Amado M. Mendoza, Jr. "ASEAN's Role in Integrating Russia into the Asia Pacific Economy." In *Engaging Russia in Asia Pacific*, edited by Koji Watanabe. Tokyo: Japan Center for International Exchange, 1999, 129–153.

CHAPTER 8

ASEAN's Role in Integrating Russia into the Asia Pacific Economy

AMADO M. MENDOZA, JR.

MOST of the world will sigh with relief when Russian President Boris Yeltsin finally settles on who will be his prime minister—the man just a "heartbeat from the presidency of the nuclear-armed state"—for the rest of his term (*Philippine Daily Inquirer* 30 March 1998, 11). On August 9, 1999, Yeltsin dismissed Sergei Stepashin, prime minister for only three months, and his entire cabinet, marking the fourth time in eighteen months that he had sacked the country's government (*Manila Standard* 10 August 1999, 19). Stepashin had earlier replaced Yevgeny Primakov, who in turn had replaced the youthful and inexperienced Sergei Kiriyenko. Vladimir Putin, the head of the Federal Security Service, the main successor to the KGB, was named acting prime minister. Yeltsin's move created another political crisis in Russia as the country prepares for parliamentary elections and presidential polls in mid-2000. Yeltsin himself is barred from seeking a third term next year. His latest move is surprising for a lame duck chief executive and may threaten Russia's economic transformation.

Thanks to Carolina Hernandez, Crisline Torres, Rowena Layador, Manuel Montes, Watanabe Kōji, Noda Makito, Esko Antola, Heli Malinen, Virva Ojanpera-Kataja, Milla Lehtimaki, Sirpa Vaarala, Katja Keisala, Minna Tikkanen, Urpo Kivikari, Kari Liuhto, Jarmo Nieminen, Anders Blom, Michael Ellman, Rein Brolsma, Josef Tettero, Guy van der Meulen, and Viktor Sumsky, as well as participants of the Cebu APAP Workshop. All errors and shortcomings, of course, are mine alone.

The outcome of the drama around Kiriyenko's appointment was confirmation of the continued dominance—albeit fragile and rather reversible—in Russia of political forces and interest groups that have both "normative and material interests in international cooperation rather than international conflict" (McFaul 1998, 6). Russia "has come a long way since 1991 in opening its economy to the outside world" (Rutland 1996, 322). Hundreds of foreign firms have established themselves in Moscow and St. Petersburg, the Russian ruble is now freely convertible, and Russian consumers have gained access to a wide range of Western consumer goods. Despite constant pleas to the West for loans, Russia has managed to increase exports to the developed economies and has run a trade surplus of over US$15 billion a year (Rutland 1996, 322). In addition, Russia has sought and gained admission to several multilateral economic institutions and organizations, such as the International Monetary Fund (IMF), the World Bank, the World Trade Organization (WTO), and the Asia-Pacific Economic Cooperation (APEC) forum.

Yet Russia's incorporation into the international economy can be characterized as "shallow integration," as it is mostly accounted for by a rise in trade with developed economies. Deeper integration would have resulted, for example, from an increase in foreign investment as it would have necessitated more structural change. The export of crude oil, natural gas, and metals have led the export boom, leading Russian nationalists to complain about the "Kuwait-ization" of the economy. The export boom has also not been sufficient to lift Russia out of economic depression.

The worst days for the Russian economy could be over, although Yevgeny Yasin, Russia's former economics minister, government officials, and a number of foreign observers feel that the economic turnaround will occur still further down the road (Goldman 1997, 313). Russia's real gross national product contracted, as a percentage, by double digits in 1991–1992 and 1994, but it only did so by an average of 5 percent in 1995–1996. The State Statistics Committee (Goskomstat) reported growth of 0.1 percent and 0.9 percent for January and February 1997, respectively, over the previous January and February (Weinberg and Hooson 1997; Aris 1997). Official Goskomstat figures report gross domestic product growth of 0.4 percent for the whole of 1997 largely on account of 1.9 percent growth in industrial output, but also because of a 0.1 percent recovery in agricultural produce. These positive figures represent a reversal of trends since 1991.

However, the precarious and incomplete nature of the recovery is evidenced by a continuing downtrend in investments: capital formation decreased the most since its sharpest decline in 1991 and total investments dropped by 5.5 percent in 1997. Consequently, year-end unemployment rates were double that of 1991–1997. Dampened demand may have been the principal cause of the improved pricing picture: Inflation of consumer prices was only 11 percent in 1997 from 2,510 percent in 1991, while wholesale price changes declined to 7.4 percent from 3,280 percent in the same period. With all domestic accounts in the red, the foreign trade account was the only source of growth. Except for a slump in 1992, exports managed to increase annually from 1993 to 1996, with the best growth recorded in 1995 of about 19 percent over 1994 (Goldman 1997, 315; Rutland 1996, 324). Despite being a "Kuwaitized" economy, Russia surprisingly enjoys an overall trade surplus that has been estimated at US$20–40 billion (Goldman 1997, 315).[1]

Figures from the Institute for the Economy in Transition (IET), a nongovernmental economic think tank headed by Yeltsin's first acting prime minister, Yegor Gaidar, suggest that the export-fueled recovery of 1997 will not be repeated. In the first quarter of 1999, total trade dropped by 32.1 percent to US$25 billion when compared to the first quarter of 1998. The first quarter 1998 figure already represented a 4.6 percent decline over the first quarter of 1997 (Volovik and Leonova 1999, 1998).[2] IET also reports a slump in investments: As of the first quarter of 1999, investments reached only 9 percent of GDP versus 12.2 percent reported in 1998 and 11.4 percent in 1997 (Izryadnova 1999).

There are some indications of a partial turnaround for the Russian economy, but whether the bottom has actually been reached remains to be seen. Foreign trade seems to be the economy's only saving grace. Sachs and Warner (1995) suggest that the full integration of a national economy with the world economy means more than increased trade and money flows. It must also include institutional harmonization with regard to trade policy, legal codes, taxation systems, property rights, and other regulatory arrangements. The duo thus sees the opening up of the economy as the sine qua non of the overall reform process. Trade openness establishes powerful direct relations between an economy and the global system, while also forcing a reforming government to pursue other reforms due to the pressures of global competition. So a country's progress in trade liberalization is a fair gauge of its overall reform effort.

The flourishing of Russia's economic relations with the rest of world, including distinct regional economies, will contribute immensely to its economic recovery and ensure its continued peaceful transformation. This chapter discusses the role of the Association of Southeast Asian Nations (ASEAN) in integrating Russia into the Asia Pacific economy. This introductory section is followed by a discussion of beneficial links between international commerce and international peace. An examination of Russia-ASEAN relations follows, indicating that while the infrastructure for full relations is in place, economic ties remain at a modest level, although Russian arms sales to the Asia Pacific region might increase. One key argument developed in this chapter is that ASEAN-Russian economic ties will be consolidated through behavioral changes and a learning process that both sides must experience. While Russia's engagement with Asia Pacific is phrased more in political and security terms than in economic terms and while Russia's focus in the region is Northeast Asia rather than ASEAN, it is to the mutual interest of both Russia and ASEAN that their economic relations expand further in the future.

FOREIGN TRADE AND INVESTMENTS, ECONOMIC REFORM, AND INTERNATIONAL PEACE

International economic theory teaches that, among many reasons, nations transact with each other to buy products and services not produced or provided domestically; to access a wider market for their own goods and services; and to effect transfers in capital, labor supplies, financial instruments, technologies, management and production know-how, and other "cultural" artefacts. Such economic transactions are acknowledged as being mutually beneficial and international trade is generally accepted as promoting economic growth and prosperity across nations.

