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Sino-Russian Relations

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Background Briefing: Sino-Russian relations

Executive summary

- Sino-Russian relations are more developed than at any time in their history. The two countries coordinate closely on international issues, and bilateral trade has grown significantly. Since Xi Jinping succeeded Hu Jintao at the 18th Party Congress, the tempo of relations has picked up.
- The fundamentals of the relationship remain unaltered. Both sides oppose global governance on Western terms and seek to constrain American power. At the same time, they have different visions of a 21st century 'multipolar' world order. Whereas Moscow sees itself as an 'equal' and 'independent' center of global power, Beijing's focus is overwhelmingly on the United States, with Russia playing a secondary and supporting role only.
- Strategic trust remains elusive. Their partnership is an axis of convenience, driven by a pragmatic appreciation of the benefits of cooperation rather than a deeper likemindedness.
- Xi's commitment to a more active international role for China could change the dynamic of Sino-Russian partnership. There is already anxiety in Moscow about Beijing's vision of a 'new pattern of Great Power relations' with Washington.
- Economic ties are flourishing, with China now comprising 10 percent of Russia's overseas trade, and boosted by important developments in the energy sector. However, the increasingly asymmetrical character of trade remains a source of concern to Moscow, and a long-term gas deal has yet to be finalized.
- Russia hopes to exploit Sino-American rivalry to improve its chances of acting as a geopolitical 'swing' power. While it worries about the strategic implications of China's rise in the longer term, it is the United States that represents the immediate threat – a perception reinforced by developments in Ukraine.
- Beijing sees Russia less as a counterweight to the United States than as a neighbour with whom it is important to keep on good terms. It aims to secure China's 'strategic rear', but also to preserve geopolitical flexibility. It recognizes that the United States, not Russia, is China's truly indispensable partner.
- Central Asia is the most vulnerable area of Sino-Russian relations. Moscow has become nervous about China's expanding ties with central Asian states. These relations, along with ideas of a 'new Silk Road', represent a major challenge to Russia's influence in the region.
- Developments in Ukraine are likely to have a major impact on the Sino-Russian relationship. In the short to medium term, they make it more likely that Moscow and

Beijing will finalize major gas and arms agreements. They also reinforce the already strong Sinocentric bias in Russia's approach toward Asia.

- Beijing hopes to preserve agreements signed with previous Ukrainian President Yanukovich, although these may have to be renegotiated.
- Recent developments in the Sino-Russian relationship reinforce the need for EU Member States to further reduce their dependence on Russian energy. However, Western policy-makers should not panic in the face of apparent 'convergence' between Moscow and Beijing. Ultimately, this is an opportunistic relationship rather than a genuine strategic partnership.

Introduction: overall state of the relationship

The fundamentals of the Sino-Russian relationship remain unaltered. Moscow and Beijing continue to attach high priority to their 'strategic partnership'; the economic relationship is expanding; and both sides oppose Western conceptions of global governance and seek to constrain American power. At the same time, they have different visions of a 'multipolar' world order. Whereas Russia sees itself as an 'independent' center of global power, China sees Russia as a prickly neighbor with an inflated sense of strategic self-worth, and which has failed to adapt to 21st century challenges, such as modernization.

Strategic trust remains elusive. Their partnership is an axis of convenience, driven by a pragmatic appreciation of the benefits of cooperation rather than a deeper likemindedness. Moscow worries about China's growing assertiveness in East Asia, the displacement of Russian influence from Central Asia, and the emergence of a China-centered or G-2 world in which Russia would play a subordinate role. It is also anxious about the growing asymmetry of the bilateral relationship, and the extent to which Russia now depends on China, both within Asia and in the international system more generally.

Beijing has noted Putin's increasingly confrontational approach towards the West. Although it is concerned about the potential for destabilization of the international system, it recognizes that China may benefit as a result of Putin's excesses over Ukraine. Against the background of sharply deteriorating relations between Russia and the West, the Kremlin is more likely to comply with Chinese objectives in the Asia-Pacific region, Central Asia, and energy cooperation.

The limitations of the so-called 'strategic partnership' mean, paradoxically, that it is quite resilient. Expectations are not excessive, especially in Beijing, and differences are consequently manageable. Recent events in Syria, Iran, and Ukraine will reinforce Moscow's already strongly Sinocentric bias in Asia. However, a broader Sino-Russian convergence is improbable, given Xi's commitment to domestic modernization, strategic flexibility, and a 'new pattern of great power relations' with the United States.

