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Putin looks to Asia as West threatens to isolate Russia

By Timothy Heritage and Vladimir Soldatkin

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When President Vladimir Putin signed a treaty this week annexing Crimea to great fanfare in the Kremlin and anger in the West, a trusted lieutenant was making his way to Asia to shore up ties with Russia's eastern allies.

Forcing home the symbolism of his trip, Igor Sechin gathered media in Tokyo the next day to warn Western governments that more sanctions over Moscow's seizure of the Black Sea peninsula from Ukraine would be counter-productive.

The underlying message from the head of Russia's biggest oil company, Rosneft, was clear: If Europe and the United States isolate Russia, Moscow will look East for new business, energy deals, military contracts and political alliances.

The Holy Grail for Moscow is a natural gas supply deal with China that is apparently now close after years of negotiations. If it can be signed when Putin visits China in May, he will be able to hold it up to show that global power has shifted eastwards and he does not need the West.

"The worse Russia's relations are with the West, the closer Russia will want to be to China. If China supports you, no one can say you're isolated," said Vasily Kashin, a China expert at the Analysis of Strategies and Technologies (CAST) think tank.

Some of the signs are encouraging for Putin. Last Saturday China abstained in a U.N. Security Council vote on a draft resolution declaring invalid the referendum in which Crimea went on to back union with Russia.

Although China is nervous about referendums in restive regions of other countries which might serve as a precedent for Tibet and Taiwan, it has refused to criticize Moscow.

The support of Beijing is vital for Putin. Not only is China a fellow permanent member of the U.N. Security Council with whom Russia thinks alike, it is also the world's second biggest economy and it opposes the spread of Western-style democracy.

Little wonder, then, that Putin thanked China for its understanding over Ukraine in a Kremlin speech on Tuesday before signing the treaty claiming back Crimea, 60 years after it was handed to Ukraine by Soviet leader Nikita Khrushchev.

Chinese President Xi Jinping showed how much he values ties with Moscow, and Putin in particular, by making Russia his first foreign visit as China's leader last year and attending the opening of the Winter Olympics in Sochi last month.

Many Western leaders did not go to the Games after criticism of Russia's record on human rights. By contrast, when Putin and Xi discussed Ukraine by telephone on March 4, the Kremlin said their positions were "close".

A strong alliance would suit both countries as a counterbalance to the United States.

WARM EMBRACE, BUT NO BEAR HUG

But despite the positive signs from Beijing, Putin may find China's embrace is not quite the bear hug he would like.

There is still some wariness between Beijing and Moscow, who almost went to war over a border dispute in the 1960s, when Russia was part of the Communist Soviet Union.

State-owned Russian gas firm Gazprom hopes to pump 38 billion cubic meters (bcm) of natural gas per year to China from 2018 via the first pipeline between the world's largest producer of conventional gas to the largest consumer.

"May is in our plans," a Gazprom spokesman said, when asked about the timing of an agreement.

A company source said: "It would be logical to expect the deal during Putin's visit to China."

But the two sides are still wrangling over pricing and Russia's cooling relations with the West could make China toughen its stance. Russian industry sources say Beijing targets a lower price than Europe, where Gazprom generates around half of its revenues, pays.

Upheaval at China National Petroleum Corp, at the centre of a corruption investigation, could cause also delays, and Valery Nesterov, an analyst with Sberbank CIB in Moscow, said China also needs time to review its energy strategy and take into account shale gas and liquefied natural gas (LNG).

"The bottom line is that the threat of sanctions on energy supplies from Russia has indirectly strengthened China's position in the negotiations," Nesterov said.

BOOSTING BUSINESS

Russia meets almost a third of Europe's gas needs and supplies to the European Union and Turkey last year exceeded 162 bcm, a record high.

However, China overtook Germany as Russia's biggest buyer of crude oil this year thanks to Rosneft securing deals to boost eastward oil supplies via the East Siberia-Pacific Ocean pipeline and another crossing Kazakhstan.

If Russia is isolated by a new round of Western sanctions - those so far affect only a few officials' assets abroad and have not been aimed at companies - Russia and China could also step up cooperation in areas apart from energy.

CAST's Kashin said the prospects of Russia delivering Sukhoi SU-35 fighter jets to China, which has been under discussion since 2010, would grow.

China is very interested in investing in infrastructure, energy and commodities in Russia, and a decline in business with the West could force Moscow to drop some of its reservations about Chinese investment in strategic industries.

"With Western sanctions, the atmosphere could change quickly in favor of China," said Brian Zimpler Managing Partner of Morgan Lewis international law firm's Moscow office.

Russia-China trade turnover grew by 8.2 percent in 2013 to \$8.1 billion but Russia was still only China's seventh largest export partner in 2013, and was not in the top 10 countries for imported goods. The EU is Russia's biggest trade partner, accounting for almost half of all its trade turnover.

DILEMMA FOR JAPAN, SUPPORT IN INDIA

Sechin, whose visit also included India, Vietnam and South Korea, is a close Putin ally who worked with him in the St Petersburg city authorities and then the Kremlin administration, before serving as a deputy prime minister.

In Tokyo, he offered Japanese investors more cooperation in the development of Russian oil and gas.

Rosneft already has some joint projects with companies from Japan, the world's largest consumer of LNG, and Tokyo has been working hard under Prime Minister Shinzo Abe to improve ties with Moscow, despite a territorial dispute dating from World War Two.

But Japan faces a dilemma over Crimea because it is under pressure to impose sanctions on Moscow as a member of the Group of Seven advanced economies.

It does not recognize the referendum on Crimea's union with Russia and has threatened to suspend talks on an investment pact and relaxation of visa requirements as part of sanctions.

Closer ties are being driven by mutual energy interests. Russia plans to at least double oil and gas flows to Asia in the next 20 years and Japan imports huge volumes of fossil fuel to replace lost energy from its nuclear power industry, shut down after the 2011 Fukushima disaster.

Oil imports from Russia rose almost 45 percent in 2013 and accounted for about 7 percent of supplies.

But if the dilemma is a tough one for Japan, it is unlikely to cause Putin much lost sleep.

"I don't think Putin is worried much by about what is said in Japan or even in Europe. He worries only about China," said Alexei Vlasov, head of the Information and Analytical Center on Social and Political Processes in the Post-Soviet Space.

Putin did take time, however, to thank one other country apart from China for its understanding over Ukraine and Crimea - saying India had shown "restraint and objectivity".

He also called Indian Prime Minister Manmohan Singh to discuss the crisis on Tuesday, suggesting there is room for Russia's ties with traditionally non-aligned India to flourish.

Although India has become the largest export market for U.S. arms, Russia remains a key defense supplier and relations are friendly, even if lacking a strong business and trade dimension, due to a strategic partnership dating to the Soviet era.

Putin's moves to assert Russian control over Crimea were seen very favorably in the Indian establishment, N. Ram, publisher of The Hindu newspaper, told Reuters. "Russia has legitimate interests," he added.

For Putin, the Crimea crisis offers a test case for ideas he set out in his foreign policy strategy published two years ago as he sought a six-year third term as president.

He said at the time he wanted stronger business ties with China to "catch the Chinese wind in the sails of our economy". But he also said Russia must be "part of the greater world" and added: "We do not wish to and cannot isolate ourselves."

Two years on, he is closer to securing the first goal, but it is not yet clear how his population feels he has done on the second.