Even prior to Adam Smith, analysts alluded to a positive link between economics and international peace (Howard 1994, Mead-Earle 1986, Mueller 1989, Wolfowitz 1997), suggesting that going to war against each other is unthinkable for nations that trade with each other. This proposition complements Immanuel Kant's "democratic peace" thesis about democratic nations not going to war against each other.[3] But the history of the modern world also instructs that domestic regime changes —including democratization—are a principal source of war and international conflict. That the Russian transformation has been generally peaceful is thus remarkable. McFaul (1998) posits that the victory of domestic forces interested in international cooperation rather than conflict is key to the peace (so far) in postsocialist Russia. Yet why non-bellicose Russian interests have been victorious thus far is unclear. Perhaps the friendly international environment identified in Snyder (1990) as an important stimulant of the Gorbachev reforms is an explanation here too. Engaging Russia in the economic and politico-security spheres may indeed have yielded peace dividends by stimulating and furthering domestic political and economic reform.

External economic relations and foreign trade and investment policy have been accorded a new and different significance in Russia from what prevailed in the former Soviet Union. Foreign trade and investment used to be subordinated to the USSR's political purposes, but foreign trade is now the most dynamic part of Russia's economy. Exports to countries beyond the Commonwealth of Independent States (CIS) slumped in 1991 but began recovering in 1992 so that by 1995 they had grown back above the 1991 level. Imports fell by nearly half after 1991 and only started growing again in 1994. These trends continued in 1995: Exports to countries beyond the CIS rose by 25 percent and imports grew by 12 percent, while exports to the CIS fell (Rutland 1996, 325).[4] The dynamism of foreign trade amidst economic depression may signal "the beginning of international integration on a new post-Soviet basis" (Kivikari 1997, 3–4).

The legal and institutional infrastructure for this post-Soviet international integration is being set up. Since early 1992, Russia has substantially liberalized its trade regime with the rest of the world. All firms and organizations can now perform foreign trade transactions, a right previously monopolized by state-controlled foreign trading offices. Export quotas and licenses have been eliminated. With a few exceptions, the tariff code now sets maximum import duties at 30 percent on most goods. According to the schedule, the average tariff rate will be 80 percent of the 1995 level in 1998 and 70 percent of the 1995 rate in the year 2000. In July 1996, the ruble became convertible on current account transactions in accordance with IMF norms.

But these liberalizing measures have not fostered Russia's external economic relations to the degree that was hoped. Despite recent growth, the volume of merchandise trade is still very modest. The export and import commodity structures are reflective of the economy's present poor condition, but not its long-term potential or need. Initial expectations for foreign investment have also not been met. As of January 1, 1998, total foreign investment was US$21.82 billion. Only US$9.95 billion, or 45.6 percent, was invested directly, with US$439.8 million representing security investments and US$11.43 billion other investments (Sugano 1998).

The shortcomings of the economy's foreign sector cannot be separated from the collapse of industrial production and investment because of their decisive role in imports and exports. A consequence of the continuous drop in capital investment since 1990 is a fall in domestic output (Lavrov 1997, 14–16).[5] Revenues from the export bonanza have not found their way back into the Russian economy as exporters have generally preferred to put their proceeds in foreign bank accounts or real estate, rather than invest in industry. Favored locations include Cyprus, London, and the French Riviera. The liberalization of the external sector has provided Russian exporters with this previously unavailable option and they have seized it with proverbial vengeance. Individual and corporate capital flight is estimated at between US$10–15 billion a year and is thought to total about US$40–50 billion since 1991 (Rutland 1996, 324).

To revitalize industry, in November 1996 the Russian government created guidelines for the country's industrial policy up to 2010. Funds of 2.5–2.8 trillion rubles will be required for industrial restructuring, and machinery and equipment will need to be imported to refurbish national companies and bring production in line with international standards (Kivikari 1997, 7). Direct support from the government is promised for high-tech industries—aerospace, nuclear energy, biotechnology, electronics, and engineering for energy.

The Russian government also approved priorities for export development until 2005. The program identifies three stages for facilitating new and more efficient Russian participation in the international economy. The first two stages (1996–1997; 1998–2000) envisage stable export volumes while the range of exported products is increased. The goal for the third stage (2001–2005) is for the share of science-based products in Russian exports to be increased to 10–15 percent of total exports, which would approach the level of industrial economies (Kivikari 1997, 7–8).

Russia, the world's largest and richest country in natural resources with a vast need to restructure production, offers incomparable opportunities for foreign direct investment. Yet the massive privatization program embarked on in the 1990s has not fulfilled its potential. In the early 1990s, foreigners directly invested about US$5–5.5 billion in Russia.

This compares dismally with the US$85–130 billion invested in China and the US$10 billion invested in Eastern Europe (Rutland 1996, 327; Kivikari 1997, 12; Goldman 1997, 317). If the energy sector is excluded, foreign investment in Russia amounted to only US$2 billion in 1996 (Goldman 1997, 317).

The obstacles to foreign direct investment in Russia are formidable. Among the challenges facing foreign firms in Russia, political and economic instability causes the greatest concern. Foreign (as well as domestic) investors face uncertain property and contract law, inadequate law enforcement against criminal elements, unpredictable taxes, and constantly changing regulations (Varese 1997; McFaul 1995; Holmes 1997). In the otherwise extremely attractive energy sector, investment is hampered by jurisdictional disputes between local, regional, and federal authorities over control of natural resources (Rutland 1997). Concern about future policy is heightened by hard-line Yeltsin rivals—such as General Aleksandr Lebed and Vladimir Zhirinovsky, leader of the ultranationalist Liberal Democratic Party of Russia—making investor-unfriendly statements. Yet even amidst the crises and uncertainty, foreigners have made money in the Russian stock markets. Russian equities outperformed all others in the first half of 1996, with the Moscow Times index of fifty leading shares rising by 210 percent during the period (Weinberg and Hooson 1997, 1). In late 1996, the public sale in London of 1 percent of the stock of Gazprom generated tremendous interest among foreign investors (Eigendorf 1996).[6] It is hoped that direct investment can be stimulated in the wake of portfolio investment.

While more foreign investment would certainly help Russia's economic recovery, Russians themselves have to believe it is worthwhile investing in their own country. Capital flight levels will continue to be a reliable barometer of domestic and foreign investor confidence.

McFaul argues that "[C]ontinued engagement of Russia's liberals, sustained promotion of Russian liberal market and democratic institutions, and gradual integration of Russia into both the world capitalist system and the international community are the policies that will prevent Russia's democratization from turning belligerent" and counsels against "containment, isolation, and neglect of liberal institutional development" (1998, 35). All who place a great premium on Russia's continued nonbellicosity, however, may have to look beyond current bleak fundamentals and continue trying to find ways and means to engage Russia.

This admonition applies to all, including nontraditional interlocutors such as the member states of the Association of Southeast Asian Nations (ASEAN).

RUSSIA-ASEAN RELATIONS

As Russian Foreign Minister Andrei Kozyrev had expressed interest in 1993 in institutionalizing Russia-ASEAN relations, Russia was invited to join the ASEAN Regional Forum (ARF) when it was established in 1994. In April 1995, Russia hosted an ARF "track two" seminar on the principles of security and stability in Asia Pacific in Moscow as a contribution to the region's peacekeeping efforts.

While an ASEAN-Moscow Committee assists in conducting and maintaining ASEAN-Russia dialogue, Russia is now regularly involved in the panoply of ASEAN dialogue mechanisms—the ASEAN Ministerial Meeting (AMM) and the Post Ministerial Conference (PMC) "nine plus one" and "nine plus ten" discussions. Russian participation in the PMC immediately following the AMM is the apex of the dialogue process. The PMC nine-plus-one and nine-plus-ten meetings offer an opportunity for the foreign ministers of ASEAN and Russia to review contemporary political, security, economic, and development cooperation issues affecting the dialogue relationship.

