

V Chinese-Russian Summer School  
on International Relations

3 July 2015, Moscow

**Transformation of economic model  
in Asia Pacific region: Implications  
for Russia and Central Eurasia**

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# Overall context – China from the perspective of ordinary Russian

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- ▶ China is “everywhere”
- ▶ Land acquisitions in Africa – it’s China
- ▶ Massive investment to ASEAN, Latin America, Africa – it’s China
- ▶ Largest deals in Russian energy sector for the last year (Yamal LNG, Vankor, gas deal and gas pipeline “Power of Siberia”, Altai gasline etc.) – it’s China
- ▶ Land loan in Baikal region – it’s China
- ▶ “One Belt – One Road” initiative and huge investment in Central Asia – it’s again China
- ▶ **If there is no explanation a phobia appears instead of it**

## Overall context 2

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- ▶ Russia's turn to Asia: "to catch the Chinese wind in the Russian sail"
- ▶ Development of Siberia and Far East: Russia's entrance to Asia, "the national priority for the whole 21 century"
- ▶ Structural changes in Asia: the key question is what 'new' Asia wants from Russia
- ▶ Russia still tries to turn 'last Asia': poor countries with cheap labor force aiming to attract foreign investors and to produce simple goods of low quality for the needs of the Western consumers
- ▶ This Asia is gone

# Plan

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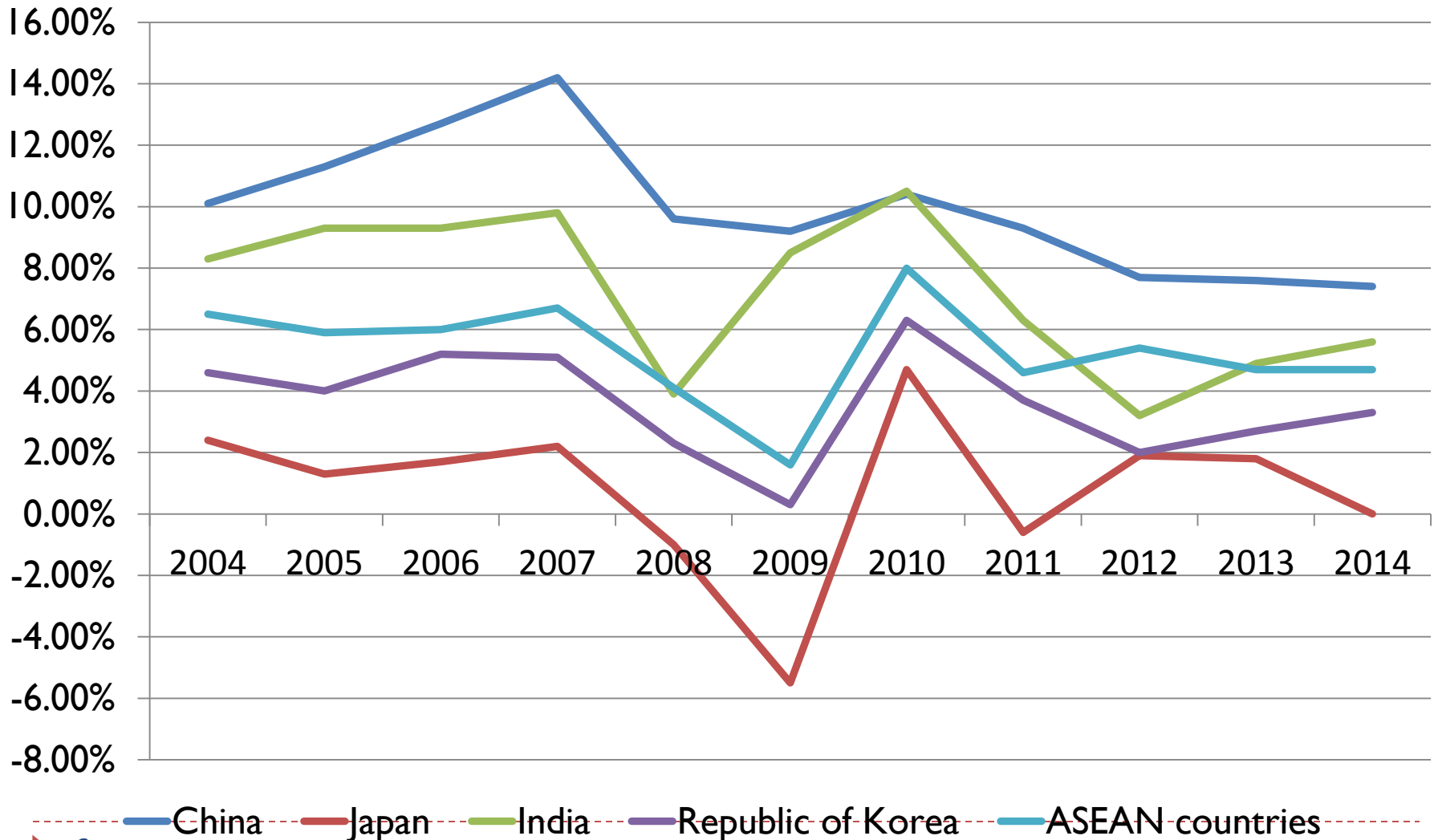
- ▶ What is the transformation of Asian social and economic model?
- ▶ What are the aims of “One Belt – One Road” initiative from the perspective of this transformation?
- ▶ What should Russia do and what should be the ideal model of Asia-Russian economic cooperation?

