

The “Asian Sea Arc” and Russia’s “ASEAN Pivot”. Geo-Economic Shift towards South East Asia

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Russia is in the midst of a transformational geo-economic pivot, whereby its previous Western-prioritized economic relations are rapidly moving towards Asia. As part of this historic shift, Russia seeks to spearhead [three North-South vectors of trade](#), with the subject of this article being the one directed towards ASEAN. The Asian Sea Arc, as the author has taken to calling it, is the maritime link connecting a reinvigorated Vladivostok with a burgeoning Indochina, and it gets its name by traversing the Sea of Japan, the Yellow Sea, and the South China Sea.

While much attention has been given to the [Russian-Chinese Strategic Partnership](#), particularly less has been made of Russia’s attempts to diversify its Asian relations and break into the ASEAN marketplace (save for the [free trade relationship](#) with Vietnam). What’s critically being left out of the discourse are the political-economic advances that Russia has already made in this direction, and how the utilization of a shrewd and guided economic policy can reap lasting rewards in actualizing Russia’s full Asian Sea Arc potential.

The article begins by fleshing out Russia’s ASEAN pivot, explaining how it’s necessary for the country’s leadership and its economic vanguard to concentrate more seriously on the countries of Myanmar, Laos, and Cambodia. Afterwards, it illustrates how this could realistically be manifested, specifically through investing in key Special Economic Zones (SEZs) in each of these states. Finally, the last section proves how these identified locations are the most strategic springboards that Russia can employ in rapidly deepening its relations with the Southeast Asian states and reaching the heralded ASEAN-Eurasian Union Free Trade Agreement that’s at the heart of its decision makers’ global economic ambitions.

Analyzing The ASEAN Pivot

Backdrop:

Russia’s reorientation towards non-Western economies must have more substance to its policy than simply intensifying relations with China (as important as this is, of course), and it’s clear that Moscow understands this imperative. It’s already been seen how Russia signed a free trade agreement with Vietnam this summer under the aegis of the Eurasian Union, but this is really the start, not the conclusion, of its ASEAN Pivot. The end game is to expand this free trade to include all of ASEAN, and the [talk](#) of Thailand being the next in line to apply for such an economic arrangement proves that at least one other regional state is interested in working with the Eurasian Union. In order for this ambitious policy to enter into pan-organizational practice, however, the other ASEAN economies need to see the benefits of clinching free trade deals with Russia, and herein lays the reason for Russian companies

to invest in certain SEZs in key regional states.

Strategy:

In terms of strategy, it's much more likely that Russia can make a stronger economic impact in newly emerging markets where there's less of an institutionalized and established competitive presence, like in Myanmar, Laos, and Cambodia, and whose economies are scaled much smaller than regional powerhouses Indonesia and Malaysia, for example. The results of this would be to court a much more favorable impression that their decision makers would then have towards reaching a future free trade deal with Russia (through the Eurasian Union), as a relatively smaller investment in these SEZs could have a much larger effect on their respective economies. Looking at the bigger picture, if Russia is serious about reaching an ASEAN-Eurasian Union Free Trade Agreement, then its best bet is to first seal such deals with mainland ASEAN (Vietnam, Thailand, Myanmar, Laos, and Cambodia), and then have this internal bloc of economies lobby their insular counterparts for a wider deal with the rest of the organization. As Vietnam already has a free trade deal with Russia and Thailand is rapidly moving towards that direction, the focus thus passes to Myanmar, Laos, and Cambodia.

Political Advances:

Russia is already deepening its partnerships with each of these three states on a government-to-government basis, but it urgently needs to employ the SEZs as a catalyst for doing the same thing on the economic level. In addressing the recent successes of Russian diplomacy towards these countries, one can clearly see a level of political commitment on both sides that can obviously be harnessed to do this, but Russian companies need to take the initiative now and seize the constructive momentum that their government has gifted them.