The inaugural ASEAN-Russia Joint Cooperation Committee (ARJCC) meeting was held in Moscow in June 1997. Both sides agreed there that four institutions would constitute the structure of ASEAN-Russia dialogue:

- the ARJCC,
- the ASEAN-Russia Joint Management Committee of the ASEAN-Russia Cooperation Fund,
- the ASEAN Committee in Moscow, and
- the ASEAN-Russia Business Council.

The ARJCC will coordinate all ASEAN-Russia working-level mechanisms and six areas of cooperation have been agreed on: trade and investment; science and technology; environment; tourism; human resource development; and people-to-people interaction. An ASEAN-Russia Working Group on Science and Technology (WGST) was established under ARJCC's purview. In the first WGST meeting, also held in Moscow in June 1997, initial priority areas of cooperation in science and technology were agreed to include biotechnology, new materials, information technology, micro-electronics, meteorology, and geophysics. Russia has also proposed undertaking cooperative projects using Russian technology and equipment for aerospace zoning of the earth's surface, monitoring volcanic and other seismological activity, warning of typhoons and other emergency situations, airlifting cargo, and transcontinental railway development. A Working Group on Trade and Economy is also on the drawing board.

The ASEAN-Russia Cooperation Fund was established with an initial sum of US$0.5 million under Russian auspices to draw in private-sector support and participation. The fund will be used to finance joint cooperation projects and will hopefully grow with time. The ASEAN-Russia Business Council was formed after Russia's 1996 expression of interest in establishing private-sector links through an ASEAN-Chamber of Commerce and Industry (ASEAN-CCI) group.

Russia attained the status of a full ASEAN dialogue partner in July 1997, six years after it started attending consultative meetings at the AMM/PMC and four years after Kozyrev expressed the Russian desire to institutionalize relations with ASEAN. The upgrading of Russia's status to full dialogue partner from consultative partner reflects a deepening of Russia-ASEAN ties and was an apparent boost to trade. From a modest US$638.1 million in 1993, total Russia-ASEAN two-way trade grew by 716 percent to US$5.21 billion in 1996. For 1993–June 1997, cumulative two-way trade stood at US$10.25 billion, with ASEAN enjoying the balance of trade through most of the period. Except for a deficit of US$234.4 million in 1995, ASEAN experienced surpluses in its trade with Russia for a cumulative total of US$1.65 billion for 1993–June 1997, with its highest trade surplus of US$1.13 billion occuring in 1996. Notwithstanding the growth of Russia-ASEAN trade over the past five years, Russia accounts for the smallest volume of trade among ASEAN's dialogue partners. In 1996, for instance, Russia comprised only 1.36 percent of total ASEAN trade with its dialogue partners (see tables 1 and 2 for full details).

The modesty of Russia-ASEAN economic relations should be seen in the context of Russia's humble overall economic ties with Asia. Sugano (1998) reports that the United States accounted for US$6.23 billion, or 28.5 percent, of the US$21.82 billion in foreign investments in Russia. Japan, the single most important investor in Russia from Asia, in contrast contributed a mere 1.5 percent, or US$330.6 million. Japanese direct investment comprised only US$119.7 million of this amount, making

Table 1. ASEAN-Russia Trade (US$ million)

	Exports	Imports	Trade Balance	Total Trade
January–June 1997	574.6	423.9	150.7	998.5
1996	3,169.2	2,040.9	1,128.3	5,210.1
1995	849.3	1,083.7	−234.4	1,933.1
1994	931.1	534.7	396.4	1,465.8
1993	423.1	215.0	208.1	638.1
Cumulative Total, 1993–June 1997	5,947.4	4,298.2	1,649.2	10,245.6

SOURCE: ASEAN Secretariat <http://www.asean.or.id/stat/~.htm> (15 May 1998).

Table 2. ASEAN Trade with Major Trading Partners (US$ million)

	January–June 1997	1996	1995	1994	1993
Dialogue Partners	189,243.0	383,355.7	371,677.6	292,808.7	248,994.3
United States	43,169.4	90,219.2	101,428.8	88,572.4	75,615.9
Japan	57,324.4	116,457.2	121,215.9	101,602.1	86,576.8
China	11,636.1	16,691.6	13,330.6	11,062.8	8,865.1
Australia	6,990.2			10,958.8	8,951.0
Canada	2,182.4	4,433.7	4,530.5	3,872.1	3,498.7
New Zealand	1,101.0			1,494.7	1,251.2
South Korea	12,903.8	22,740.8	19,920.0	16,040.6	13,251.4
India	5,129.2	6,566.6	4,659.5	3,536.5	2,875.9
Russia	998.5	5,210.1	1,933.1	1,465.8	638.1
Extra-ASEAN	270,762.4	532,632.6	493,323.9	409,887.7	347,811.9
Intra-ASEAN	77,773.4	141,280.4	121,927.6	104,118.6	80,856.1
Total Trade	349,212.7	673,913.0	615,251.5	514,006.3	428,668.0

SOURCE: ASEAN Secretariat <http://www.asean.or.id/stat/htm> (15 May 1998).

NOTE: Russia became a full dialogue partner of ASEAN in 1997; prior to that year Russia was a consultative partner.

Japan the sixteenth largest foreign investor in Russia. Total Russia-Japan trade was US$5.03 billion in 1997, growing by 44.5 percent from US$3.48 billion in 1992 and peaking at US$5.93 billion in 1995. In comparison, the European Union accounted for almost half of Russia's total trade, even though Russia's share of total EU trade was only 3 percent in the mid-1990s (Kivikari 1997, 17).

Yet Russia-ASEAN ties could deepen. Future prospects of Russia-ASEAN private joint ventures could be exemplified by a possible communications satellite project involving Russia, Thailand, and Australia.

The future of Asia's satellite telecommunications industry may indeed be shaped by a Thai telecommunications giant, Russia's newly market-oriented space research and development program, and a prospective satellite-launching site near Darwin in Australia's Northern Territory. Executives from Brisbane-based Space Transportation Systems (STS), in which Thailand's United Communication Industry Public Co. (UCOM) took a 50 percent stake, were present at the September 1996 launch of an Inmarsat communications satellite from the Baikonur cosmodrome in Kazakhstan. Inmarsat is a Russian global telecommunications provider, while UCOM hopes to become the leading Asian satellite telecoms provider. Together with STS, UCOM is planning Asia Pacific's first commercial launch from Darwin using a rocket of recent Russian design and manufacture. Another Russian company will provide ground support, including launch pad design, engineering services, and satellite telemetry (Allix 1996).

Russian Arms Sales

The former Soviet Union was the second most powerful country of the twentieth century, with Soviet weapons systems in fact almost being on a par with American systems. This world-class arms-manufacturing capability did not just disappear with the Soviet Union's demise and Russia continues to enjoy this comparative advantage vis-à-vis many economies, including those of ASEAN.

The International Institute for Strategic Studies (1998) describes East Asia as exhibiting a sustained demand for arms in the post–cold war period. In 1996 alone, Japan, China, Taiwan, and South Korea each imported arms worth more than US$1 billion. ASEAN was not far behind. The five core ASEAN states of Thailand, Malaysia, Singapore, Indonesia, and the Philippines collectively bought weaponry worth US$2.25 billion in 1996, slightly below the 1995 total of US$2.31 billion (see table 3).

The United States remained the top arms supplier in 1992–1996, accounting for almost half of the market, while Russia, a second-tier supplier, accounted for 35–45 percent of the market with Canada, China, France, Germany, Israel, and the

Table 3. Arms Deliveries to Southeast Asia (US$ million)

Country	1996	1995
Thailand	700	1,100
Indonesia	700	170
Malaysia	350	750
Singapore	400	200
Philippines	100	90
Total	2,250	2,310

SOURCE: International Institute for Strategic Studies (1998, 264–267).