# Asian transformation: 4 shifts

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I. In rates and type of economic growth: from rapid extensive economic growth based on the use of cheap labor and exploitation of natural resources to produce goods for exports, to slower intensive economic growth based on growing internal demand

# Rates of economic growth in APR countries in 2004-2014, %



# GDP growth rates in APR countries in 2004-2014

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
<b>China</b>	10.1%	11.3%	12.7%	14.2%	9.6%	9.2%	10.4%	9.3%	7.7%	7.6%	7.4%
<b>Japan</b>	2.4%	1.3%	1.7%	2.2%	-1.0%	-5.5%	4.7%	-0.6%	1.9%	1.8%	0.0%
<b>India</b>	8.3%	9.3%	9.3%	9.8%	3.9%	8.5%	10.5%	6.3%	3.2%	4.9%	5.6%
<b>Republic of Korea</b>	4.6%	4.0%	5.2%	5.1%	2.3%	0.3%	6.3%	3.7%	2.0%	2.7%	3.3%
Indonesia	5.0%	5.7%	5.5%	6.3%	6.0%	4.6%	6.2%	6.5%	6.2%	5.7%	5.0%
Thailand	6.3%	4.2%	4.9%	5.4%	1.7%	-0.9%	7.3%	0.3%	6.4%	3.0%	0.7%
Malaysia	6.8%	5.3%	5.6%	6.3%	4.8%	-1.5%	7.4%	5.1%	5.6%	4.0%	6.0%
Singapore	9.2%	7.4%	8.6%	9.0%	1.7%	-0.8%	14.8%	5.2%	1.3%	3.0%	2.9%
Philippines	6.7%	4.8%	5.2%	6.6%	4.2%	1.1%	7.6%	3.6%	6.8%	7.0%	6.1%
Viet Nam	7.8%	12.0%	7.0%	7.1%	5.7%	5.4%	6.4%	6.2%	5.2%	5.2%	6.0%
Myanmar	13.6%	13.6%	13.1%	12.0%	10.3%	10.6%	10.2%	6.0%	6.3%	5.3%	8.5%
Cambodia	10.3%	13.2%	10.8%	10.2%	6.7%	0.1%	6.0%	7.1%	7.3%	6.9%	7.2%
Brunei	0.5%	0.4%	4.4%	0.2%	-1.9%	-1.8%	2.6%	3.4%	0.9%	1.8%	5.3%
Laos	7.0%	6.8%	8.6%	7.8%	7.8%	7.5%	8.1%	8.0%	7.9%	8.0%	7.4%
<b>ASEAN countries</b>	6.5%	5.9%	6.0%	6.7%	4.1%	1.6%	8.0%	4.6%	5.4%	4.7%	4.7%

