



## CHINA AND RUSSIA: A LIMITED LIABILITY PARTNERSHIP

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Sanctions levied by Western nations against Russia as a result of its actions in Ukraine were already taking a toll on the nation's economy when a sharp fall in world oil prices sent the ruble into virtual free fall. Capital flight more than doubled from its previous high of \$61 billion in 2013 to \$151.5 billion in 2014.<sup>1</sup> Given President Vladimir Putin's determination to stay the course in Ukraine despite the consequences, moving closer to China, seemed not only logical but imperative. China needed energy for its growing economy; Russia had copious supplies thereof. Russia had need of funds to reflate its sagging economy; China had them. In May 2014, the two countries signed a 30-year agreement to export Russian gas to the People's Republic of China (PRC) via a Siberian pipeline. Unsurprisingly in light of the parlous Russian position, the deal was markedly in the PRC's favor.<sup>2</sup> With the partnership seemingly motivated by geopolitical strategy as much as commercial interests, Western analysts speculated that it might herald an authoritarian political alliance that could challenge the liberal ideological as well as financial world order.

Some Chinese intellectuals saw the entente as a logical response to U.S. President Barack Obama's pivot to Asia, finding its underlying cause in a long-standing Euro-American attitude toward Russia. According to a professor at northeast China's Yanbian University, from the time that Czar Peter the Great determined to lead his empire to embrace Western learning and methodology, the West had never responded with open arms. After the disintegration of the Soviet Union, the Western powers ignored Russia's appeals, insisting on expanding to the east in complete disregard for Russia's security concerns. After ten years of this cold shoulder, Russia decided to respond.<sup>3</sup> An analyst in the military's leading think tank, the Academy of Military Science, voiced a somewhat different take on the Sino-Russian partnership: it was necessary to counter an American "offset strategy" through which the advanced technology disruptive weapons it was developing would give it a strategic advantage against China and Russia.<sup>4</sup> Showing his displeasure with the West, Putin did not attend the 70<sup>th</sup> anniversary of liberation of Auschwitz,<sup>5</sup> but did accept Beijing's invitation to appear at China's 70<sup>th</sup> anniversary parade in September.

Chinese leaders and media offered strong official Chinese support for Russia: Premier Li Keqiang visited Moscow, waxing

<sup>1</sup> *Business Insider*, January 19, 2015, <http://www.businessinsider.com/afp-russia-capital-flight-more-than-doubled-in-2014-to-151-b>.

<sup>2</sup> *Wall Street Journal*, May 14, 2014.

<sup>3</sup> *Global Times (Beijing)*, January 7, 2015.

<sup>4</sup> *Renmin Ribao (Beijing)*, January 16 2015.

<sup>5</sup> *Slon (Moscow)*, January 13, 2015.

enthusiastic over the possibilities for joint development through innovation.<sup>6</sup> Foreign Minister Wang Yi pledged to “provide necessary assistance within our capacity,” adding that he was confident that Russia had the ability and wisdom to overcome its current economic difficulties.<sup>7</sup> Qin Gang, spokesperson for the Ministry of Foreign Affairs, said that China, while aware of the fluctuations racing the ruble, felt that Moscow had the capability to resolve its current economic crisis: Russia had sufficient reserves and resources, while its debt to GDP ratio was on the low end of those of G 20 nations. The two countries would, he stated, continue to cooperate. In the words of Chinese Academy of Social Sciences (CASS) research fellow Li Jianmin, “to save Russia is to save ourselves.”<sup>8</sup>

China and Russia conducted joint naval drills in the East China Sea, thereby signaling to Japan, which has territorial disputes with both, that they were united in opposition to these claims.<sup>9</sup> Several years earlier, just after Japan and China had clashed over the Diaoyu/Senkaku island claim in 2010, then-president Medvedev had visited Kunashiri, one of the islands disputed with Japan, in a similar show of solidarity. He was the first Russian or Soviet leader to have done so.<sup>10</sup>

