Russia & China

An Unequal Marriage

By George Voloshin

Since the Ukraine crisis of 2014, Russia and China have redrawn their relationship, becoming closer partners and allies than ever before. Yet, with co-operation comes competition, as China moves into high gear on its path toward preeminence in Eurasia. George Voloshin argues that Russia is losing the competition, but will such an outcome be a boon to either side?

ON JUNE 24-25 this year, Russian President Vladimir Putin was in China on his 15th official visit to the country. The last time that he met his Chinese counterpart, Xi Jinping, was at a climate conference in Paris in November 2015, a year in which the two men saw each other five times. In a vivid show of China’s strategic relevance for Moscow, the Russian delegation at the June meeting included a record 23 members, compared with 18 Chinese officials.

Led by Putin, the delegation included his chief of staff, three deputy prime ministers, the ministers of foreign affairs, energy, industry, agriculture and economic development, as well as several high-profile CEOs. Both Igor Sechin, head of Rosneft; and Gazprom CEO Alexei Miller were in Beijing for the talks, during which some 30 agreements were signed, prompting Putin to praise China as “a very good friend” and “a strategic ally.”

Russia and China have come a long way to reach such cordiality. One can hardly forget Beijing’s refusal to endorse Nikita Khrushchev’s controversial speech at the 20th Congress of the Communist Party of the USSR in 1956, in which he slammed his deceased predecessor, Joseph Stalin, for past mis-steps and for cultivating a cult of personality.

Despite sharing the same overtly anti-capitalist ideology, the two Eurasian powers soon became rivals, notably in the realm of nuclear weapons, where Mao Zedong’s China had initially benefitted from Soviet technological expertise. Tensions naturally subsided during the 1980s, with the USSR entering a period of deep stagnation and China embarking on its ambitious modernization program under Deng Xiaoping.

The Soviet Union’s collapse in 1991 accentuated Russia’s lack of interest in whatever rivalry remained with China; Presidents Boris Yeltsin and Jiang Zemin quickly found common ground in a post-Cold War world. In 1994 and 1996, respectively, they first proclaimed “constructive” and then “strategic” partnerships, followed in 2001 by the Sino-Russian Treaty on good-neighborly relations, friendship and co-operation.

Before the 2008-2009 global financial crisis, the 2000s saw high economic growth rates in China and Russia, the latter being helped in particular by rising commodity prices and the early effects of the first Putin administration’s modernization agenda. Yet, despite all the fine words and appearances, it has not been until recently that Moscow and Beijing approached a veritable alliance whereby the “very good friend” formula stood for more than mere etiquette.

STRATEGIC RAPPROCHEMENT

The 2014 Ukrainian crisis, in which Russia sided with the anti-Kiev rebel movements in the eastern Donetsk and Lugansk provinces, was a turning point for Moscow and, indirectly, for its relations with Beijing. Since the spring of 2014, and especially since July of that year, Russia has been under Western sanctions for its interference in Ukraine’s domestic affairs.

The dramatic drop in the price of crude oil, from over US$100 a barrel in the first half of 2014 to less than US$60 a barrel today, has been a harsh test for the oil-dependent Russian economy. After anemic 0.7 percent growth in 2014, Russian gross domestic product (GDP) contracted by 3.7 percent in 2015, second only to the 7.8 percent decline in GDP in 2009 in the wake of the global financial meltdown. Western sanctions on debt and equity funding in such strategically important areas as defense and hydrocarbons have significantly reduced the inflow of foreign capital into Russia.

Russia’s sudden international isolation has encouraged its leadership, including Putin personally, to strengthen ties with China, not without reciprocation. To this day, China has abstained from voting on any UN Security Council resolution that condemns, even tangentially, Russia’s annexation of Crimea and its continuing support for the rebels. Likewise, Beijing withheld its vote on the UN General Assembly’s resolution 68/262 on Crimea, which still mustered a majority of 100 to 11, with 58 abstentions and 24 no-shows, back in March 2014.