# Share of urban population

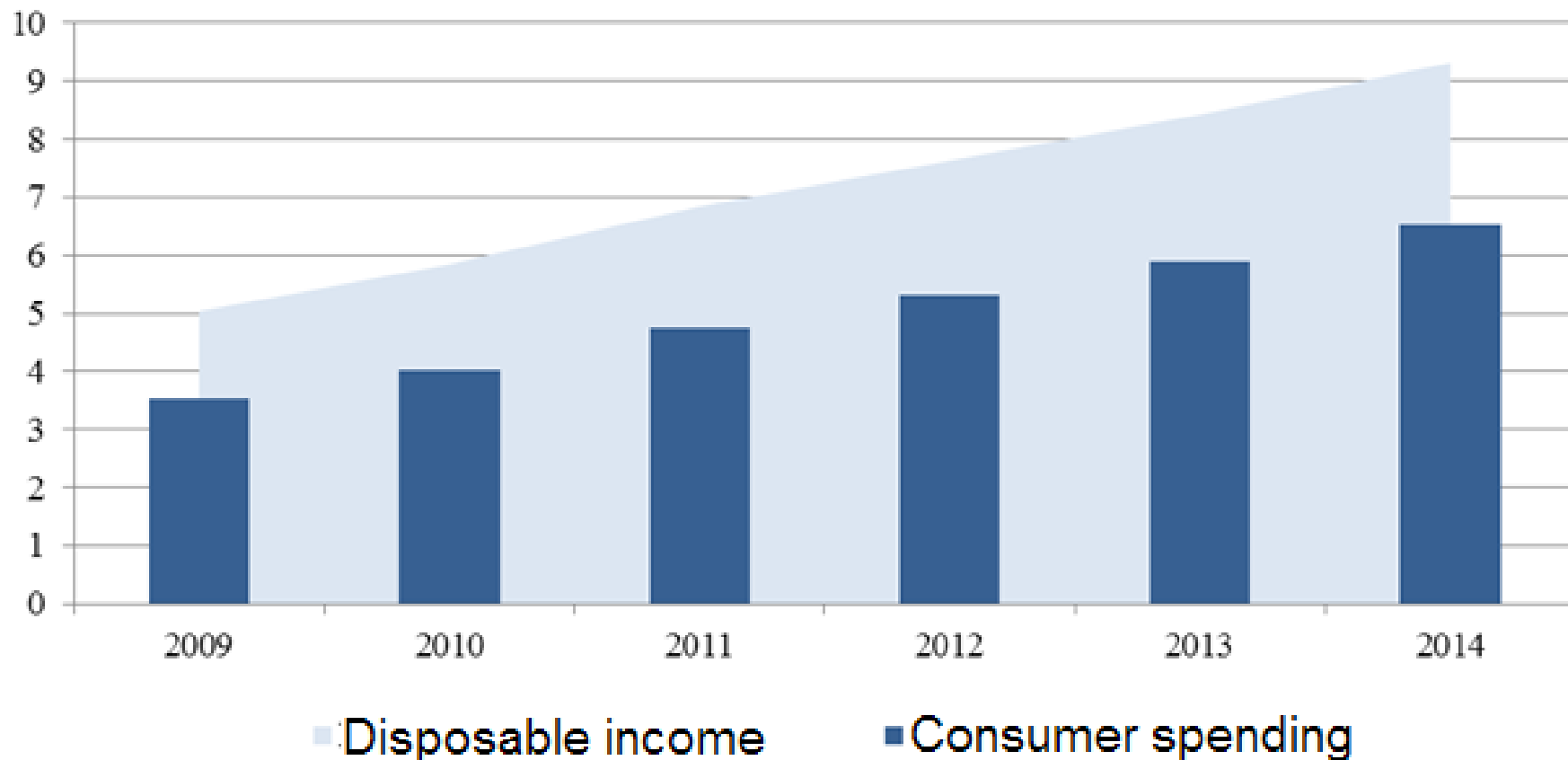
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Country	2000	2005	2010	2014
<b>APR</b>	35%	39%	42%	45%
Japan	79%	86%	91%	93%
Rep. of Korea	80%	81%	83%	84%
China	35%	42%	48%	54%
India	28%	29%	31%	32%
Indonesia	42%	43%	44%	46%
Malaysia	62%	67%	71%	74%
Thailand	31%	32%	34%	36%
Vietnam	24%	27%	30%	33%