Concerning Myanmar, for example, Vice President U Nyan Tun was given the honor of delivering a [keynote speech](#) at the Saint Petersburg International Economic Forum in June alongside President Putin, which occurred after the two countries agreed to a [memorandum](#) on nuclear energy cooperation. Per the latest from Laos, President Putin held a [meeting](#) with his counterpart on the sidelines of the World War II victory commemorations in Beijing where he expressed confidence that Vientiane's upcoming ASEAN presidency will help Russia enhance its trade and economic ties with the group. As with Myanmar, Russia will also be [building nuclear power plants](#) in the country per a recent agreement made prior to that meeting. Last but not least, Cambodia is the country where Russia has the least direct political influence, but Phnom Penh's [official ascension](#) to the SCO at the end of September provides a very constructive platform for taking ties even further. It's even possible that China could stimulate Cambodia to do so and/or influence it to be more receptive to Russia's outreaches, as the strategic partnership between Beijing and Moscow tacitly suggests that each side use their respective diplomatic strengths to help the other whenever possible.

It thus follows per everything explained above that the Ministry of Foreign Affairs has made a clear and determined push to intensify Russia's relations with ASEAN. The prerogative for taking relations past the political realm and into the economic sphere now rests squarely on the shoulders of Russia's business community, but the state can encourage them to invest there by crafting a guided and coordinated policy directed towards the three examined countries' key SEZs.

The Three-Step Approach

The purpose of this section is to elaborate on the economic attractiveness of Myanmar, Laos, and Cambodia, as well as briefly discuss the benefits of investing in key SEZs in each of those states. Interested businessmen will also be provided with direct links to government sources that will give them the opportunity to receive authoritative information for how to facilitate any regional investment ideas they may have after reading this article.

Myanmar:

Overview



Myanmar is a formerly closed economy that is now opening up to the globalized world. The government wants to diversify away from its former dependency on China, and is thus eager to court as much international investment as possible. The country's rather sizeable population of over 50 million people provides a lot of cheap labor potential, as the minimum wage is only a [paltry \\$67 a month](#) for a six-day work week, the second-lowest in the world. It's not for naught that famed global investor Jim Rogers [proclaimed](#) in early 2014 that "If I could put all of my money into Myanmar, I would. Myanmar is in the same place China was in early 1979, when Deng Xiaoping said "we have to do something new". Myanmar is now opening up and it's the next economic frontier in Asia." His enthusiasm is likely attributable in part to Myanmar's ideal geography, which strategically places the country smack dab in the middle of the large Chinese and Indian marketplaces.

Natural Resources

Aside from labor and geo-economic considerations, Myanmar is also very attractive because of its natural resource and mineral wealth. The UK Trade & Investment Department issued a January 2015 [report](#) that sought to convince British investors that the time is right for investing in the country's energy sphere. According to the IHS Global Insights firm cited in the document, oil and gas reserves are estimated to be 3.2 billion barrels and 18 trillion cubic feet, respectively, although the publication suggests that unproven deposits could actually be much more. As it currently stands, the US' Energy Information Agency [notes](#) that "natural gas production has increased substantially over the past decade... but is forecasted to rise further as a result of new projects coming online", thus confirming their British counterparts' assessment that the time is now for investors to get involved in Myanmar's energy market. As regards the mineral one, Soe Nandar Linn of the World Bank [writes](#) that the jade market in 2011 (including illegal sales to China) totaled more than \$8 billion, and Stratfor released a [map](#) in 2013 showing the wide extent of the country's gold, copper, zinc, and other mineral deposits that remain largely untapped.

Political Risks

The problem with Myanmar, however, is that it's wrought with political risk, as the country could realistically be destabilized by a [Rohingya separatist war](#), ethnic [cross-border terrorism](#) against India, and/or a return to all-out civil war in the periphery (where most of the minerals are). Despite this, for investors willing to stretch their necks out a bit, the rewards are forecasted to be astronomical, with the [World Bank](#) considering Myanmar to be the world's [fourth-fastest](#) growing economy. Also, even with all of the possible political

tumult that might occur, in most worst-case scenarios, the Burmese heartland (the central part of the country) would still remain largely untouched by the direct consequence of chaos (in the sense of not undergoing physical destruction, at least) that could rage along its borderlands, meaning that most manufacturing and garment assets should remain largely safe. The important exception to this would be if Aung San Suu Kyi and her supporters commence a Color Revolution that evolves into a [Hybrid War](#) which devastates the country's urban areas.