Political interaction

On the face of things, the political relationship has never been better. Since Xi Jinping succeeded Hu Jintao at the 18th Party Congress, the tempo of relations has picked up. Xi and Putin have met frequently and cordially, most recently in the margins of the Sochi Olympics, and there are several more meetings planned over the next few months – at the G-20, BRICS, and APEC summits, as well as Putin’s official visit to China in May. Moscow and Beijing continue to work closely and effectively in the UN Security Council, and they share broadly similar views on many international issues, including the conflict in Syria, opposition to grassroots democratic movements and Western humanitarian intervention, and a strong attachment to so-called ‘informational security’ (involving tighter controls on new as well as traditional media). Additionally, the Snowden affair highlighted an unusual degree of collusion between security and intelligence agencies, even if this has been somewhat overblown. (Russia-West cooperation on such matters is considerably more advanced.) The nature of Sino-Russian interaction also suits both sides. In playing the lead role on larger international issues Putin is able to showcase Russia as an ‘indispensable’ player on the global stage. Conversely, China’s more discreet approach has allowed it to minimize awkward entanglements and limit reputational damage.

However, the sustainability of this arrangement is in question. Until now, the assertiveness of Chinese foreign policy has been directed at regional priorities in East Asia. There have been moves to extend China’s global reach, but outside the economic sphere these have been half-hearted. It has played no active role over Syria; it has resisted attempts to draw it into the strategic disarmament process; and it approaches economic rebalancing and global trade issues from a narrowly self-interested rather than global governance perspective.

Under Xi, there are signs of China wanting to play a more active international role. If this happens, it could change the whole dynamic of Sino-Russian accommodation. A more independent Chinese line on Syria and Iran would raise concerns in Moscow. More seriously still, Beijing’s vision of a ‘new pattern of Great Power relations’ with Washington raises the specter of a ‘G2-plus’ arrangement whereby Russia is relegated to a secondary position.

For the time being, this vision remains somewhat speculative. Moscow remains confident that Beijing is committed to the ‘strategic partnership’, especially given its confrontation with Tokyo and anxieties about US ‘rebalancing’ toward Asia. But it would be unwise to underestimate the potential for rising tensions, as Putin retreats ever further into a siege mentality, and Xi becomes increasingly confident – and assertive – about China’s chances in the world.

Economic ties

Economic ties are flourishing. China now comprises about 10 percent (USD 87 billion in 2012) of Russia’s total overseas trade, and this percentage is set to rise following the Rosneft-CNPC oil supply agreement. This 25-year agreement envisages doubling the volume of Russian oil exports to China, reaching 31 million tonnes a year by 2018. If fully implemented, it will increase Russia’s share of Chinese oil imports (9 percent in 2013). More significant still may be the decision to invite the Chinese into joint enterprises in the Arctic and the Russian Far East. This represents an

important shift, suggesting that Moscow has become less paranoid about large-scale Chinese participation in 'strategic' industries such as energy.

But the picture is not all rosy. Putin and other senior Russian figures are sensitive to the increasingly 'unbalanced' character of economic cooperation, which resembles China's ties with developing countries in Africa and Latin America. Even in the relatively successful area of energy, there are major problems, notably the impasse between Gazprom and CNPC over a long-term supply agreement. The main problem continues to be price. But there are other issues as well. Gazprom is unwilling, at this stage at least, to allow the Chinese to acquire equity in upstream development. In adhering to this inflexible – and unrealistic – stance, its approach differs not only from that of Rosneft, but also the private gas company Novatek, which recently sold CNPC a 20 percent stake in its Yamal LNG project.

Ordinary logic would suggest that it is only a matter of time before the two sides finalize a deal. Over the past decade, Moscow and Beijing have concluded seven framework agreements and Memorandums of Understanding. Meanwhile, the window of opportunity is closing fast. Russia has already lost ground to the Central Asians (Turkmenistan, in particular), while the Chinese are building more LNG terminals, developing their own shale gas reserves (estimated to be the largest in the world), and building up renewables, especially hydroelectric power.