# Disposable income and consumer spending in developing countries of APR, trillion USD

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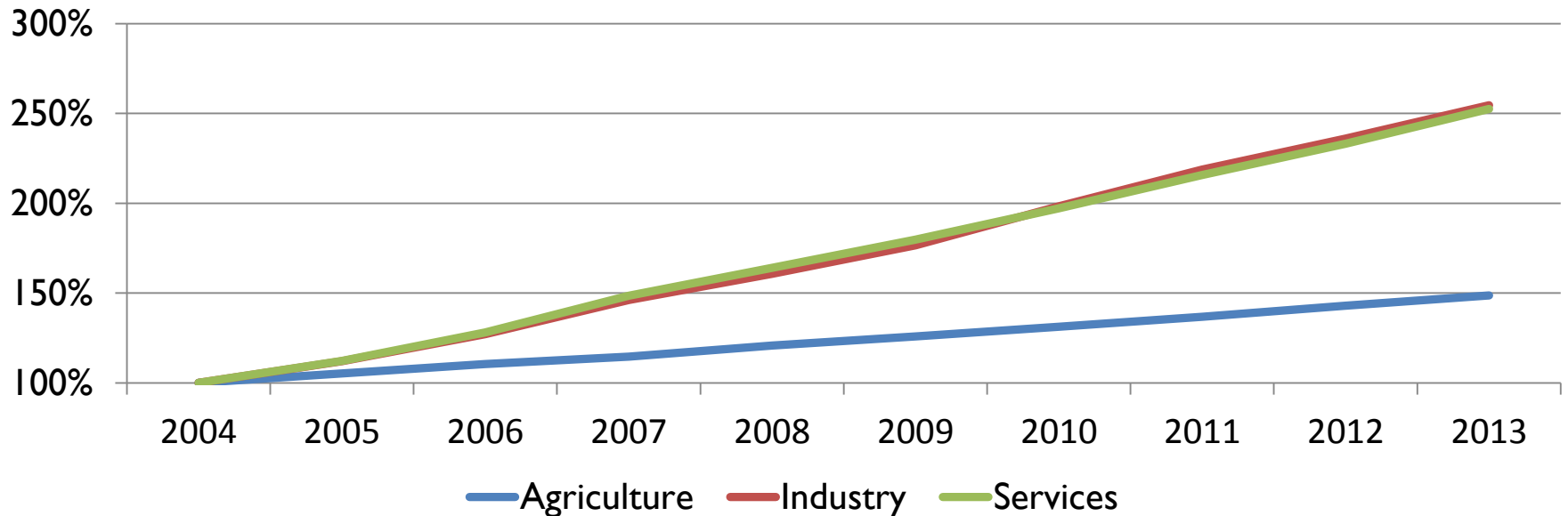


# Asian transformation: 4 shifts

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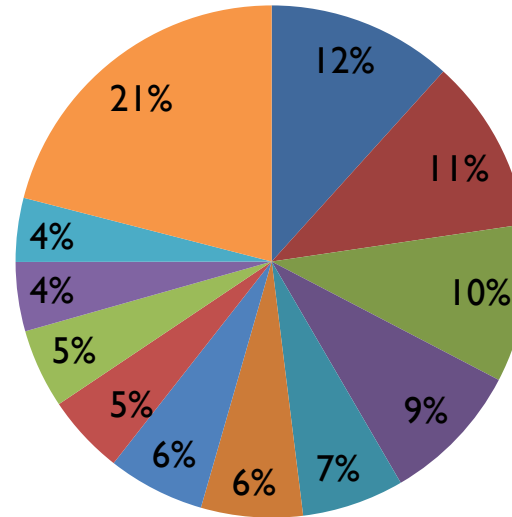
2. In industrial specialization: from primitive labor-intensive products to relatively high-quality and high-tech goods and services aimed to meet the demand of growing middle class

Dynamics of value-added by sector in China in 2000-2013, 2000=100%



# Structure of output in APR, 2014

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- Basic Metals
- Chemicals and Chemical Products
- Food Products and Beverages
- Machinery and Equipment
- Motor Vehicles, Trailers and Semi - Trailers
- Radio, Television and Communication Equipment and Apparatus
- Coke, Refined Petroleum Products and Nuclear Fuel
- Electrical Machinery and Apparatus
- Other Non - Metallic Mineral Products
- Fabricated Metal Products, Except Machinery and Equipment
- Rubber and Plastics Products
- Other