Nevertheless, there is no doubt that Beijing looks suspiciously upon Russian encroachments in Ukraine, which have effectively created a dangerous precedent for all countries plagued by separatism, such as in China’s own Xinjiang province, whose majority population is Uyghur Muslim. Chinese Premier Li Keqiang stressed Ukraine’s territorial integrity when he met its president, Petro Poroshenko, in early 2015, just as the foreign ministers of both countries later said in April 2016 in Beijing.

In policy circles, Russia and China are frequently referred to as “status quo powers,” insofar as they oppose unilateral interventionism (read “by the United States”) in global affairs, even more so within their purported regional spheres of influence. It appears, however, that through its actions in Ukraine and meddling across the former USSR, Russia increasingly acts like a revisionist power—much to the chagrin of the Chinese, who follow the dictates of Deng Xiaoping, who exhorted his people to “keep a low profile” (韬光养晦) for the sake of future greatness. No Russian leader has expressed such a sentiment.

ECONOMIC CO-OPERATION

China has been Russia’s single largest trading partner since 2010, with bilateral turnover reaching US$90 billion in 2014, the equivalent of 11...
percent of Russia’s total external trade. However, the recession in Russia, the slowdown in China and the fall in crude oil prices from mid-2014 — which remains Moscow’s primary source of export income from its trade with Beijing — led to a dramatic contraction in bilateral trade to US$69 billion last year. Despite this, the Chinese share of Russia’s external trade actually increased year-on-year in 2015 to 13 percent, despite lower prices and volumes. In contrast, Russia accounts for less than 2 percent of Chinese trade, compared with 16.2 percent for the US.

Like the administration of US President Barack Obama, which in 2012 announced its so-called Pivot to Asia, Putin’s government in 2014 refocused its external political and economic priorities on neighboring China. It should be acknowledged, though, that the reasoning behind the Kremlin’s revised foreign policy tack lies elsewhere. While the US sees the Asian subcontinent, and particularly southeast Asia, as a huge market for trade and investment and also as a vast territory at risk of destabilization because of existing maritime territorial disputes, Russia needs China to sustain its sputtering economic model.

Yet, as far as economics is concerned, the Chinese are not usually accustomed to blindly sticking to official rhetoric. In 2013, Moscow and Beijing pledged to raise China’s cumulative investments into the Russian economy to US$12 billion by 2020 (equivalent to Chinese investments into the US in 2014 alone). As of the end of 2014, such investments stood at only US$4 billion, according to China’s Ministry of Commerce, whereas the flow of new capital investment from China into Russia shrank by a quarter in the first half of 2015. This has not precluded China from ramping up its presence in the main sectors of the Russian economy. In December 2015, Sinopec acquired a 10-percent stake in the Russian petrochemicals company Sibur, whose key shareholder is Putin’s alleged son-in-law, businessman Kirill Shamalov. Also in late 2015, the Chinese government-owned Silk Road Fund acquired a 9.9 percent stake in the Yamal LNG project in Sakhalin, after a pair of Russian oligarchs, Gennady Timchenko, a Putin friend, and Leonid Mikhelson, sold some of their shares.

In mid-2015, Russia overtook Saudi Arabia as the biggest supplier of oil to China, two years after Rosneft and China National Petroleum Corporation (CNPC) clinched a 25-year deal valued at US$270 billion. Beijing’s drive to buy energy assets in Russia, while ignoring calls for extending investments outside of hydrocarbons, is primarily due to the low market valuations of Russian oil and gas firms, coupled with the weak ruble. CNPC is even rumored to be eyeing a 19.5 percent stake in Rosneft itself, for which the Russian treasury could receive as much as US$11 billion.

China’s reluctance to expand beyond oil is not the only impediment to diversifying Russian-Chinese co-operation. Last year, the two countries agreed to set up a joint agro-industrial development fund to invest in projects in the Far East, but Russian authorities imposed a 20 percent cap on Chinese labor for all eligible ventures. During Putin’s visit to Beijing in June this year, his delegation failed to secure approval of the 770-kilometer-long rail link between Moscow and Kazan, part of the planned Moscow-Beijing railway, because the Russian government refused to provide state guarantees, notwithstanding a US$6 billion loan already offered by the China Development Bank.