There is speculation that a final agreement could be signed during Putin's May visit to Beijing or shortly after. But there have been many false alarms in the past, and it would be unwise to assume anything. That said, two factors improve the chances of an agreement. The first is that Moscow has overcome (in part) an important psychological hurdle by allowing the Chinese into major energy projects elsewhere. The second is that the crisis in Russia's relations with the West will make Putin more anxious to conclude a deal in order to leverage (and 'punish') Ukraine and the EU, and reassert Russia's 'independence' and defiance of Western sanctions.

Military cooperation

After a lengthy hiatus, Russia and China appear to be closing on a major arms deal, involving the sale of 24 Su-35s and 4 Lada-class submarines. Rosoboronexport has suggested that the agreement could be concluded some time in 2014, although it is unclear whether this will happen. The arguments for and against Russian arms sales to China have not changed. On the one hand, arms sales would reinforce the 'strategic partnership', support the Russian military-industrial complex, and finance the provision of modern equipment for Russia's armed forces. The PLA is also keen to buy, given its weaknesses in key areas such as avionics, and lack of alternative suppliers (as a result of the EU and US arms embargo).

On the other hand, for Moscow, arms sales to China remains a sensitive issue. There are continuing concerns about Chinese reverse-engineering and intellectual property theft, as well as competition in third-country markets. The Russian military is wary about the build-up and modernization of the PLA. And the Kremlin wishes to maximize Russia's commercial and geopolitical options in Asia by selling to countries such as India (its largest customer), Vietnam and Malaysia.

The picture on military-to-military cooperation is mixed. There have been important joint exercises over the past 18 months, such as *Joint Sea 2013* and *Peace Mission 2013*. The former involved the largest deployment of Chinese naval forces in any exercise outside China. *Peace Mission 2013*, which took place within the SCO framework, was the most substantial exercise in that series. However, military cooperation continues to be constrained by mistrust, especially on the Russian side. Its forces have been engaged in exercises where the Chinese have been effectively excluded, namely, RIMPAC 2012. More significantly, in July 2013 the Ministry of Defense initiated the largest exercise in post-Soviet history, involving 160,000 soldiers, 1,000 tanks, 130 aircraft, and 70 vessels. The location of this exercise in the Eastern Military District indicates that Russia continues to see China as a potential long-term military threat.

Another important issue is Moscow's tough stance on strategic disarmament. It has indicated that it will not entertain any further reductions unless negotiations are 'multilateralized' to include China and other nuclear weapons states (UK, France). The 'China factor' is also highly influential in determining the Russian government's position on tactical, 'battlefield' nukes. Although Moscow has left open the possibility of parlaying these for (improbable) US concessions on missile defense, such weapons are regarded as critical to the effective defense of Eastern Siberia and the Russian Far East.

Geopolitical balancing

Russia strives to be the 'swing power' between the United States and China at the global level, and between China and Japan in East Asia. In pursuing this vision, the Kremlin operates on a number of assumptions:

- a good relationship with Beijing is not only vital to national security, but also integral to a multipolar world order (or 'polycentric system of international relations') on Russian terms;
- China is the only plausible counterweight to US primacy in the international system. At the same time, an excessively strong China is bad for Russia. Moscow has no interest in one hegemon being replaced by another;
- Russia should maximize its influence by playing on the uncertainties and anxieties of other major players. That said, it is more important to constrain the United States globally than to counter Chinese power in Asia. The Ukrainian revolution has reinforced the view that the United States and, to a lesser extent, Europe, pose a 'clear and present danger' to Russian geopolitical interests;
- Moscow cannot rely on Chinese good intentions in the Asia-Pacific, and must look to develop other regional partnerships. However, it needs to avoid any suggestion of conspiring in a policy of anti-Chinese containment. Other Asian countries (Japan, India, Vietnam, South Korea) may dilute Chinese power, but they will never be able to counterbalance it entirely;

- in the event of Sino-American (or Sino-Japanese) open confrontation, Russia should adhere to neutral position and stay well away from trouble.

