A COLD REGION HEATS UP

COOPERATION BETWEEN ARCTIC STATES IS A MUST

Lev Voronkov
SPECIAL TO RBTH

The Arctic zone is extremely rich in mineral, hydrocarbon and biological resources. The U.S. Geological Survey states the "extensive Arctic continental shelves may constitute the geographically largest unexplored prospective area for petroleum remaining on Earth." The survey also estimates that the Arctic holds 30 percent of the world's natural gas and 13 percent of its oil.

Most of the resources in the area are under the control of the Arctic coastal states. The 1982 U.N. Convention on the Law of the Sea assigned Denmark, Canada, Norway and Russia part of the Arctic shelf and an exclusive economic zone extending 200 nautical miles from their borders. No country outside the Arctic officially denies the legal rights of the Arctic coastal states, yet neither do such countries readily accept the current state of affairs. To speak out against the legal status of the Arctic space would be tantamount to calling for a revision of current international maritime law, the regime of the high seas and other universally recognized norms of international law. Although non-Arctic states have not published any official documents about their strategy in respect to the Arctic, it does not mean that no such strategy exists.

Rather, preference is given to diplomatic maneuvering, with a view to adopting indirect measures that could eventually lead to a change in the legal status of the Arctic space, allowing non-Arctic countries to gain a slice of the Arctic resource pie. This objective lies behind the rationale put forward by expert circles and the media for an international treaty on the Arctic, similar to the Antarctic Treaty, but this ignores the fundamental differences between the unpopulated ice-covered continent and the vast expanses of open sea in the Arctic Ocean with terrestrial areas that are home to citizens of individual countries.

Proposals have also been put forward to transform the Arctic Council — which operates as a consensus forum for high-level cooperation among the Arctic states and organizations of indigenous peoples — into an international intergovernmental organization. The creation of such an organization requires equal participation on the part of all Arctic and non-Arctic member states in governing the affairs of the region.

> Diplomatic maneuvering could allow non-Arctic countries to gain a slice of the Arctic resource pie.

Citing the global significance of the flora and fauna of the Arctic, they insist upon the establishment of a set of mechanisms for international Arctic governance, but proposals on the creation of similar mechanisms of international governance for the Pacific or the Atlantic, for instance, are not forthcoming.

The initiators of these proposals strive to create the impression that the Arctic coastal states cannot manage the region responsibly by themselves, which does not correspond to reality. These diplomatic maneuvers have not met with great success, but that has not put a stop to them. Stronger cooperation between the Arctic states will narrow the available room for such maneuvering.

Developing the resource potential and transport capacity of the Russian sector of the Arctic requires huge investments that Russia alone cannot afford to make within a reasonable time frame. The involvement of the world's largest companies in resolving these issues will assist Russia's social and economic development and unlock its resource and transit potential for the benefit of the world economy. There is no viable alternative.

Lev Voronkov is a research fellow at the Nordic and Baltic Research Center at the Moscow State Institute of International Relations.

JUST A MATTER OF TIME BEFORE A REALLY COLD WAR

Ilya Kramnik
VOICE OF RUSSIA

The opening of the Arctic due to global warming only interested academics and journalists until recently. Now it attracts the attention of politicians and military leaders. The possibility of an aptly named cold war in the Arctic is being increasingly discussed. Meanwhile, the chiefs of the general staffs of the countries of the region go on holding meetings on the issue of maintaining peace and security in the Arctic. A regular meeting in Canada held in April was attended by military leaders of all Arctic powers, including Nikolai Makarov, chief of the Russian General Staff.

The meeting took place against the backdrop of military revival in the region. In March, the NATO Cold Response exercises were held in the area between Sweden and Canada and involved 16,300 troops. The next month, Russia's air force conducted the Ladoga 2012 exercises in Karelia, which involved more than 50 aircraft.

The Russian and NATO maneuvers are conducted in pursuit of one goal. With the growing accessibility of the region, all the key players want to demonstrate their capabilities and at the very least gain extra points through information-psychological confrontation.

> The active acquisition of polar resources and territorial disputes make the Arctic a very important region.

Of course, no one wants a hot war. Moreover, the main forces of the potentially leading player, the United States, are currently concentrated very far away from the Arctic. They are tied up with Afghanistan and the growing confrontation with China in the Pacific, and the war in Iraq still makes itself felt. But the active acquisition of polar resources, territorial disputes and the imminent expansion of navigation along the Northern Sea Route make the Arctic a very important region and, in the future, a hotter one.

The atmosphere at major maritime crossroads has always been difficult — witness the Mediterranean, the Horn of Africa and the Strait of Malacca. If the Arctic becomes such a crossroads, and this seems very likely, then conflicts will quickly appear. How they will be resolved depends on the willingness of the parties to defend their interests.

Russia has expressed its readiness, as it plans to expand its Arctic infrastructure. At least 20 border posts must be built in the near future in order to protect the polar domains and control them. Some of them will be located next to the bases of Russia's Emergency Situations Ministry and the Russian Ministry of Transport that are currently being deployed to support the Northern Sea Route. The other frontier posts will be located on islands. Uninterrupted communication with the mainland will be provided through a special satellite system that is being developed specifically for this purpose.