**SHARED SECURITY CONCERNS**

Besides their common opposition to what they view as gratuitous US interference in their strategic backyards, Russia and China are firmly united by the shared objective of ensuring secu-
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that angered Russia by leaving the CSTO unexpectedly in 2012. While the SCO’s main pillar is cross-border economic co-operation, it has been increasingly busy in the last few years dealing with security issues.

The Islamic State (IS) is a sizeable challenge to Central Asian stability. It has recruited combatants from Georgia and Azerbaijan in the South Caucasus to Central Asia to China via Russia. Various estimates put the number of Central Asian fighters within IS at 1,500 to 2,000 and those from Russia at just under 2,000. Meanwhile, New America, a nonpartisan think tank in Washington, DC, said in a July 2016 report that more than 100 Muslim fighters from China had joined IS, based on some 3,500 leaked personnel files.

The ongoing fight against IS in Syria, where Russia sent troops last September and currently growing unemployment, endemic corruption and widespread cynicism.

Although China has no direct military presence in Central Asia comparable to Russia, China has been taking steps of late to reaffirm its security-focused co-leadership throughout the region. Earlier this year, Beijing held consultations with defense ministry officials from Afghanistan, Pakistan and Tajikistan — without Russia. The Russian media published somewhat bitter (albeit patchy) accounts of these meetings, complaining that China’s decision to leave Russia out could harm their joint strategy to promote regional stability. Indeed, with its economy tanking and the little soft power it has undermined by bad publicity related to Ukraine and Syria, Moscow could well face the prospect of losing out to China on the highly strategic military front, too.

COMPETING INTERESTS

In Beijing in June, Putin said, “Russia and China are on the same page with regard to many issues of concern and take into account each other’s interests.” This is hardly an understatement, yet Russian-Chinese co-operation is evolving alongside growing competition between the neighbors.

Unsurprisingly, their geopolitical interests intersect primarily in Central Asia, where Russia has been promoting the idea of all-out integration under its watchful eye since the 1990s. In May 2014, Russia, Belarus and Kazakhstan founded the Eurasian Economic Union (EUEU), which subsequently expanded to Armenia and Kyrgyzstan, respectively, in January and August 2015.

At the same time, China is lobbying Central Asian governments to become part of Beijing’s Silk Road Initiative, one of the many elements of its so-called One Belt, One Road strategy aimed at spreading Chinese economic influence across Europe and Asia. In October 2014, Kazakhstan and Uzbekistan joined the Beijing-led Asian Infrastructure Investment Bank (AIIB). The following year Kyrgyzstan, Tajikistan and Russia followed suit, with the latter now the AIIB’s third-largest shareholder (5.93 percent) behind China (26.1 percent) and India (7.51 percent).

In theory, the EEU and the Silk Road Initiative could be complementary, as Putin indicated in mid-June 2016 by suggesting consultations on how to bridge the gap between the two. In reality, since Russia and China represent different development models and practice divergent forms of diplomacy, these projects are more likely to be perceived as mutually exclusive alternatives by their intended beneficiaries. To its advantage, Beijing has never sought to impose any kind of political union on its western neighbors, whereas the Kremlin sees the EEU as a stepping stone towards a much closer union, with a common currency and a supranational legislature.

UNEQUAL PARTNERS

The big grain of salt in this marriage of convenience is that Russia, regardless of who stands at its helm, is invariably incorporated into China’s long-term strategy of moving to the pinnacle of Eurasian geopolitics through the AIIB, One Belt, One Road and other grand strategy initiatives. Facts, not rhetoric, speak in its favor. The World Bank lists China’s economy as the world’s second-largest in nominal terms ($10.9 trillion), second only to the US; Russia ranks 13th ($1.3 trillion). This year, China’s GDP is expected to grow by a decent 6.6 percent, according to the IMF, while Russia’s GDP is expected to decline by another 1.2 percent.

In other words, the partners in this strange couple are profoundly unequal and have differing temperaments. Oddly enough, their alliance may prove more resilient and efficient than one might think. China, which is morphing into a truly global power with global responsibilities, may be capable of exercising a restraining influence on Russia. As for the latter, it stands to gain from a pragmatic partnership with China in which the careful alignment of interests and goals could help Moscow unlock the full potential of its 21st-century vision of its own “grandeur” — a game plan likely to outlast both Vladimir Putin and Xi Jinping.

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