SEZs

To take a glance at the country's most promising investment areas for those that are still interested, one should refer to the [Directorate of Investment and Company Administration's listing](#) of Myanmar's SEZs. Going from North to South and stretching along Myanmar's coast, these are Kyauk Phyu, Thilawa, and Dawei. All three of them each have their own competitive advantages, which in the grander sense of Russia's ASEAN Pivot, will be more thoroughly connected with other regional investments in the last section. To briefly describe them, though, Kyauk Phyu is located in Rakhine State ("Rohingyaland"), right where the Chinese-Myanmar [oil and gas pipeline corridor](#) reaches the Indian Ocean. In the future, this energy corridor is expected to give way to an all-out economic one, so it's predicted that investments in Kyauk Phyu will provide a direct gateway to the Chinese market and certainly stand to gain by being located at the corridor's maritime terminus. Thilawa, on the other hand, is located along the central coast and very close to Yangon, the largest city in Myanmar. This means that it has access to a large pool of laborers and existing infrastructure, and furthermore, could possibly become a prioritized state asset that enjoys security protection in the event that the country's peripheral problems migrate inward. Finally, the Dawei SEZ is in the country's extreme south very close to the Thai border. The [newly christened project](#) houses a deep water port and is expected to be a [terminal point](#) on the southern portion of the [Greater Mekong Subregion Economic Corridor](#)(GMSEC, more to be discussed later).

Laos:

Overview



This communist relic is a peaceful and stable country that has no history of political, social, or ethnic disturbances since the end of the Vietnam War era. The sinewy Mekong River snakes along most of Laos' western border with Thailand, and in the parts that are exclusively under its jurisdiction, it provides an excellent opportunity for harnessing hydroelectric energy to turn the country into the "[Battery of \(Southeast\) Asia](#)". Electricity exports are projected to become an increasingly important part of Laos' economy because its population of slightly less than 7 million people (the smallest in ASEAN behind much smaller Brunei) doesn't exactly prepare it to become the next manufacturing powerhouse like Myanmar's 50-plus-million does.

"Land-Linked"

Instead, Laos' real economic advantage is in being a "[land-linked](#)" state that connects to all of the other mainland ASEAN countries, thereby giving it [enormous importance](#) in terms of logistics and transport infrastructure. China is building a Kunming-to-Singapore high-speed

railroad (the “[ASEAN Silk Road](#)”) which transits through Laos, and Malaysia is constructing a [West-East one](#) along the country’s South that aims to integrate into the GMSEC that was just discussed. It’s thus no coincidence that Laos’ SEZs are positioned in nearby proximity to these two lines, with plans to construct a total of [41](#) such sites from the country’s current 10 (as [listed](#) by the [Lao National Committee for Special Economic Zones](#)). Of specific interest to Russia should be that the [Ministry of Planning and Investment](#) specifically makes an effort to promote its [Moscow location and contact details](#) within easy reach of its website’s front page. Additionally, due to the trade agreements that Vietnam has with Russia and Laos, Vietnamese-based Russian investors are [uniquely poised](#) to exploit the overlapping loopholes in order receive de-facto free trade privileges with Laos prior to the signing of a formalized bilateral agreement between Vientiane and Moscow.

Wage Changes

Investors in Laos can expect to pay their workers a minimum monthly wage of around \$110, which represents a [43% increase](#) from its previous rate due to a new change in legislation from earlier this year. It’s thought that the hike was a preemptive attempt to stifle any coming social turbulence precipitated by the country’s forthcoming integration into the globalized economy, and in this sense, it was a wise decision and well worth the price to pay for domestic stabilization and a positive external image. Also, it’s much more convenient for the government to have adjusted the minimum wage in advance to something more in line with realistic regional rates than to make a huge increase in response to dissatisfied and striking masses, as had been the case in Cambodia [last year](#). From the entrepreneur’s standpoint, this also saves them the trouble of having to adjust their business model to factor in the unexpected rise in wages, which could totally throw off their projected figures and seriously lessen their profit margins.