United Kingdom. In 1992, Russia captured 16.1 percent of the market with sales of US$6.85 billion, while in 1996 its market share was 8.6 percent with sales of US$3.435 billion. This contrasts starkly with the Soviet Union's sales volume. In 1987, for example, during Gorbachev's "new thinking" program, which was designed to ultimately end the Communist Party's political monopoly, and his economic reform program (*perestroika*) to reduce the power of central planning organs to control the production activities of firms, sales were valued at US$29.9 billion for a market share of 35.2 percent (International Institute for Strategic Studies 1998, 264–267). In 1997, Russian arms deliveries enjoyed a more than 100 percent increase to be worth US$7–10 billion (Trenin and Tselichtchev 1998, 125). It was not clear, however, if market share increased by a similar magnitude.

China emerged not only as Russia's second largest trading partner (after Germany) in 1993 with bilateral trade reaching US$7.7 billion (Tanaka 1995, 126), it also became the principal importer of Russian weapons in East Asia. Together with India and Iran, China accounted for three-quarters of Russian arms exports in 1993. Since 1992, China has been buying fighter aircraft, air defense systems, and submarines from Russia. In addition, Russia has agreed to transfer technology to enable China to produce jet fighters domestically. Other agreements with China cover future sales of weapons such as naval helicopters and destroyers (Trenin and Tselichtchev 1998, 125–126).

Among Southeast Asian states, Malaysia appears to be the only recent buyer of Russian military technology. In 1994, it acquired 18 MiG-29 fighters worth US$550 million as part of a policy to diversify arms sources (Nathan 1998, 5; Tanaka 1995, 128). This means that Malaysia and Vietnam are the only users of Russian weapons in Southeast Asia, a market still dominated by U.S. and Western European suppliers. It is reasonable to expect that other ASEAN states might follow Malaysia's lead to diversify sources and buy from Russia. Nonetheless the current financial crisis afflicting both the region and the Russian military-industrial complex probably precludes new arms deals in the near future. The cheaper prices of Russian (and Chinese) arms relative to Western suppliers may become a key factor.

What Remains to Be Done?[7]

However impressive initial strides to institutionalize ASEAN-Russia economic relations, much must still be done to consolidate ties. In this regard, ASEAN could learn something from the experiences of other nations, especially those in the West. Further development of Russia's economic relations with the rest of world depends to a large extent on internal developments in Russia itself. The systemic transformation from Communist Party monopoly to parliamentary democracy and from command to market economy has taken place rather quickly and seems irreversible. Political change was a prerequisite for economic restructuring, yet problems have arisen when new institutions guiding the development of democracy and the market economy have not been able to develop simultaneously. This has resulted in a huge shadow economy, corruption, speculative transactions, and increasing crime in business life.[8]

Economic structural transformation is still under way and will take a long time to complete. This process is needed to remove state control from the main economic structures and it focuses on changing the mechanism for allocating resources. This process emphasizes industrial restructuring, including privatization, de-monopolization, and the downsizing of giant firms. The Soviet economic structure was poorly suited for global competition and was characterized by an emphasis on (mostly inefficient) heavy industries. Russian industrial production must be restructured and modernized to reduce its high material- and energy-intensiveness, as well as to better meet the needs of local consumers and enterprises and foreign buyers.

Privatizing state-owned enterprises and enlarging property rights will play an important role in structural change as they accelerate Russian firms' restructuring and modernization. Economic restructuring necessarily implies a move from heavy industry toward services and from giant firms toward smaller enterprises. A whole new class of entrepreneurs is needed to achieve structural adjustment, to launch successful ventures to catch-up with the rest of the world, and to develop firm-specific and national comparative advantages. Private ownership would also increase efficiency, productivity, and innovation, leading to enhanced competitiveness. While private enterprise will hopefully constitute the core of the new Russian economy, public sector management will also need improving.

Yet structural change cannot be dictated from above. It takes years for appropriate structures to develop through the interplay between the economic system and everyday economic life. Besides privatization, reconstituting both physical and commercial infrastructure is also necessary. Telecommunication and distribution networks, logistics, information, legal and banking infrastructure—areas which were previously neglected—all need improving.

THE NEED FOR BEHAVIORAL CHANGE AND MUTUAL LEARNING

Transition literature regards the postsocialist transition process as mainly a political and macro-economic process, where both systemic and structural change processes can be identified. However, the role of individuals and organizations in a transition has been grossly underestimated. Nieminen (1997, 7) criticizes present transition models as giving too much emphasis to macro-level problems at the expense of micro-level problems and argues that "the role of behavioral change processes in the transition—referring to learning and adaptation needed both at the individual and organizational level" must be given due attention.

This "behavioral" perspective is based on two truisms. First, while it is relatively easier to make policy changes, and structural changes to some extent, it is more difficult to change behavioral patterns. Second, individual decision-making is the starting point at all levels of the transition process—among policymakers, enterprises, and individual citizens. Thus the ability to learn new patterns of behavior greatly impacts the implementation of systemic and structural changes. The point is not mere passive adjustment to the sea-changes taking place, but rather active adaptation, which emphasizes accepting the need for change and a readiness to change behavioral patterns through learning.

Transition requires fundamental changes in individuals' thoughts, anticipations, values, habits, motivations, and attitudes—in other words, behavioral changes reached by learning. As individuality becomes more pronounced in a market economy and democratic polity, more uncertainty, opportunities, and risks are created. The virtues of the market have to be learned for a people weaned on a centralized economic system and behavior changes have to take place at all levels of society—in industry, in private households, and in the bureaucracy. Behavioral patterns that were previously anathema have to become preferred standard. Such behavioral switches are difficult in any society, so behavioral changes take longer to effect than systemic and structural changes.

Another level of learning must occur within organizations. They have to learn more effective management styles, how to use and absorb modern technology, and to develop new products. Present enterprise managers are largely still members of the previous nomenklatura, which means they are not necessarily well prepared to run firms in a market-driven environment. A major problem is the difficulty with which Western management and technology can be adopted, and the reconstructive measures needed at the industrial level depends on organizations' learning capacity. Learning for both individuals and organizations takes place mainly through management education programs, foreign direct investment, and firm-to-firm contact and cooperation. In these instances, special emphasis should be placed on transferring technology and other general know-how, and foreigners trying to do business with Russia have to be patient as Russians travel along their learning curves.

The environment in Russia changes quickly and unpredictably. Yet disorder also creates business opportunities. Small and medium-sized enterprises may be best placed to take advantage of these opportunities because of their flexibility. But to keep abreast of the changing conditions, entrepreneurs must be able to adapt and learn from the environment in order to improve their performance. This is another reason why it is extremely important to build both formal and informal contacts and networks within the Russian market.

While profits can be made even in uncertain conditions, a long-term commitment to the Russian market is needed for economic relations to be built on a solid basis. It is important for foreign firms to accumulate knowledge and experience about the nature of the Russian market and prevailing business practices in order to be effective. Foreign firms are especially likely to encounter problems in the early stages of operation, so special attention should be paid to the skills of local personnel in collecting and analyzing market signals. This increases the need for both economic and managerial resources. Where little or insufficient knowledge about market conditions is available, foreign entrepreneurs are advised to keep their initial investments low and increase their commitments only as functioning local networks are established and market knowledge and experience increases.

For foreign businessmen, market knowledge includes mastery of the intricacies of the Russian transformation process and their implications on economic activity, particularly on transaction and production costs.[9] The ultimate objective of the learning process is to build mutual trust among the transacting parties. Trust, which determines how effectively agreements are enforced, has long been extolled by economists (Arrow 1963, 1974) to impact positively on economic performance, particularly on reducing transaction costs. In many countries, the lack of trust between economic actors can inhibit commerce and retard overall economic development. Trust also reduces uncertainty, lengthens time horizons, and consequently increases levels of investment (Schneider and Maxfield 1997, 13). However, trust can be built most easily within societies with appropriate institutional settings. Westerners depend primarily on laws (formal rules) to build trust while Asians rely primarily on reciprocity and personal relations (Almonte 1998, 81). But there is no great difference really as trust built on friendship and prolonged beneficial contact constitute the informal element of institutions; and institutions change as the perceptions of transactors change (North 1997, 1–4).