Beijing regards Russia less as a counterweight to the United States than as a neighbour with whom it is important to keep on good terms. Its priorities are:

- to secure its 'strategic rear' so that it can concentrate on domestic modernization and on more pressing foreign policy concerns, such as its relationship with the United States, its increasingly difficult interaction with Japan; and broader geopolitical shifts in the Asia-Pacific region, such as the Obama 'pivot';
- to achieve a degree of geopolitical comfort at a time of escalating tensions and uncertainties about the security environment in the Asia-Pacific. A good relationship with Russia also gives China the space to promote its economic and, over time, political and security interests in Central Asia;
- to avoid over-committing strategically to Moscow. Notwithstanding the expansion of Sino-Russian partnership, this is dwarfed by China's all-encompassing interaction with the United States, its one truly indispensable partner. Economically, too, it is more important to engage productively with the EU (its largest trading partner) and Asian countries than to expand energy ties with Russia, for whom there are always alternatives.

Central Asia

Central Asia is the most vulnerable area of Sino-Russian relations. Previously, Moscow and Beijing had reached a rough accommodation that recognized Russian primacy in the region, but allowed China considerable scope to advance its economic interests, particularly in energy. This arrangement is now fraying. Moscow has become nervous about the rapid development of China's ties with key central Asian states, such as Kazakhstan, Uzbekistan, and Turkmenistan, especially following Xi Jinping's four-nation tour of Central Asia in September 2013.

It is evident that Beijing is branching out from economic interests to establishing a more multidimensional presence. Ideas of a 'new Silk Road' point to a new level of strategic ambition that could transform the environment in Central Asia (and Eurasia more broadly) and severely undercut Russian influence. Crucially, whereas Central Asia was previously a backwater of Russian and Chinese foreign policy, this is no longer the case.

Although Putin pays lip-service to the Shanghai Cooperation Organization, he has no interest in the success of an institution largely dominated by China. Instead, he is promoting his own vision of post-Soviet integration via the Eurasian Union. His main purpose here is to create a geopolitical constituency for Russia in the traditional Heartland of central Eurasia, thereby justifying its claims to be an 'independent' center of global power equal in status (if not in influence) to the United States and China. Although Western commentary has focused on the role of the Eurasian Union in counteracting the EU's Eastern Partnership, Putin's project is

directed just as much at China, which is seen as the major challenger to Russian leadership in post-Soviet Eurasia.

The Ukraine factor

Developments in Ukraine are likely to have a major impact on the Sino-Russian relationship, although the precise implications are unclear at this early stage. For Moscow, the bottom line is clear: Ukraine, to use the Chinese expression, is a 'core interest' – no less important than Taiwan or Tibet is to Beijing. Although the Kremlin is cognizant of Chinese sensitivities about 'non-interference', territorial integrity, and separatism, these have scarcely registered in its decision-making over the annexation of Crimea.

Beijing is unhappy at Moscow's flagrant disregard of principles to which both have subscribed so publicly. However, it also understands the political context, while also deploring the overthrow of Yanukovich by a grassroots democratic movement supported by the West. Faced with these contradictions, it has adopted a very soft, almost invisible line. The decision to abstain on a UN Security Council resolution criticizing the Crimean referendum was predictable. China could not veto the resolution since this would have condoned Russia's flouting of its Five Principles of Peaceful Co-existence (especially 'mutual respect for sovereignty and territorial integrity'). On the other hand, Beijing was keen to avoid the damage to relations that a 'yes' vote would have incurred.

In the longer term, the Ukraine factor is likely to affect Sino-Russian partnership in a number of ways. From Russia, we can expect a renewed emphasis on Sino-Russian partnership, reflected in:

- increased urgency to finalize the gas supply agreement and maximize the flow of oil to China through the East Siberian-Pacific Ocean (ESPO) pipeline;
- growing emphasis on the BRICS as a '21st century' alternative to the (now) G-7;
- a more cautious approach toward Japan, and a reversion to the Sinocentric norm in East Asia;
- an emphasis on commonalities in Central Asia (against the 'three evils' of terrorism, separatism and extremism), while downplaying differences and concerns about China's expanding footprint; and
- a more welcoming attitude toward Chinese investment in the Russian Far East, including encouraging active participation in projects such as the Trans-Siberian and Baikal-Amur Mainline (BAM) railways.