Minerals

On the topic of business interests, other than the garment and manufacturing industries that are stereotypical for ASEAN countries, investors might be attracted to Laos’ untapped mineral deposits. Referencing the [Laos Mineral and Mining Sector Investment and Business Guide](#) (updated annually, but with the 2009 version being the last publicly available edition online), one can be best prepared for entering into this [largely undeveloped market](#). They should be advised, however, that Laos has put up an [unspecific physical amount](#) of its mineral resources thought to total around [\\$500 million](#) as collateral to China in exchange for a financing loan to construct its portion of the ASEAN Silk Road, and it’s conceivable that even if it’s eventually paid off, those said resources will still be sold to China for additional profit. Nonetheless, in all probability, there should still be more than enough minerals left for other actors to extract, although the difficulty might be in prospecting for them since many of the already discovered, yet untapped, ones likely may have been included in the collateral agreement with China. If this challenge can be surmounted by an effective company, then they’re bound to receive a windfall of profit (subject to commodity pricing trends, of course) by employing the soon-to-be-built high-speed rail networks to sell their newly unearthed resources on the global market.

Cambodia:

Overview



The land of the ancient Khmer Empire is now but a fraction of its former size and glory, but it's back on the upswing as an increasingly important regional economic hub. For the most part, Cambodia was largely isolated after the Vietnam War, first undergoing the genocidal killings of the Khmer Rouge, and secondly being under the administration of liberating Vietnamese forces until the 1990s. Long-ruling Prime Minister Hun Sen has kept the country stable ever since, and under his stewardship Cambodia has emerged from Vietnam's shadow and [partnered](#) itself with China. Its 14 million people live mostly along the Vietnamese border, which is also logically [where](#) the [Council for the Development of Cambodia](#) lists most of its 14 SEZs to be, the largest of which is [Sihanoukville](#) along the southern coast.

Sihanoukville

Out of all of Cambodia's SEZs, this one deserves the most attention from foreign and Russian investors. Not only is it important that it's already the largest, and therefore the most developed in terms of services and infrastructure, but its key point of attractiveness is that it's located right near the sea and is linked to the only international port in the country. This means that goods can be manufactured and then quickly shipped to the Gulf of Thailand and thenceforth to the South China Sea's global shipping lanes en route to Northeast Asia (Vladivostok) or Europe. For all intents and purposes, this gives Sihanoukville the potential to become a major economic node in the greater South China Sea/Mekong River region due to the logistical ease and geo-economic convenience of conducting business there.

Domestic Dynamics

Being positioned between regional powerhouses Thailand and Vietnam, it's very possible that Cambodia's economy will enjoy residual benefits as investors use the country as a cost-effective hub for exporting to its neighbors. This is even more so for non-Russian investors that might use the Vietnamese-bordering SEZs as a gateway for accessing that market (Russian ones have no need for this geographic benefit because of the free trade agreement their country has with Hanoi). Also, the GMSEC's southern route will run through the country from Myanmar's Dawei SEZ en route to Vietnam, and it's likely that Cambodia will receive some sort of economic benefit through its transit country role. Additionally, with workers earning a [minimum monthly wage of \\$128](#) (more than in Myanmar and Laos, and equal to or more than [some Vietnamese cases](#)) and possibly growing if more strikes occur in the future, there's the long-term potential that the relatively small economy could become a consumer destination for certain SEZ-domestically produced goods, although it's of course decades away from ever becoming a consumer-driven economy in any traditional sense of the meaning.

Making Money In The Greater Mekong Subregion

The quintessential strategic benefit that Russian companies can acquire by investing in Myanmar, Laos, and Cambodia, especially in the SEZs that were discussed above, is that they have prime access to the region-wide transport infrastructure being built to integrate the Greater Mekong Subregion (GMS, full transport corridor map [here](#)). This term is [used](#) by the Asian Development Bank to connote the five countries of mainland ASEAN plus China's Yunnan Province, and the two primary high-speed rail corridors being built here are the North-South (China's "ASEAN Silk Road") and East-West ones. The former is from Kunming to Singapore and via Laos and Thailand, whereas the latter has two routes that go from

Myanmar and Thailand to Vietnam, with one each crossing through Laos and Cambodia.