## Asian transformation: 4 shifts

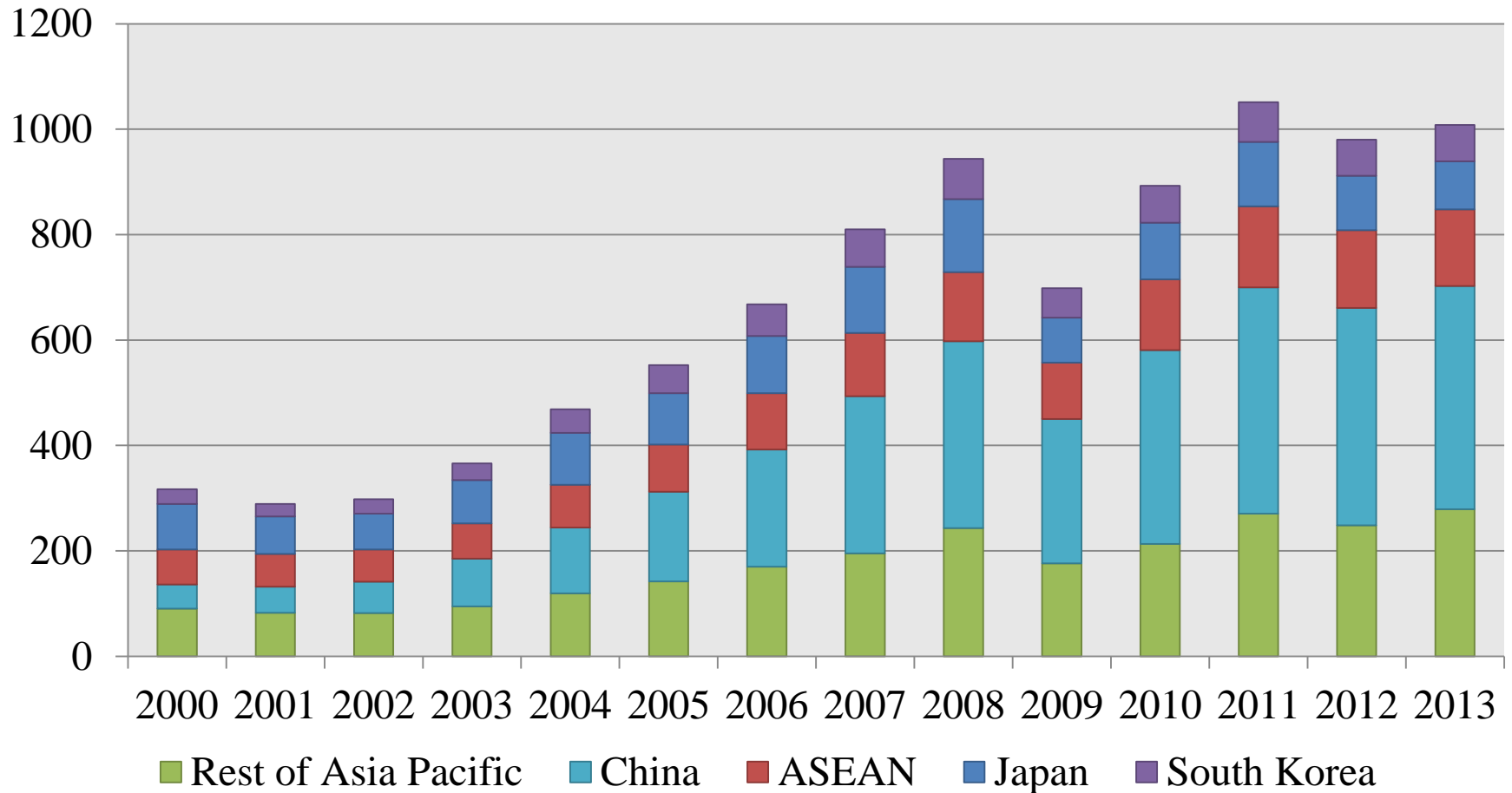
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3. In export orientation: from developed countries as a main market for Asian goods (model “Asia for the world”) to intraregional markets (model “Asia for Asia”)