Frontier posts will act as the first layer of protection of Russian interests in the Arctic. If necessary, they can be supported by the Northern Fleet, a part of the air force and the Arctic Brigades of the Ministry of Defense. Almost all of the countries of the region already have or are in the process of forming special Arctic contingents, which are adapted for operations in the Arctic.

For the time being, possible conflicts in the Arctic remain the subject of theoretical debates and of computer games, as demonstrated by the recently published game Naval Warfare — Arctic Circle, which is based around a possible war between Russia and NATO in the Arctic using naval and air forces.

Currently the world's leading players are too busy fighting the global economic crisis to make this story a reality. We can only guess how the situation will change in the next decade.

Ilya Kramnik is a military expert and columnist for Voice of Russia and RIA Novosti.

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MAKING PREDICTIONS FROM A CLOUDY CRYSTAL BALL

Alexei Zabotkin
SPECIAL TO RBTH

Russia's economy should enter a new phase in 2013 — the country begins its first full year as a member of the World Trade Organization and has plans to pursue further modernization policies. How the new year will play out, however, depends largely on how the government responds to the changing demands of the global economy.

At the height of the 2008 financial crisis, many observers believed Russia was destined to be trapped in a boom-bust cycle. Memories of the 1998 economic crash had not yet completely faded when the 2008 financial crisis hit, and experts widely believed its effects would be far worse.

Although the crises were different in substance, it was not difficult to question the ability of a commodities-based economy lacking diverse financial markets to resurrect itself for the second time in less than 10 years.

Today, however, the situation looks very different. Economies around the world, including those of China and the United States, are either slowing down or remain in a state of stagnation, and while Russia's economy has also experienced a cool-down of its own since the second quarter of 2012, it has done so in the most orderly fashion. Russia learned many lessons from 1998, and in the 10 years between that crisis and the next one, the government put into place the right instruments and policies to prevent another crash of the same scale.

For one thing, the Russian Central Bank established a more robust monetary policy, which allowed for exchange rate flexibility. The boom-bust experiences of the 1990s and 2000s stemmed from either de jure (1998) or de facto (2008) fixed exchange rates of the ruble.

To combat against the 2008 crisis, the Russian Central Bank induced significant stress tests for domestic liquidity conditions, and, hence, sudden stops in local credit.

By now, though, these changes are ancient history. Starting from 2010, the Russian Central Bank demonstrated an increasing level of latitude toward the scale of currency fluctuations, so even if external economic conditions worsen sharply, as some analysts fear may happen in 2013, the depreciation of the ruble would act as a buffer to the real variables. And while some of this shock, were it to happen, will still be felt in Russia (especially since 75 percent of the country's exports are commodities), the consequences for the economy as a whole would be much milder than past experience suggests.

Russia's G.D.P. for 2013 is currently expected to be in the range of 2–2.5 percent. Inflation, which inched higher early in 2012, has showed some signs in recent weeks of rolling over yet again. If this is the case, then the Russian Central Bank could consider easing monetary policy in the spring, or even earlier. Such easing would be possible even as the Central Bank strives to bring Consumer Price Index inflation down to 5–6 percent range. By the end of 2013, economic growth would most likely have expanded to 3.5–4 percent, which is widely seen by analysts as the proper estimate for Russia's current long-term growth potential.

> Russia learned many lessons from 1998 and put instruments in place to prevent a crash of the same scale.

The crucial question is whether Russia is capable of attaining an even higher growth rate. Russia's economy grew by over 7 percent a year for nearly a decade.

However, a considerable level of this growth has since been attributed to the redeployment of idle resources — both capital and labor — after the depths of the 1998 crisis. This process has been repeated since the 2008 crisis. As of October, Russia's national unemployment rate stood at 5.3 percent, a post-Soviet record. Therefore, superior growth outlook for Russia can rely significantly on an increase in productivity by Russia's relatively strong employment level.

This has been one of President Vladimir Putin's key arguments since his inauguration in May. However, an increase in productivity growth will require a major expansion and upgrade of Russia's capital stock. One of Putin's first acts as president was to sign a decree to increase the investment-to-G.D.P. ratio from 20 percent in 2011 to 25 percent in 2015 and to 27 percent in 2018.

This decree and other public statements since are clear declarations that in order to attain this goal a radical enhancement of Russia's investment climate is urgently required. It is the government's aim to deliver the first tangible results of this sentiment in 2013, which in many ways will determine the structural growth outlook and the nature of Russia's next business cycle.

In fact, the government can take credit for some notable achievements in 2012 that have helped pave the way for a more modern economy. These include the institutionalization of the budget rule, which requires the federal budget to balance at the 10 year average of oil prices; the long-overdue creation of the Central Depository; a government decree requiring state-owned companies to pay a 25 percent dividend; and continued progress on the privatization of state companies.

These are all commendable steps along the designated path of modernization. That said, it is yet to be seen if the momentum behind these efforts is unstoppable. Until these measures are fully realized, it may seem possible, yet elusive, for a more optimistic 5–6 percent growth objective to remain on the other side of the proverbial dark glass.

Alexei Zabotkin is head of investment strategy at V.T.B. Capital.

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CORRECTION

The article entitled "Trying to Live on Bread Alone," which appeared on Page 1 of the Nov. 21, 2012, edition of Russia Beyond the Headlines, had an incorrect byline. The author is Ilya Dashkovsky. Russia Beyond the Headlines regrets the error.