✘ The nominal “East-West” route goes from Mawlamyine (Myanmar’s fourth-largest city and close to Yangon and Thilawa SEZ) and cuts through Laos between [Savannakhet and Lao Bao](#) (and within close proximity to many of the country’s SEZs). The second route, the so-called “southern” one, goes from Dawei SEZ and carries on to Thailand’s capital of Bangkok, Cambodia, and southern Vietnam and will be [partly financed](#) by Japan and Thailand. When completed, all three of these high-speed rail lines are expected to greatly increase trans-ASEAN trade and provide a mainland solution to the Straits of Malacca chokepoint. How this relates to Russian companies in the current context is that they’ll be able to employ these connective infrastructure projects (paid for both other investors) to ship Myanmar- and Laotian-SEZ-produced goods to the Gulf of Thailand and South China Sea, thereby putting them within easy maritime reach of being shipped further to Vladivostok and assisting with Russia’s Far Eastern development projects there.

What this all amounts to is that Russian companies are free to capitalize off of their government’s recent political inroads with ASEAN states in order to set up profitable enterprises in the various SEZs that were discussed in Myanmar, Laos, and Cambodia. By the time their enterprises are up and running in a few years’ time, most of the connective infrastructure networks should have been completed in part or in full, thus allowing Russian investors to ‘piggyback’ off of others’ efforts in order to most cost-effectively get their products to market. Because they didn’t have to invest but one cent in the tens of billions of dollars’ worth of transport projects that will zig-zag the region, but will still have equal access to them, Russian investors and their government can save much-needed cash through these ‘indirect subsidies’ that could then be used for scaling up their ASEAN holdings and deepening their economic influence in each country.

Concluding Thoughts

Now is the time unlike any other for Russia to get serious about its Pivot to ASEAN. The Ministry of Foreign Affairs has made tremendous progress in furthering government-to-government relations in the region, and it’s now high time for the economic sector to step up and take the initiative in propelling each emerging partnership to the next level. The end goal of reaching a pan-ASEAN-Eurasian Union Free Trade Agreement can only be attained by expanding Russia’s existing agreement with Vietnam to include Thailand and the other mainland bloc states, with the expectation they’d later rally their insular counterparts into agreeing to the proposed full-organizational measure. While things are proceeding apace with Thailand, the same can’t necessarily be said for Myanmar, Laos, and Cambodia, and a lot of economic progress is still to be desired.

It’s with this in mind that Russian companies must be made aware of the enormous profit potential to be had by investing in SEZs in each of these three countries. Such a path represents the most surefire way to jumpstart mercantile ties and move closer to sewing together a patchwork of bilateral free trade agreements between Russia and each of the mainland ASEAN states, which as previously written, is the necessary prerequisite to a proper bloc-to-bloc accord. To make it all even more enticing, Russian investors should be cognizant of the billions of dollars in ‘indirect subsidies’ that China, Japan, Malaysia, Thailand, and Vietnam are giving them through the construction of high-speed rail corridors throughout the region. These will put Russian investments in Laos within convenient reach of maritime shipping routes to Vladivostok, thus accomplishing a logistical challenge that had hitherto deterred all but the most ambitious (and capital-heavy) entrepreneurs. It will

also make it easier to transfer any investments along Myanmar's coast directly to the Gulf of Thailand/South China Sea area without having to pass through the Strait of Malacca.

Finally, in a geopolitical sense, Russia's Pivot to ASEAN isn't only necessary for economic ends, but also strategic ones as well. If Russia can establish more influence over mainland ASEAN states at the same moment when the US' Pivot to Asia is attempting to push China out, then it can increase its importance to Beijing in a way that no other country currently can, thus strengthening the partnership between them and possibly leading to asymmetrical rewards as well. Additionally, amidst this American-Sino struggle in the ASEAN arena, Russia notably has no bad blood with any of the regional states, so it's free to economically maneuver however it sees fit. This mobility of action is very important as the country strives to deepen its foothold in the region, and it's likely that the trust garnered during this process can be recycled into political dividends when the time is right. If Russia fully succeeds with its Pivot to ASEAN and achieves the heralded bloc-to-bloc free trade agreement that it's working towards, then it would go a long way towards expanding Moscow's supercontinental reach across Eurasia and opening up a pivotal economic partnership that could do wonders for the modernization of the Far East.

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