The institutional setting required for creating and operating efficient markets that can lead to economic growth is one "that provides low-cost transacting" and "credible commitment" to enforcement of property and contractual rights and obligations (North 1997, 1).[10] Many observers (including Olson 1993 and Root 1995) state explicitly that only strong but limited governments—in short, robust democracies with independent courts, individual freedoms, and the rule of law—can guarantee sustained economic growth. The character of relations between business and government also help explain variations in economic performance. Various case studies in Maxfield and Schneider (1997) suggest that collaboration between state and business elites enhances economic growth. Thus capable state bureaucracies and strong business associations can both play crucial roles. Proper institutions have yet to be fully established in Russia and the responsibility for building these institutions lies with Russians and those who wish to do business with Russia. Before these institutions are fully in place, domestic and foreign entrepreneurs may still take risks and earn high returns. In the end, only by helping build proper institutions can profits and economic growth be sustained.

Schneider and Maxfield (1997, 25–30) suggest that elites will collaborate to survive when they feel threatened. Katzenstein (1985) observed that the elites of small European states indeed saw collaboration as the effective response to their empires' decline. Perhaps this will be true in Russia too. The emergence there of financial-industrial groups (FIGs)[11] may signal the advent of so-called "encompassing firms," which are seen (Olson 1965 and 1982) as being more likely to press government for growth-enhancing policies than favor particular sectors or groups at the expense of others. This view, also argued by Kim (1994) about the Korean *chaebol*, may be too optimistic for those who consider FIGs predatory monopolies.

A state which effectively intervenes in the economy and collaborates with business elites for beneficial outcomes is the classic Weberian state manned by a career service bureaucracy and relatively insulated from particularistic societal pressures (Evans 1995). A Weberian bureaucracy is the exception rather than the rule in Russia and postsocialist societies, as well as in many parts of the developing world. There are examples though (Silva 1997; Doner and Ramsay 1997) of positive government-business interaction without a meritocratic and politically insulated state apparatus.

THE POSSIBILITIES OF RUSSIAN ASIA[12]

Whenever Asia Pacific observers contemplate engaging Russia economically, attention invariably veers toward Russian Asia. Since three-fourths of the former Soviet Union's territory was located east of the Ural Mountains, it was both a European and an Asian state. Most of its economic resources were concentrated on the European side and, despite great economic potential in terms of extraordinary mineral, energy, and timber resources, much of Soviet Asia was underdeveloped for various reasons. For one, much of the area was underpopulated. Second, the region lacked transportation facilities, housing and urban amenities, power supplies, and other support industries and inputs. Third, being desert, taiga, and tundra, huge portions of the region were not suitable for agriculture. Such factors are interconnected and become mutually reinforcing in that low population densities, low economic activity levels, and harsh climates and terrains all imply that infrastructure and construction costs are abnormally high. Limited urban amenities made it difficult to attract people from the European side of the Urals, while the small agricultural base made it hard to attract labor because food sufficiency was not assured (Campbell 1982, 229–234).

Given inferior economic resources and weak political appeal, Soviet assets in Asia were predominantly military in nature. These military resources were concentrated in Northeast Asia. Ironically, although they grew fast during the last two decades of the Soviet Union, Soviet military assets in Asia were still inferior to those of its Asian theater adversaries. This is doubly ironic, Scalapino (1982, 89) notes, considering that the anti-Soviet Asian states were galvanized into alliance with the West precisely because of Soviet military power.

Retaining much of Soviet Asia and the Far East, Russia is the only Soviet successor state that stretches to the Pacific. Yet it appears weak and vulnerable relative to other powers in Asia Pacific and, with only small sticks and carrots at its disposal, it has been content to play in the regional sidelines. The breakup of the Soviet Union substantially transformed the character and disposition of Russia's Asian assets with even its disadvantaged military position being whittled down. Soviet military resources there largely comprised ground troops deployed against China, and improved Sino-Chinese relations mean these troops may either be deployed elsewhere or be demobilized. The Russian Far East, with the key cities of Vladivostok and Khabarovsk, used to house the Soviet Pacific Fleet, including submarine-launched strategic missiles in the Sea of Okhotsk, but it is now being demilitarized to attract foreign investment and aid.

Nevertheless, Northeast Asia is the area where Russia plays an important strategic role, because of the Northern Territories dispute, the Korean peninsula question, and the new Sino-Russian relationship. The Northern Territories issue between Russia and Japan remains unresolved and may not progress meaningfully until both sides retreat from previous positions and internal Russian opposition to a hand-over weakens. The Japanese should be mindful of Russia's great-power pride, which was piqued when the Japanese earlier offered a raw money-for-islands deal, while Russia has to assure the Japanese that its hesitance over the islands is not caused by a retention of Soviet military doctrine.

The 1990 normalization of relations between Moscow and Seoul has led to a corresponding cooling of Moscow-Pyongyang ties and a significant South Korean economic presence in the Russian Far East. Bilateral trade has grown from US$116 million in 1985 to US$1.2 billion in 1991. Yet further progress was made during Yeltsin's November 1992 state visit to South Korea. In addition to promising to hand over the flight data recorder of the Soviet-downed Korean Air Lines plane, Yeltsin also assured Seoul Moscow would try to make Pyongyang accept bilateral nuclear inspections and would stop supplying it with arms and technology to produce MiG-29s. He also dealt with unfinished business from the

Korean War by promising to open archives on Soviet involvement to South Korean historians. In return, South Korea promised to release US$1.5 billion of trade credits. Several agreements were also signed. These included a basic relations treaty providing the legal framework for closer economic, political, and cultural ties; a military agreement on exchanging visits; and a tax treaty (*Far Eastern Economic Review* 3 December 1992, 15–16). Some Russians hope that South Korean capital will help reduce Russian reliance on Japanese investments so that economic development will not be held hostage to the Northern Territories dispute. It remains to be seen however whether "capitalist" Russia retains enough clout to restrain socialist fundamentalist North Korea.

Booming arms sales and cross-border trade has fueled Russia's new friendship with China. In need of hard currency and hoping to preserve the high-tech end of its industrial base, Russia is very pleased to be selling arms to China. A maturing of Sino-Russian military relations since the early 1990s now includes technological cooperation on a wide range of defense-related projects, regular interaction between their military establishments, and intelligence exchanges.

Both countries also share similar security concerns. These include worries about the U.S. role in the post–cold war world, the volatile situation in Central Asia, and Japan's enhanced military posture. The two countries signed a joint declaration on "Multipolarization of the World and the Establishment of a New International Order" in April 1997 and, together with Kazakhstan, Kyrgyz, and Tajikistan, the two also signed agreements in April 1996 and April 1997 to reduce military forces on their common borders. The Russian military command planned to slash the three-million strong Soviet military it inherited to around two million by 1995, and ultimately to 1.5 million by the year 2000.

While troop levels are declining, the number and quality of the weapons systems in Asian Russia has grown. A number of factors are behind this redeployment. Demobilization is concentrated in European Russia in accordance with arms reduction treaties with NATO countries. As the Russian government's resources are already fully stretched finding work and housing for hundreds of thousands of soldiers west of the Urals, cutbacks in the Russian Far East are going to have to wait a little longer. Along with a major exodus of non-Russian conscripts and widespread draft-dodging in the late 1980s and early 1990s, local military commanders report that almost one-third of the troops in their regions have returned home to non-Russian republics. Drastic reductions in defense spending have also led to a major scaling back in troop training and military exercises in the Far East.

In terms of weapons systems, since the implementation of the Conventional Forces in Europe Treaty in 1990, more than 16,000 tanks, 16,000 armored fighting vehicles, and 25,000 artillery pieces have been transferred east of the Urals. About half of the armor, mostly T-72 and T-80 main battle tanks, were used to reequip military units in Central Asia and the Far East, while the rest were mothballed.