Consistent with its cautious response thus far, Beijing will look to manage the impact of the Ukraine factor on Chinese foreign policy. It will take particular care not to be caught in the crossfire of deteriorating relations between Moscow and the West. In practice, this means:

- remaining neutral on the Ukrainian crisis, limiting itself to pro forma calls for moderation and political/diplomatic solutions;
- exploiting Russian uncertainties about changes in European energy policy to press for completion of the gas agreement on Chinese terms, as well as securing increased oil volumes;
- taking advantage of Russian geopolitical anxieties vis-à-vis the West to expedite the sale of the SU-35s and Lada-class submarines;
- enlisting Russian support for Chinese positions on the Diaoyu/Senkaku islands, Japanese historical revisionism, South China Sea territoriality, and the Korean question;
- obtaining Moscow's assistance in fulfilling contracts signed previously with Yanukovich (see below);
- securing continued Russian tolerance towards China's expanding interests and influence in Central Asia; and
- encouraging a more accommodating Russian position on Arctic development.

It is an open question as to how many of these Russian and Chinese objectives will be fulfilled. Much will depend on the breadth, duration and gravity of the Ukrainian crisis. At this stage, several outcomes appear more probable than not:

- finalization of a gas supply agreement, possibly during Putin's visit to Beijing in May. However, even if a deal is concluded, there are huge logistical issues to address before Russia becomes a significant gas exporter to China;
- the share of Russian oil exports to China (and the Asia-Pacific) will grow steadily, although not to the level of Saudi Arabia (currently 19 percent of Chinese oil imports), Angola (14 percent), or even Iran (8 percent despite UN sanctions) and Iraq (8 percent, following a 50 percent increase last year);
- finalization of the Su-35 and Lada-class submarine arms sales sometime in 2014-15;
- an increasingly Sinocentric approach in Moscow towards Asia, and the slowing (although not rupture) of rapprochement with Tokyo;
- public solidarity and policy coordination on Syria and Iran;
- partial implementation of Chinese agreements with Ukraine in relation to Crimea; and
- abiding strategic mistrust between Moscow and Beijing, but tempered by mutual appreciation of the benefits of cooperation.

China-Ukraine relations

The outlook for China's bilateral relations with Ukraine is unsurprisingly murky. Much will depend on what sort of government emerges in Kyiv, how functional it is, and whether Putin decides to annex parts of eastern Ukraine, in particular the heavily industrial regions of Luhansk and Donetsk.

In the best case scenario, Beijing will look to:

- implement the 30 USD billion worth of agreements signed with Yanukovich during his December 2013 visit to Beijing. These encompass arms deals, infrastructural projects (such as the development of port facilities in Crimea), housing development, energy cooperation (gas and coal), and agricultural imports (soy, barley, and wheat);
- develop the arms relationship further as an important alternative to buying weapons from Russia;
- maintain a working relationship with Kyiv while minimizing any offense to Moscow;
- in the (much) longer term, preserve the possibility of Ukraine becoming a bridge between Europe and Asia as part of the 'new Silk road'.

However, it is quite possible that it will struggle to achieve any of these objectives:

- the agreements with Yanukovich may lapse or be substantially renegotiated, either by a new government in Kyiv or as a result of pressure from Moscow. An independent arms relationship with Ukraine would be in particular jeopardy if Russia were to take over Ukraine's eastern regions;
- a congenitally unstable Ukraine would scarcely be a plausible component of any 'new Silk Road';
- Beijing may find that the only way to maintain a politically 'neutral' stance, balancing between Moscow, Kyiv, Washington, and Brussels, is to stay out of the Ukrainian mess altogether. This would have the advantage of limiting possible collateral damage to Chinese interests elsewhere (notably with Russia), but run the risk of allowing others to steal a march on Beijing.

Implications for the EU

Recent developments in the Sino-Russian relationship have several implications for EU policy-makers:

- growing energy cooperation between Moscow and Beijing will reinforce the need for EU Member States to further reduce their dependence on Russian gas;
- European access to Central Asian gas will become highly problematic as China expands its economic presence in the region, and Russia becomes more determined than ever to obstruct Southern Corridor pipeline options;
- the EU's capacity to promote democratization and the rule of law in Central Asia will become negligible. Brussels would be well-advised instead to concentrate its efforts on the more promising Eastern Partnership countries, such as Georgia and Moldova; and
- finally, it is important not to overestimate the extent of Sino-Russian 'convergence', and confuse rhetoric and mythmaking for substance. Although Moscow and Beijing will continue to cooperate in many areas, theirs is a selective partnership. Both, especially the Chinese leadership, attach far greater importance to the West than they do to relations with each other.