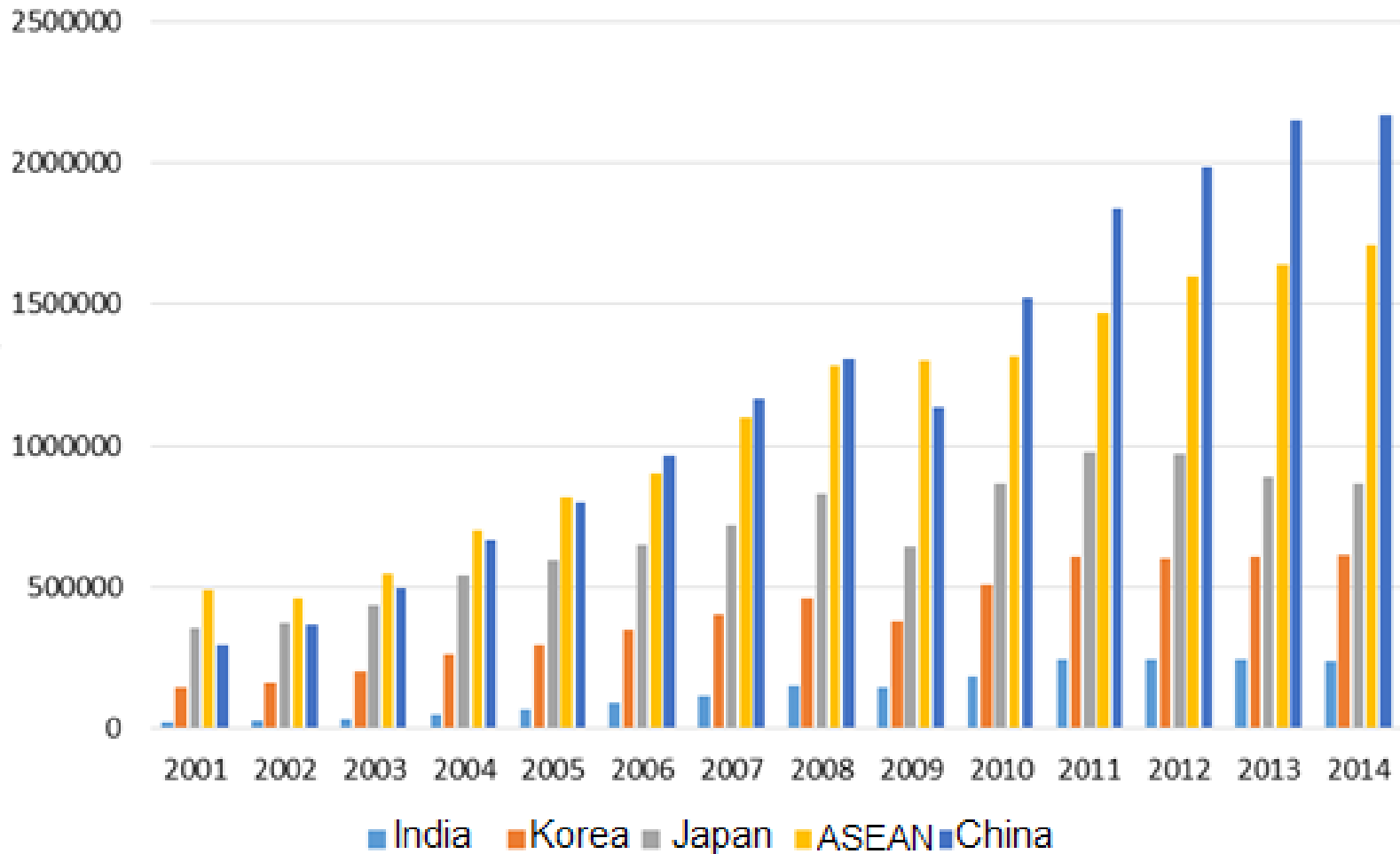
More than a half of APR exports now remains in Asia



# Exports from APR to Europe, bn USD



# Intraregional trade turnover of APR countries, mln USD



## Asian transformation: 4 shifts

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4. In geography of economic growth: from coastal areas that have been the core of Asian economic growth for the last decades (“four Asian tigers” and eastern provinces of China) to former periphery (developing countries of South-East Asia, Mongolia, Central Asia, central and western provinces of China)



# Minimal wages and social tax rate in APR countries

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	<b>Minimal wages</b>	<b>Social tax</b>
China	1.19	35
Malaysia	1.24	13.7
Indonesia	0.52	9.2
Thailand	1.21	5.2
Philippines	0.73	8.8
Vietnam	0.64	22