This weapons upgrade might be alarming to other countries, but it should be seen for what it is. Improving the Far Eastern military units is actually the consequence of Russia's weakness—namely, its inability to demobilize rapidly its huge and expensive military—and it is not the result of a deliberate anti-Japan or anti-China strategic doctrine. Rather, it is a rational response to an uncertain security situation. Russia may not have an apparent enemy nor face an evident military threat. However, a long border and a huge but underpopulated territory must be safely protected, even though upkeep of this military force will continue to drag down the Russian economy and public purse. The situation thus presents an excellent opportunity for peacemaking and confidence building. Since the movement of Russian war material into Asian Russia was the result of arms reduction agreements in Europe, the security challenge is for a counterpart Helsinki process to unfold in Asia Pacific, especially Northeast Asia.

Russia-Asia Pacific economic relations will take a while to blossom fully and will depend to a large extent on the resolution of the region's outstanding security issues. Just as internal economic actors must build mutual trust, so must nations. For its part, Russia has apparently counted on engaging Asia Pacific countries to revitalize its Far Eastern economy. The break-up of the Soviet Union, with the resulting curtailed access to the Baltic and Black seas, highlighted the importance of the Russian Far East as the bridge to the Pacific and the world's most dynamic economies.

The Russian initiative in opening up Vladivostok and its environs, previously one of the most militarized Soviet regions, to civilians and foreigners (including businessmen) is a notable confidence-building measure. Moscow also opened this area to engineers, businessmen, and laborers to cope with shortages in manpower, capital, and technology. Chinese joined the ranks of North Korean and Vietnamese seasonal workers in forests and factories, and on farms and construction sites. Posyet, near the North Korean and Chinese borders, was also declared an open port. River steamers again ply the waters between Khabarovsk and Harbin, China, while ferry service between Sakhalin and Hokkaido was reestablished. Flights were also opened from the Russian Far Eastern cities to China, South Korea, Japan, and the United States.

By 1993, there were more than 1,000 joint ventures and companies with foreign capital in the Russian Far East, including restaurants, hotels, computer dealers, and sausage plants. Amur timber, Yakutia coal, and Sakhalin offshore oil and natural gas have come under joint development. Special economic zones to attract foreign investment, mulled over since 1987, are materializing in Sakhalin, Magadan, and Nakhodka. Most ambitious among the planned enclaves is the Tumen Free Economic Zone, which would embrace contiguous parts of Russia, North Korea, and China, and also involve Japan, South Korea, and Mongolia (Stephan 1993, 336).

Until the early 1990s, Japan was the Russian Far East's most important international partner, accounting in 1991 for half of the joint ventures, 60 percent of regional exports, and, on Sakhalin, 70 percent of foreign commerce.[13] But the nonresolution of the Northern Territories dispute has meant that planned investments were put on hold and that Russo-Japanese trade has stagnated. However, recent improvement in Russo-Japanese relations suggests a possible upturn in economic relations. Japanese interest in energy development in Sakhalin and Eastern Siberia has been revived, and the Hashimoto-Yeltsin Plan for economic cooperation represents "a qualitative shift in Japanese policy toward positive engagement in the Russian economy" (Watanabe 1998, 5).

China seemed poised to overtake Japan in economic influence in the area. With Beijing and Moscow's blessing, provincial authorities in China have set up "border economic cooperation zones." Bolstered by all sorts of barter arrangements, regional trade has flourished. So far 80 percent of the 1,500 Chinese companies in Russia are located in the Russian Far East and the majority of China's nearly US$200 million investments in Russia is invested in the region's raw materials (Li 1998, 17). For its part, Moscow removed a vestigial irritant by acknowledging Chinese sovereignty over Damansky Island in the Ussuri River, the scene of bloody clashes in 1969.

The internationalization of the Far Eastern economy does, however, face stubborn—though not insurmountable—obstacles: weak infrastructure, inflation, regulatory and legal confusion, political uncertainty, and a different business etiquette. As many joint ventures have already failed, the necessity of first-hand acquaintance with local conditions and the development of strong local contacts must be stressed. It would also be a mistake to assume that Far Easterners welcome all economic development. National sensibilities and environmental concerns have fed opposition to special economic zones and other joint ventures. Political question marks about regional economic developments also extend across borders. For example, realizing the ambitious Tumen Free Economic Zone project may depend largely on the mood in Pyongyang. Clearly though, economic integration and reducing regional security tensions are mutually reinforcing. Along with the rest of the world, ASEAN is interested in Russia maintaining its general post–cold war behavior and not reverting to Soviet-style bellicosity and militarism. Engaging Russia economically is one of the keys to this overall objective. Toward this end, ASEAN should offer support for the following:

- The recovery and rehabilitation of the Russian economy, as well as its reintegration with the global economy with due consideration to social costs and Russian national sensibilities.
- The stabilization of Russian politics and the institutionalization of appropriate democratic rules and processes.
- Demilitarization, disarmament, and the conversion of military-oriented enterprises to civilian industry.
- Continued exchanges in culture, sports, education, and the like to facilitate mutual learning. ASEAN could explore the possibility of offering study grants to Russians from the Far East in critical areas to help effect its transformation from a planned, authoritarian society. There is a huge need for learning in law, economics, business management, accounting, banking and finance, public administration, and hotel and restaurant management. Offering such opportunities would constitute relatively low-cost investments that could reap benefits in terms of good will and mutual learning.

CONCLUSION

Further developing economic relations between Russia and ASEAN depends largely on how the respective economies complement each other. Aside of armaments and aerospace systems, it must be asked what world-class products Russia can offer ASEAN. And what are the security implications of a continuing Russian comparative advantage in arms and other defense-related product lines. What can ASEAN offer in return? Apart from trade with Singapore, would Russia-ASEAN trade be the exchange of high value-added defense-related products for labor-intensive manufactures and primary goods? Or would it be the other way around, with relatively richer ASEAN buying primary products from Russia and selling processed goods in turn?

Both sides have to begin the slow process of growth-promoting trade creation. In theory and in reality, Russia-ASEAN trade could grow by diverting trade with third parties. For instance, increased Russian arms exports to the region (and Asia Pacific as a whole) may have been at the expense of traditional buyers and sellers elsewhere. From ASEAN's viewpoint, the recourse to Russia was part of a deliberate procurement diversification program. But given the nature of the products in question, diversifying sources is not just an economic transaction; there are political and strategic implications too.

The Russian Far East's sparse population, Russia's current national economic problems, and the capital-intensive requirements of any regional development program (given that it is a resource-extracting region) mean that it is likely a zone that neighboring states will have to help develop. Developing the region will have manpower requirements that external sources will probably also need to help fill. So will the Russian Far East, with possible energy projects financed by Japan and the West, emerge as a new market for overseas workers from Thailand, the Philippines, and Indonesia? Or will the Far East be the preserve of Chinese labor? Would Russia encourage the importation of ASEAN workers to balance the Chinese presence?

Economic difficulties in Russia as well as ASEAN and Northeast Asia, including Japan, and the consequent shortage of hard currencies raise the important question of how expanded bilateral economic ties would be financed. Would counter-trade be the ideal short-term arrangement?

Russia's engagement with Asia Pacific is presently phrased more in political and security terms than in economic ones. Its economic engagement with western Pacific Rim states is also secondary to its economic engagement with the West and its CIS neighbors. Furthermore, Russia's Asia Pacific focus is Northeast Asia rather than ASEAN. Its interest in ASEAN, for example, is in the context of overall engagement in Asia

Pacific. Yet ASEAN's interest in Russia is a logical and necessary consequence of its overall policy of equidistant interlocution with global and regional powers. Although ASEAN-Russian economic relations are low-key at present, ties are likely to expand further in the future.