Following the conclusion of the gas contract, other agreements followed in short order. They spanned a range from cultural exchanges,<sup>11</sup> the inauguration of a new mail delivery service,<sup>12</sup> an exchange of information between news agencies,<sup>13</sup> cooperation between Russia’s anti-narcotics agency, the FSKN, and Chinese authorities to stem the shipment of drugs from Afghanistan, and of synthetic drugs from China into Russia;<sup>14</sup> plans for a high-speed railway connecting the two countries,<sup>15</sup> and joint development in developing the Russian port of Zarubino<sup>16</sup> and Heixiazi Island.<sup>17</sup> The plans for Zarubino, an ice-free port on the Japan Sea, are to provide China’s land-locked Jilin province with access to Russian and North Korean trade routes.<sup>18</sup> Heixiazi was the scene of an armed confrontation in 1969 that aroused fears that this would be the beginning of a war between them. It is now to be an ecotourism destination.

Of more concern to the West were agreements for scientific cooperation that had military implications. Plans were discussed for cooperation in space exploration,<sup>19</sup> satellite and navigation technology,<sup>20</sup> and, most surprising of all, the sale of Russian Su-35 advanced fighter planes. As late as February 2014, an authoritative Russian defense industry source told a reporter for on-line defense magazine *Kanwa* that, “we are not very eager on this. Of course President Putin needs China politically. This is not military trade...it is politics.” Other sources added their concern that China would copy the craft,<sup>21</sup> as it had with the Su-33 in 2009, causing friction in Sino-Russian relations. Yet in 2015, negotiations on the sale appeared to be advancing.<sup>22</sup>

### **Russian Misgivings Over the Rapprochement**

Not far beneath the surface of bonhomie, Russian concerns with China were immediately noticeable. With their country having been the dominant partner during the Soviet era, Russians resent their reduction to junior status. Moreover, China’s plans for a silk route through Central Asia conflict with Russian feelings that the area, comprising states that were formerly part of the USSR, is its natural sphere of influence, not China’s. So as well is the Arctic. China, unlike Russia, is not a contiguous state. Still, it received observer status in the Arctic Council, and Chinese-owned companies have expressed interest in acquiring properties there. In January 2015, the Chinese private trading company General Nice, took over a large iron ore

<sup>6</sup> *Xinhua*, October 14, 2014. Interestingly, *Reuters* in a lengthy account of the speech on October 13, 2014, did not mention the cooperation on innovation aspect of Li’s address. <http://www.reuters.com/article/2014/10/13/us-russia-china-banks-idUSKCN0I20WG20141013>

<sup>7</sup> *Interfax* (Moscow), December 22, 2014.

<sup>8</sup> *Wen Wei Po* (Hong Kong), December 22, 2014.

<sup>9</sup> *NHK* (*Nippon Hoso Kyokai*; Tokyo), May 1, 2014.

<sup>10</sup> *Xinhua* (Beijing), November 11, 2011.

<sup>11</sup> *Renmin Ribao*, January 13, 2015.

<sup>12</sup> *Xinhua*, January 19, 2015.

<sup>13</sup> *Ria Novosti* (Moscow), January 28, 2015.

<sup>14</sup> *RIA Novosti*, December 17, 2014; *Xinhua*, December 23, 2014.

<sup>15</sup> *Business Insider*, October 10, 2014. <http://www.businessinsider.com/afp-china-russia-mull-high-speed-moscow-beijing-rail-line-report-2014-10>

<sup>16</sup> *Interfax*, December 23, 2014.

<sup>17</sup> *Want China Times* (Taipei), January 20, 2015.

<sup>18</sup> *China News Online*, September 19 2014.

<sup>19</sup> *Interfax*, January 1, 2015.

<sup>20</sup> *Interfax*, February 3, 2015.

<sup>21</sup> *Kanwa Defense Review*, November 21, 2014.