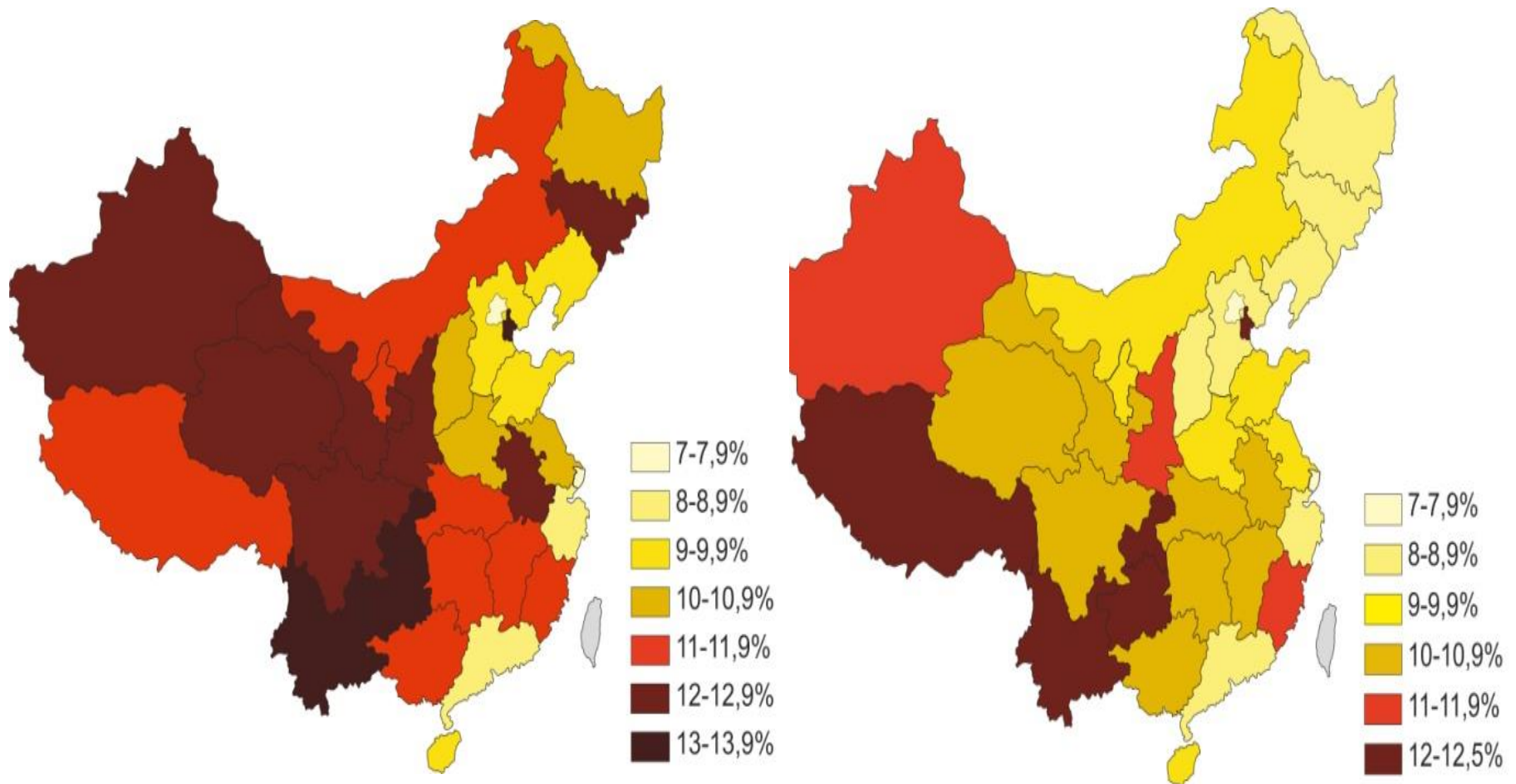


# China starts to outsource its production

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- ▶ What production?
  - Labor-intensive
  - Energy-intensive (peak coal)
  - Water-intensive
  - Dirty
  - Land-intensive (agriculture)