NOTES

1. Rutland (1996, 322) cites a lower figure of US$15 billion per annum. Goldman argues that uncertainty over the figures is caused by ignorance about the volume of smuggling by Russian (and now Chinese) "shuttle-importers." If, as he points out, these shuttle imports are a major reason why foreign products still make up as much as 60 percent of all consumer goods sold in Russia, then there is sufficient reason to be more conservative about the size of the Russian trade surplus.

2. As early as the 1940s, development economists advocating the industrialization of less-developed economies argued that terms of trade tended to favor industrial economies at the expense of primary product producers such that the latter needed to export greater volumes to match earlier revenues. The greater reliance of Russia on primary product exports is behind the complaints regarding "Kuwaitization," de-industrialization, and Third World-ification, and the sarcastic quip that Russia is now a Third World state with First World weapons. See Blomström and Hettne (1984) for a succinct history of development thinking from the 1940s up to the early 1980s.

3. For further analysis of Kant's thesis, see de Mesquita and Lalman (1992), Doyle (1996), Lake (1992), Oneal and Russett (1997), and Schweller (1992).

4. Beginning in 1996, Russia-CIS trade apparently recovered modestly. Volovik and Leonova (1998) report that in March 1998 Russian foreign trade with the CIS was US$2.9 billion (the same level established the prior year) to mark a second year of export growth of about 7 percent. The duo forecast continued growth through March 1999 as Russia's largest trading partners in the CIS, particularly Belarus, are expected to increase their purchases of Russian primary exports. Belarus exports higher value-added products—machinery, fertilizers, and chemical fiber products—to Russia.

5. The levels of capital investment from all sources of funding, as a percentage of the previous year, are as follows: 1990, 84; 1991, 60; 1993, 88; 1995, 80; and January–June 1996, 86. In fact, investments dropped at a faster rate than Russian gross national product. With 1989 as the base year and 100 as the index figure, Russian GNP dropped from 98 index points in 1990 to 58.7 in 1995. In comparison, gross capital investments plummeted from 100.1 in 1990 to 37.3 in 1995.

6. Gazprom is Russia's largest company: It owns a quarter of the world's gas reserves; it operates from one of the world's largest territories; and it operates a pipeline network that could circle the world three times. It sells about US$8 billion of natural gas to the West each year and has even bigger revenues at home. The

company eventually plans to sell 9 percent of its stock through public offerings in foreign stock markets.

7. This discussion and subsequent sections owe a lot to Nieminen (1997). In discussing the need for a "learning" process, Nieminen stresses the demands on Russians. I argue that both Russians and their interlocutors need to learn together.

8. Goskomtat, or the State Statistics Committee, estimated the unreported economy to be about 23 percent of Russia's GDP in 1997, up from 20 percent in 1996. Other sources put the figure closer to 40 percent or higher. Much of the shadow economy stems from informal trade via "shuttle traders," small-time entrepreneurs who travel abroad to buy goods. These traders had an estimated turnover of US$10 billion in 1995 and Goskomtat estimated that shuttle trade imports had grown to 26 percent of all imports, or US$14.4 billion, in 1996. The Central Bank of Russia reports a higher 1996 figure of 33 percent of trade, or US$19.8 billion. See Aris (1997) and Goldman (1997) for further discussion on the problems of estimating economic growth on account of the shadow economy.

9. Goldman (1997, 317) cites the example of Mars, which had to deal with the Russian Mafia and the arbitrary use of taxes and permits by corrupt local and national officials: "After sales from $200,000 in 1990 to $300 million in 1993, the company decided to guarantee itself enough product to sell within Russia; it had to invest $150 million in the construction of two factories not far from Moscow. Once built the factories became a target for all forms of government extortion, including 18 different taxes totaling $60 million in 1996. In the words of one of the company's vice presidents, 'The consequence of these tax burdens is that companies with operations profiles like Mars L.L.C. can never make a profit in Russia.'"

10. North (1990) is the classic reference on institutions and low-cost markets. Also see North (1997), Grossman (1994), and Ellman (1994).

11. A FIG is a corporate structure in which a large bank with close ties to the Russian state anchors a wide range of trading and industrial enterprises. The FIG was created by the second phase of privatization in Russia through the controversial "loans-for-shares" scheme: several banks offered loans to the government in exchange for shares in some of the most valuable enterprises, including Norilsk Nickel, the largest nickel exporter in the world; two giant oil firms, Sidanko and Surgeneftgas; and Svyazinvest, Russia's largest telecommunications company (McFaul 1998, 18–19).

12. This section is based on Mendoza (1995, 28–38).

13. A Japanese assessment of more than two decades of Japanese economic cooperation with the Soviet Union on developing Siberia suggests that it has not been spectacular, given the time, cost, and efforts involved. For one, the Siberian natural resources in which Japan is interested are for the most part situated in remote areas to which access is costly. Another important factor is the difference in priorities between the two. In the overall strategy of Siberian development, the Soviet Union emphasized West Siberia, an area closer to the Soviet industrial heartland, whereas Japan had wanted to develop the natural resources located east of Lake Baikal, an area closer to Japan. For a complete discussion, see Kinbara (1987).

BIBLIOGRAPHY

Allix, Mark. 1996. "Launch Boosts Asian Space Race." *Asian Business*. 1 October. <http://web3.asia1.com.sg/timesnet/data/ab/docs/ab1129.html> (12 June 1997).

Almonte, Jose T. 1998. "Ensuring Security the 'ASEAN Way.'" Survival 39(4): 80–92.

Aris, Ben. 1997. "Shadow Economy: Bigger Than They Think." *St. Petersburg Times*. 16–22 June. <http://www.spb.ru/times/current/shadow-economy.html> (16 June 1997).

Arrow, Kenneth. 1963. *Social Choice and Individual Values*. New York: John Wiley.

———. 1974. *The Limits of Organization*. New York: Norton.

Blomström, Magnus, and Björn Hettne. 1984. *Development Theory in Transition, The Dependency Debate & Beyond: Third World Responses*. London: Zed Books.

Campbell, Robert. 1982. "Prospects for Siberian Economic Development." In Donald Zagoria, ed. *Soviet Policy in East Asia*. New Haven: Yale University Press.

De Mesquita, Bruce Bueno, and David Lalman. 1992. *War and Reason: Domestic and International Imperatives*. New Haven: Yale University Press.

Doner, Richard F., and Ansil Ramsay. 1997. "Competitive Clientelism and Economic Governance: The Case of Thailand." In Sylvia Maxfield and Ben Ross Schneider, eds. *Business and the State in Developing Countries*. Ithaca and London: Cornell University Press.

Doyle, Michael. 1996. "Kant, Liberal Legacies, and Foreign Affairs." In Michael Brown, Sean Lynn-Jones, and Steven Miller, eds. *Debating the Democratic Peace*. Cambridge: MIT Press.

Eigendorf, Joerg. 1996. "Fate of Russia Hinges on Gazprom's Value." *St. Petersburg Times*. 28 October–3 November. <http://www.sbp.ru/times/207-208/bc.html> (12 June 1997).

Ellman, Michael. 1994. "Transformation, Depression, and Economics: Some Lessons." *Journal of Comparative Economics* 19(1): 1–21.

Evans, Peter. 1995. *Embedded Autonomy: States and Industrial Transformation*. Princeton: Princeton University Press.

Goldman, Marshall I. 1997. "Russia's Reform Effort: Is There Growth at the End of the Tunnel?" *Current History* 96 (October): 313–318.

Grossman, Peter. 1994. "Douglass North: Why Some Nations Can Sustain Growth." <http://www.usis.usemb.se/ERT/e13/NORTH-3.HTML> (14 July 1997).

Holmes, Stephen. 1997. "What Russia Teaches Us Now; How Weak States Threaten Freedom." *The American Prospect* 33 (July-August): 30-39. <http://epn.org/prospect/33/33holmfs.html> (22 July 1997).