<sup>22</sup> *Strategic Comments* International Institute of Strategic Studies (IISS; London), Vol. 20, No. 49, February 2015

mine in Greenland.<sup>23</sup>

Trade is another area of concern. Carefully avoided in announcements of mutually beneficial trade relations is the fact that there is a substantial imbalance in favor of China, \$10 billion in 2013 and widening. It is possible that the gas deal will redress the balance somewhat, but Putin sounded very much on the defensive when he argued that the gas contract “was not unprofitable.”<sup>24</sup>

A land giveaway may also prove controversial. Distressed at the extensive acreage of land in the Russian Far East that is uncultivated, Putin has proposed to give each resident one hectare free of charge on condition that they are Russian citizens who have a ten-year plan for the land and a reference from a bank. Moscow has for some time been concerned about Chinese migration into the area, inhabited by a declining population of Russians now estimated at six million. Directly across the border are 120 million Chinese, many of who would relish the land; the supposition is that there will be a flood of migrants who will rent farmland from the Russians and contrive ways to stay.<sup>25</sup>

In particular, the Moscow Times, owned by a Finnish company, issued a series of critical articles with titles like “Putin’s Fear of China Weakens Russia’s Asia Pivot” (December 17, 2014); “Russia’s Foreign Policy Shoots Itself in the Foot,” (December 22, 2014), and “Russians must say no to isolation, yes to Europe,” (February 2, 2015). The gist of the first and third of these may be inferred from their headlines; in the second, author Vladimir Frolov states that the pivot to China had been “hasty and on conditions that had yet to be revealed and properly assessed.” Meanwhile, relations with key international partners the U.S., Germany, France, and Japan “are in tatters.” A commentator in the weekly magazine *Ekspert* opined that a prolonged war in Ukraine serves China’s interests, since it distracted the United States away from the Asia-Pacific.<sup>26</sup>

Russia is also aware that, just as it does not want to serve as China’s filling station, China seeks diversified sources of energy as well. The PRC imports oil from, among other states, Saudi Arabia, Iran, Venezuela, and several African nations. The Burma-China crude oil pipeline, said to be the PRC’s fourth-largest energy import channel, became operational at the end of January 2015.<sup>27</sup>

### Chinese Concerns

On the PRC side, despite government censorship of the media, there is ample evidence of dissatisfaction as well. According to CASS research fellow Wen Yi, Chinese public opinion had been discussing whether China should save Russia, adding that his own opinion was a definite no. While some Chinese regard the comprehensive strategic relationship as Russia’s only choice, Wen argues that Russia does not see it that way. Putin’s “new East” policy extends beyond China and includes a Eurasian Union that includes the former Soviet republics as well as strategic relationships with PRC antagonists Vietnam and India. Wen then asked a series of questions: should we be import large amounts of oil and gas to help Russia? Would Russia be happy with us buying the oil and gas at such a low price? Is China able to help Russia in resisting sanctions? Can China do anything to help sanction those speculators that Putin blames for their deleterious effect on the Russian economy. If so, what good would that do China? And would China get anything “sincere” from Russia in return? Since Putin has stressed that agreements must defend Russia’s interests, should we not consider China’s best interests? He concludes that China could not and should not try to save Russia: only Russia can save Russia.<sup>28</sup>

Feng Yujun, a Russia expert at the China Institutes of Contemporary Relations (CICIR), the think tank associated with the Ministry of State Security, argued that relations among China, Russia, and the U.S. should run parallel rather than interfering with each other: China should not involve itself in others’ quarrels but focus on domestic developments. Echoing Wen Yi’s opinion, Feng concluded that only Russia can save Russia.<sup>29</sup>

An unsigned opinion piece in the English-language Global Times voiced similar sentiments: no matter how generous, Chinese aid could have only limited effect if the Russian economy continued to rely heavily on oil exports while neglecting structural diversity. Moreover, Russia would suspect that Chinese aid was motivated by ulterior motives: “China” ---perhaps the author’s

<sup>23</sup> *China Daily* (Beijing), January 13, 2015.