# Rates of growth in regional GDP in provinces of China in 2012 (left) and in 2013 (right)



# Silk Road Economic Belt



# Central Asia projects

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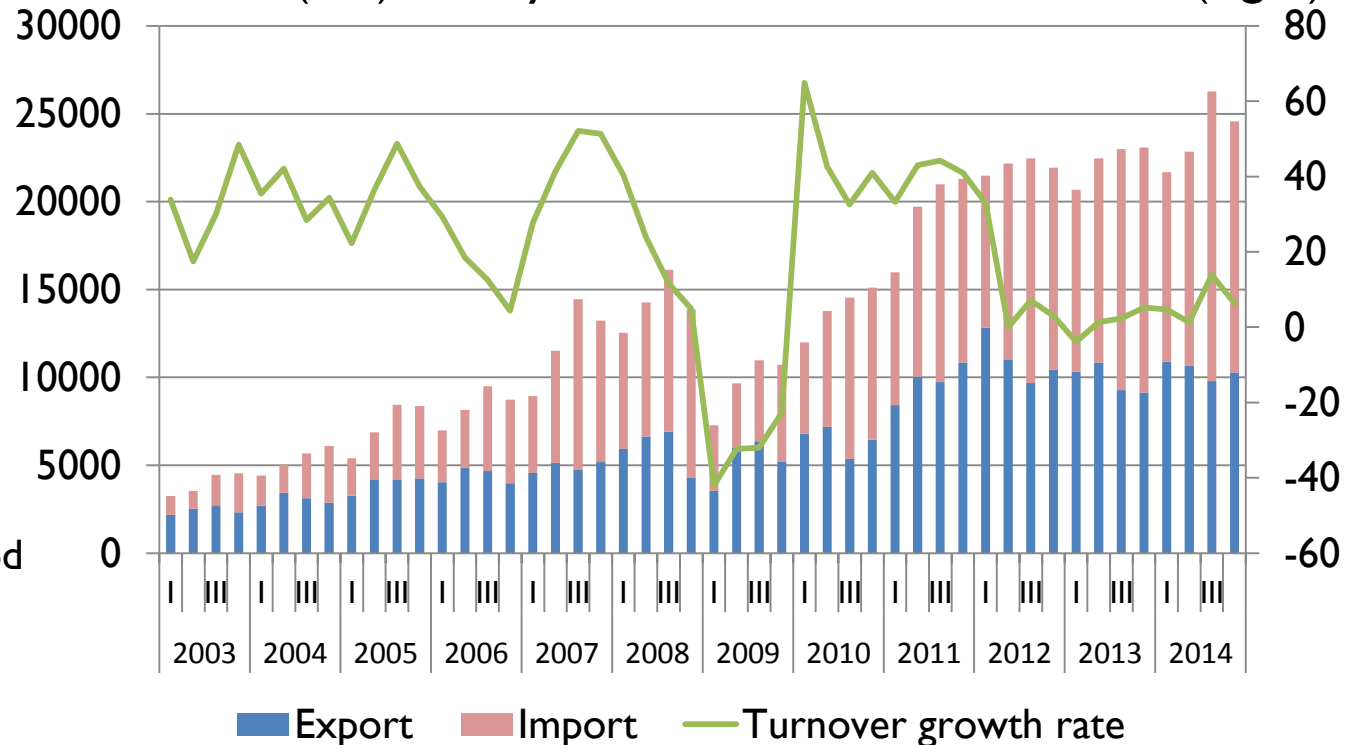
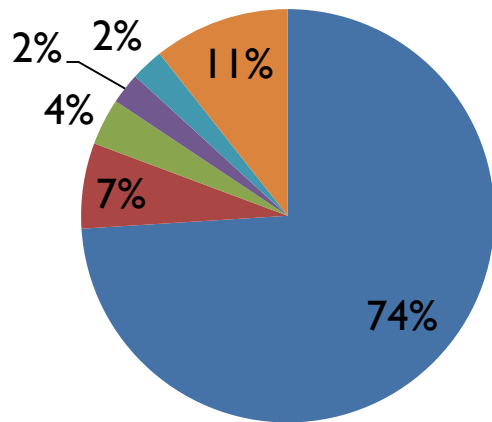
- ▶ China's motivation – conventional view:
  - transit to Europe
  - diversification of trade routes
- ▶ China's motivation – view from the perspective of Asian transformation:
  - involvement of Central Asia to the model 'Asia for Asia'
  - developing its energy resources
  - outsourcing of dirty industries and labor-intensive industries
  - fostering the development of the north-west of China
  - provide jobs to millions of people employed in construction, infrastructure, housing etc.



# Asia's transformation and new role of Russia

- ▶ To the moment Russia fails to find its role in the 'new' Asia
- ▶ Its exports is relevant to the 'last' Asia but is not adequate to 'new' one

Structure of Russia's export to China (left) and dynamics of Russia-China trade (right)



# Russia's opportunities

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- ▶ Siberia and Far East may be involved into the model “Asia to Asia” as a producer of *resource-, notably energy- and water-intensive consumer goods and services*:
  - Food (grain, meat, fish)
  - Paper
  - Processing wood
  - Chemicals
  - Data-centers, etc.
- ▶ Russia should be involved in infrastructure projects that are directed to ensure the functioning of new model: Primorye transport corridors and Silk Road Economic Belt
- ▶ It suggests coordination in development of Siberia and Far East



# Russia's strategy in Central Asia

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- ▶ Not to compete with China
- ▶ Not to wait when China develops the region itself
- ▶ To launch the co-development of EAEU and OBOR initiative: EAEU provides institutional support, China provides financial support
- ▶ To coordinate policies to develop Siberia (including its tying to OBOR) and to develop Far East

# Meridional infrastructure projects





A detailed topographic map of Siberia and surrounding regions, including parts of Central Asia and the Far East of Russia. The map uses a color gradient to represent elevation, with green for lowlands, yellow for plateaus, and brown/orange for high mountains. Major rivers like the Yenisey, Angara, Lena, and Amur are shown in blue. Numerous cities and towns are marked with dots and labeled in Cyrillic. The text "Thanks for your attention!" is overlaid in the center in a large, bold, black font.

**Thanks for your attention!**