 1988.11) is a PhD candidate in the Department of Russian Language and Literature, Peking University, who is currently studying in Lomovosov Moscow State University as a visiting scholar, sponsored by Ministry of Education of China. As a Korean-Chinese born in Harbin, Heilongjiang Province of China, she received a bilingual education from childhood and published her first personal literary works in Korean in 2000. Started to learn Russian in the university, she spent one year in Tula State Lev Tolstoy Pedagogical University of Russia as a government-sponsored student abroad. In August 2012, she delivered a speech in Russian on behalf of Chinese students in the Great Hall of the People when Premier Li Keqiang met with the visiting delegation of students from Moscow State University. Outside of class, she works as a translator in various fields. From 2008 to 2013, she worked as a part-time middle school English teacher in Beijing New Oriental School.Being able to speak four languages, she has a strong interest in culture communication and making friends with different people.She is good at dancing,singing and skating.

KIM Raphael Sangwoong was born in Jeonju on March of 1991. He is of Korean ancestry but immigrated to Vancouver at the age of 7 and obtained Canadian citizenship. Raphael enrolled in the University of Toronto but left the institution in the hope of benefiting from another overseas education. Raphael then spent a year studying Chinese and preparing for entrance exams, after which he enrolled in the Peking University School of Medicine on a full scholarship program. He is now on his 4th year of studies and is due to graduate in 2017. Outside of the classroom, he takes initiative to take advantage of the opportunities offered by Beijing. Raphael is a Peking Duck Ambassador for the Jin Bai Wan restaurant franchise and a Chinese Culture Ambassador for the Foreign Language Teaching and Research Press of Beijing Foreign Studies University. He sat as a guest for television shows featured on Beijing TV with the purpose of introducing Peking duck and Korean cuisine to a greater audience. In respect to student gatherings, Raphael attended the January ’14 East Asian Medical Student Conference held in South Korea as an Observer and attended the July ’14 Asian Medical Student Conference held in Thailand as the Chief Delegate. Raphael learned to play the violin up until RCM 8 but isn’t very fond of the instrument. He trained in taekwondo up to the level of 3rd degree black belt and competed competitively as a member of British Columbia’s junior provincial team. His hobbies and interests include watching movies, eating good food, sampling unfamiliar dishes, traveling, and methodical exploring. He likes people and making friends but sometimes has difficulty being extroverted.

LI Huiruo is a senior student in School of Foreign Language, Peking University. Majors in Hebrew language and literature and minors in international relations, Huiruo is a motivated communicator between China and the Middle East. During her year in Hebrew University of Jerusalem in 2013, Huiruo initiated a project to promote cultural exchanges between Israel and west China as an Israel Asia Leader's Fellow; in 2014, she co-founded China Israel Exchange, a non-for-profit company facilitates bilateral exchanges of technology and education. In earlier years, Huiruo was a devoted player and lecturer of Model United Nations activities, and enjoyed chairing and moderating in many international MUN conferences in Europe, China, and United States. She also loves calligraphy, reading, and running. Huiruo attended EPIIC 2014 and spoke in entrepreneurship panel, this year she anticipates deeper understanding of public inquiry and international citizenship through discovering Russia in the 21st Century.

MA Xinyue (b 1991.5) is currently a senior student of the School of International Studies, Peking University, and is taking a double degree in the Department of History. She enjoys working between disciplines, and plans to pursue a graduate degree in international relations after graduation, after which she is determined to develop a career in international affairs. She comes from China's northeastern province of Heilongjiang (neighbors Russia across the Amur River/Heilongjiang in Chinese), where Russia had a historical influence on its culture. In her third year of undergraduate study, she attended the University of Kent, UK as an Erasmus exchange student. Currently she works as research assistant at the Institute of International Economics Research at China's National Development and Reform Commission, and as part-time research intern at China Arms Control and Disarmament Association. On campus, she worked as executive director of the Tutoring Program for International Students in Peking University. She loves music and theater performance. She is alto/soprano and lead singer of Peking University's a Capella group Vocal Booth, and has worked as stage manager at Institute of World Theater and Film. She anticipates to attend this year's EPIIC Symposium and to share her thinking on Russia in the 21st century.

TIAN Ziyao (b1993.5) is currently a senior student in the Department of Sociology, Peking University. With strong curiosity about society, she hopes to understand people and how the society works and make solid contributions to the well being of humankind with her knowledge. Born and grew up in Beijing, Ziyao studied at the University of Toronto as an exchange student in her sophomore year. In the second half of her college years, she has been an active participant of sociological field trips with topics ranging from anti-poverty to landless peasants across China. She was also a summer research intern at UCLA, studying the city participation of 2012 Chinese anti-Japanese protests. She plans to pursue a graduate degree in sociology after graduation. Outside of class, she is involved with several volunteer programs, the RDFZ-PKU alumni association and her department's student council. She is also a big fan of card games, swimming and traveling. She attended the 2014 EPIIC Symposium about Middle East and North Africa and is more than excited to return to Tufts University to learn about Russia in the 21st century.

XU Boli (b 1992.3) is currently a first-year graduate student in National School of Development, Peking University, majoring in economics. Most of his friends might introduce him as an activist, but actually he longs to become a professor in the future. He is always excited about his major as he believes that the essence of economics can help improve the allocation of resources for human society. One of his lifetime goals is to become a popularizer of economics, spreading the ideology of economics, encouraging more people think like economists and alleviating the misallocation of social resources.

Recently Boli is diving into macroeconomics, but his research interest is not confined to the macroeconomic issues. He is particularly interested in topics about how the government can play a better role in the economic development of a country, such as public finance and mechanism design. He feels privileged to become a delegate of EPIIC program and look forwards to meeting friends from all over the world.

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