Howard, Michael, ed. 1994. *War and the Liberal Conscience*. New Brunswick: Rutgers University Press.

International Institute for Strategic Studies. 1998. *The Military Balance 1997/98*. London: Oxford University Press.

Izryadnova, O. 1999. "Investment in the Real Sector: Production of Investment

Goods." *Russian Economy: Trends and Perspectives* (May). <http://win.www.online.ru/sp/iet/trends/may99/7.html> (23 July 1999).

Katzenstein, Peter J. 1985. *Small States in World Markets*. Ithaca: Cornell University Press.

Kim, Wook. 1994. "The Political Economy of Growth: *Chaebols* and Korean Economic Growth." *Korea Observer* 25(1): 65–104.

Kinbara Kazuyuki. 1987. "Japan and the Development of Siberia." In Kinya Niiseki, ed. *The Soviet Union in Transition*. Boulder: Westview Press and Tokyo: Japan Institute of International Affairs.

Kivikari, Urpo. 1997. "Foreign Trade Liberalization in the Process of Economic Transformation in Russia." Discussion Paper Series C, Institute for East-West Trade, Turku School of Economics and Business Administration, Turku, Finland.

Krugman, Paul R., and Maurice Obstfeld. 1988. *International Economics: Theory and Policy*. New York: McGraw Hill.

Lake, David. 1992. "Powerful Pacificists: Democratic States and War." *American Political Science Review* 86(1): 24–37.

Lavrov, Sergei. 1997. "Foreign and Domestic Investment in the Process of Russia's Economic Reform." Discussion Paper Series C, Institute for East-West Trade, Turku School of Economics and Business Administration, Turku, Finland.

Li Jingjie. 1998. "Sino-Russian Relations in the Asia-Pacific Region." Paper prepared for the APAP Workshop "Engaging Russia in Asia Pacific," Cebu, Philippines, 28–29 May.

Maxfield, Sylvia, and Ben Ross Schneider, eds. 1997. *Business and the State in Developing Countries*. Ithaca and London: Cornell University Press.

McFaul, Michael. 1995. "State Power, Institutional Change, and the Politics of Privatization in Russia." *World Politics* 47(2): 210–243.

———. 1998. "A Precarious Peace: Domestic Politics in the Making of Russian Foreign Policy." *International Security* 22(3): 5–35.

Mead-Earle. 1986. "Adam Smith, Alexander Hamilton, Friedrich List: The Economic Foundations of Military Power." In Peter Paret, ed. *Makers of Modern Strategy*. Princeton: Princeton University Press.

Mendoza, Amado M., Jr. 1995. *Philippine Policy Perspectives on Russia, Central Asia, and other Soviet Successor States*. Manila: Center for International Relations and Strategic Studies-Foreign Service Institute, Department of Foreign Affairs.

Mueller, John. 1989. *Retreat from Doomsday: The Obsolescence of Modern War*. New York: Basic Books.

Nathan, K. S. 1998. "Malaysia's Worldview and Perspective of Russia in Asia Pacific." Paper prepared for the APAP workshop "Engaging Russia in Asia Pacific," Cebu, Philippines, 28–29 May.

Nieminen, Jarmo. 1997. "From Stagnation to Dynamism in East-West Business Relations." Unpublished manuscript. Institute for East-West Trade, Turku School of Economics and Business Administration, Turku, Finland.

North, Douglass. 1990. *Institutions, Institutional Change, and Economic Performance*. Cambridge, England: Cambridge University Press.

———. 1997. "The Contribution of the New International Economics to an Understanding of the Transition Problem." UNU/WIDER 1997 Annual Public Lecture. <http://www.wider.unu.edu/northpl.htm> (16 July 1997).

Olson, Mancur, Jr. 1965. *The Logic of Collective Action*. Cambridge: Harvard University Press.

———. 1982. *The Rise and Decline of Nations*. New Haven: Yale University Press.

———. 1993. "Dictatorship, Democracy and Development." *American Political Science Review* 87(3): 567–576.

Oneal, John, and Bruce Russett. 1997. "The Classical Liberals Were Right: Democracy, Interdependence, and Conflict, 1950–1985." *International Studies Quarterly* 41(2): 267–294.

Reznik, Bruce A. 1996. "Property Rights in a Market Economy." <http://www.cipe.org/e19/reznik.html> (20 May 1997).

Root, Hilton. 1995. *Small Countries, Big Lessons*. Hong Kong: Oxford University Press.

Rutland, Peter. 1996. "Russia's Unsteady Entry into the Global Economy." *Current History* 95 (October): 322–329.

———. 1997. "Battle Rages over Russia's Natural Monopolies." *Transition: The Newsletter about Reforming Economies* 8(3). <http://www.worldbank.org/html/prddr/trans/mayjun97/art6.htm> (16 July 1997).

Sachs, Jeffrey D., and Andrew M. Warner. 1995. "Economic Reform and the Process of Global Integration." <http://www.hiid.harvard.edu/pub/rrfall95/sachs.htm> (20 May 1997).

Scalapino, Robert. 1982. "The Political Influence of the USSR in Asia." In Donald Zagoria, ed. *Soviet Policy in East Asia*. New Haven: Yale University Press.

Schneider, Ben Ross, and Sylvia Maxfield. 1997. "Business, the State, and Economic Performance in Developing Countries." In Sylvia Maxfield and Ben Ross Schneider, eds. *Business and the State in Developing Countries*. Ithaca and London: Cornell University Press.

Schweller, Randall. 1992. "Domestic Structure and Preventive War: Are Democracies More Pacific?" *World Politics* 44(2): 235–269.

Silva, Eduardo. 1997. "Business Elites, the State, and Economic Change in Chile." In Sylvia Maxfield and Ben Ross Schneider, eds. *Business and the State in Developing Countries*. Ithaca and London: Cornell University Press.

Snyder, Jack. 1990. "International Leverage on Soviet Domestic Change." *World Politics* 42(1): 1–30.

Stephan, John. 1993. "The Russian Far East." *Current History* 92 (October): 333–337.

Sugano Tetsuo. 1998. "Russia's Economic Engagement in Asia Pacific." Paper prepared for the APAP workshop "Engaging Russia in Asia Pacific." Cebu, Philippines, 28–29 May.

Tanaka Akihiko. 1995. "The Asia-Pacific Region and Russia." In R. Blackwill, R.

Braithwaite and A. Tanaka. *Engaging Russia*. New York, Paris and Tokyo: Trilateral Commission.

Trenin, Dmitri, and Ivan Tselichtchev. 1998. "Russia." In Charles E. Morrison, ed. *Asia Pacific Security Outlook* 1998. Tokyo: Japan Center for International Exchange.

Varese, Federico. 1997. "The Transition to the Market and Corruption in Post-socialist Russia." In Paul Heywood, ed. *Political Corruption*. Oxford: Blackwell Publishers.

Volovik, N., and N. Leonova. 1998. "Foreign Trade." *Russian Economy: Trends and Perspectives* (May). <http://win.www.online.ru/sp/iet/trends/may98/7.html> (10 June 1998).

———. 1999. "Foreign trade." *Russian Economy: Trends and Perspectives* (May). <http://win.www.online.ru/sp/iet/trends/may99/6.html> (23 July 1999).

Watanabe Kōji. 1998. "Engaging Russia in Asia Pacific." Paper prepared for the APAP workshop "Engaging Russia in Asia Pacific." Cebu, Philippines, 28–29 May.

Weinberg, Jeremy, and Ben Hooson. 1997. "1996: Reforms Iced, Market Bulls Ran Anyway." *St. Petersburg Times* 20–26 January. <http://www.spb.ru/times/229-230/bc.html> (12 June 1997).

Wolfowitz, Paul. 1997. "Bridging Centuries: Fin de Siècle All Over Again." *The National Interest* 47 (Spring).