<sup>24</sup> *Interfax*, December 18, 2014; *Rossiya 1 Television* (Moscow), December 18, 2014.

<sup>25</sup> *Want China Times*, January 27, 2015.

<sup>26</sup> Cited in *Want China Times*, February 8, 2015.

<sup>27</sup> *Meiri Jingji Xinwen* (Shanghai), January 23, 2015.

<sup>28</sup> *Huanqiu Shibao* (Beijing), December 19, 2014.

<sup>29</sup> *Huanqiu Shibao*, December 29 2014.

euphemism for “the Chinese government”---must understand that Russia does not want to be a vassal of the Chinese economy. The writer advised that Beijing be an active mediator between Russia and the United States to prevent the conflict spiraling out of control.<sup>30</sup>

Beijing is also aware that, in addition to selling arms to China, Russia has sold substantial numbers of weapons to two states with which it has contentious relations, Vietnam and India. Recently, the former has taken possession of three Kilo-class attack submarines, with another three to be delivered by 2016. Hanoi’s motive in procuring them is to patrol the areas around the Spratly and Parcel islands that are disputed with China.<sup>31</sup> Russia has also sold weapons to India; the crew of India’s first indigenously-made nuclear submarine Arihant, which began sea trials in December 2014, was trained by Russian specialists, and Russian scientists assisted in adjusting the size of its reactor. The Indian navy also operates a Russian nuclear submarine on lease.<sup>32</sup>

### **With Friends Like This...**

The two sides have clashed over the creation of a Shanghai Cooperation Organization Bank, with Russia resisting China’s plans to dominate the bank despite being the major contributor to it. The PRC proposal called for an incorporation capital of \$10 billion, with shares to be distributed among the participants in proportion to the size of their respective GDPs: Since China’s economy is larger than that of all the other members, four Central Asian states plus Russia, put together, this would allow it to dominate. The Russian negotiators charged that Beijing was offering the Central Asian countries not only bilateral credits but a separate financial mechanism that could function without Russia. China wanted the bank to be headquartered in Beijing; Russia argued for Almaty, where the Eurasian Development Bank---to which all the members of the SCO except China---belong. Another factor is that the SCO bank is expected to provide development for the PRC’s Silk Road project, which Russia is wary of.<sup>33</sup>

In another sign of wariness, although Russian media announced that China was to use Russia’s GLONASS global satellite navigation system in two northwestern Chinese cities,<sup>34</sup> Beijing proudly announced that the People’s Liberation Army was testing China’s independently developed Beidou system.<sup>35</sup> Plainly, China does not intend to be dependent on Russian technology.

For now, Russia and China have common cause in resisting the United States and Europe. Yet each is aware that the other may have overstepped the limits of Euro-American tolerance, Russia through its moves to the west and China in its actions in the East China and South China Sea. In both countries there is apprehension of becoming enmeshed in the other’s quarrels. Beneath the rhetoric of solidarity, there is little trust between them. European and American diplomacy should seek to take advantage of these fissures and, insofar as possible, avoid actions that would drive these less than compatible allies closer together.

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<sup>30</sup> *Global Times*, December 22, 2014.

<sup>31</sup> *Want China Times*, January 21, 2015

<sup>32</sup> *Zee News* (Delhi), December 16, 2014. [http://zeenews.india.com/news/india/ins-arihant-first-made-in-india-nuclear-submarine-begins-sea-trials\\_1515250.html](http://zeenews.india.com/news/india/ins-arihant-first-made-in-india-nuclear-submarine-begins-sea-trials_1515250.html).

<sup>33</sup> *Kommersant* (Moscow), December 16, 2014.

<sup>34</sup> *Interfax*, February 3, 2015.

<sup>35</sup> *Xinhua*, February 6, 2015.