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THE CRACKS IN THE RUSSIA-CHINA TANDEM

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Discussions on energy security and its geopolitical ramifications continue to be topical for a wide range of states and business stakeholders. For many foreign policymakers, Eurasia, in the first decade of this century, has become the focal point for evolving and future geopolitical strategies.

China, Russia and the United States are major global players who are seeking to bring Eurasia within their own individual spheres of influence. Local and international analysts have repeatedly questioned the significance of the Russian-Chinese strategic partnership which, to all intents and purposes, is attempting to counter an extension of U.S. influence in the Eurasia and other regions of the world. Though this alliance serves the

purposes of both states, the competition between them, which runs alongside it, also raises serious political and economic questions and may have a counter effect on the development of the region.

The economy is the most frequently cited as a potential flash point between Moscow and Beijing. In terms of geopolitics, the Russian Far East, a region bordering China, remains an eternal challenge for both countries. It can be readily observed that a silent siege is effectively taking place there, with over one million illegal Chinese immigrants having crossed the Russian-Chinese border in recent years. They work as laborers, farmers and petty traders, and the Russian local authorities seem unable to stop them, even being willing to turn a blind eye to their presence.

This situation is hardly taken notice in Moscow. It seems that the Kremlin has a particular – and somewhat positive – view on what is going on: On the one hand, China offers Russia economic opportunities, and on the other, Russian growth over the last decade has been largely driven by massive exports of raw materials and other goods to China. Under such circumstances it is not difficult to understand why old suspicions and disputes are tactfully forgotten or purposefully ignored by the Kremlin. For its part, Beijing needs at the very least a reliable and convenient provider of energy supplies, as these are so essential in fueling its own continuing economic growth. China wants to become a superpower, but to achieve this it needs vast supplies of raw materials on the best available terms. Russia has both the energy resources and transport connections to be the obvious supplier if the terms are right, and this

concern overrides those on issues which might cause an unnecessary dispute between the two states.

ECONOMIC, MILITARY AND TERRITORIAL OPPORTUNITIES

In 2011 the Russian press devoted much attention to various agreements which outline the deepening of economic and trade cooperation between Russia and China over the next five years. Forty such agreements were signed by Prime Minister Vladimir Putin in the fall of 2011, including one on Russia's involvement in the construction of a nuclear power plant at TianWan, and some 17 more major business and trade deals were signed in Beijing during President Putin's three-day visit to China in June 2012¹.

Obviously, Russia is always seeking new markets in order to sustain its economy, which was seriously affected by the 2008 economic crisis. The signing of oil and gas supply agreements with China, the second largest energy consumer in the world, is a great boon for the Russian economy. Loans from Chinese banks to financial institutions in Russia, worth 500 million dollars in total (year?), are among other measures specified in the economic agreements between the two countries

Overall trade between China and Russia increased from \$10 billion per year to over \$50 billion between 2003 and 2009, with a target of \$100 billion in 2015 and \$200 billion by 2020. Even so, oil and gas still represent more than half of Russian exports to China. In June 2012 President Putin negotiated with Xi Jinping, who is expected to become the next Chinese president later this year, a long-awaited gas agreement that would allow Moscow to supply some 70 billion cubic meters (2472 billion cubic feet) of gas to its neighbour. Recent reports suggest that pricing disagreements are holding up the deal between Russia and China. Also, in 2009 the Kremlin agreed to underwrite the 25 billion dollars needed to build a pipeline from eastern Siberia to China in exchange for promises from officials in Beijing that they would buy oil from Russia for the next 20 years.

Politics, an important dimension of Russian-Chinese relations, evoke different and contrasting viewpoints. The coming together of Beijing and Moscow was driven primarily by their shared

desire to forge a strategic partnership aiming at countering America's global supremacy and influence in Central and East Asia. The creation of a range of global and regional power centers is the chosen strategy to achieve this objective. This was illustrated by Chinese President Hu JinTao during his June 2009 visit to Moscow, when he said that his country is ready to deepen relations with Russia in order to accelerate the formation of a multipolar world order.

Many experts believe, however, that Russia's interest in China is more commercial than political. Others fear that Russia's massive supplies of fuel and military equipment to China will contribute, intentionally or not, to creating an East Asian arms race between China, Japan, South Korea and Taiwan, the last three countries being long-time allies of the United States. It is also argued in some quarters that Russia appears to be trying to emulate the Chinese political and economic model, as the latter has displayed impressive staying power in the midst of sudden economic crisis; it has shown that such a model actually works.

Some Western analysts have noted that some elements of the Putin doctrine have been inspired by the Chinese Communist Party (CCP). The good relationship between Putin's United Russia and the CCP, to the detriment of the Russian Communists led by Gennadii Zyuganov, is often cited as evidence of some similarities between Russian and Chinese foreign policy doctrines. This viewpoint is shaky, as there are significant differences in the way ordinary Chinese and Russians perceive the two parties, which signify their divergent natures.

While the CCP is seen in China as an institution guarding the interests of the country, the Russians see the party of Putin as a strange mix of the post-Soviet political elite and those who have sneakily enriched themselves since 1991 and need a safe haven. There are other major differences between the Russian and Chinese political regimes. The reforms which have transformed China into a market economy were more consistent and thoughtful than those of Yeltsin's Russia. Also, the Chinese Communists continue to hold all the levers of power, especially in areas considered strategic. In Russia, President/Prime Minister Putin's reforms have focused mainly on energy resources – other economic sectors remain largely in private hands – and were intended to create a facade behind which he replaced the undesirable

oligarchs of the 2000-2002 period with a new generation of quieter ones, who nevertheless still wield significant independent power.

Another difference lies in the societal features of both countries. First, according to global indices, the level of corruption is much higher in Russia than in China, although the latter is ever more contending with this issue. Second, the investment climate in Russia is less hospitable and ownership rights are far from being considered a basic principle and respected in all Russian regions. Third, Russia has fallen behind China in terms of the infrastructure it can offer potential foreign investors and is suffering from a demographic and a public health crisis, two sicknesses which will intensify in the long run Russia's economic and military decline. Fourth, on the bright side, Russia remains more open politically than China, as it has independent opposition parties, although most are at the Kremlin's mercy. The prompt ending of the "rebellion" of the State Duma (which had accused United Russia of massive electoral fraud) after the October 2009 regional elections was, however, a reminder that parliamentary institutions have to remain under the presidential administration's control. Also, in June 2012 the Russian lower house of parliament adopted a bill that raises fines 150-fold for holding unsanctioned demonstration, from the 5,000 rubles (around \$150) to 300,000 rubles (around \$10,000) for participants and up to 600,000 rubles for rally organizers. Fines for the organizers of protests that fail to comply with federal regulations on demonstrations shoot up from 50,000 rubles (\$1,160) to 1.5 million rubles (\$48,000). These laws were passed to tighten the limits of democratic and street demonstration clearly showed that there is some limit to criticism and freedom of expression.

The most obvious difference between the two countries is their attitude to the Internet. The Chinese government imposes strict censorship on the Internet – and all the media in general – while Russia has adopted a more liberal approach to the media, letting it become an important tool of information and communication, containing propaganda from all points on the political spectrum.

Despite consistent cooperation in political and economic realms, the robustness of the Russia-China strategic partnership itself is also in question in some important respects. The fact that Moscow

has for a long time demanded firm guarantees regarding the export of its fuel is not accidental. Russia's economy has declined as a result of the 2008 economic crisis, but its mainstays are unstable due to other aggravating factors: the volatility of world oil prices and the reduced demand for fuel, in Europe in particular. Full recovery will be a slow process, since putting the Russian economy back on its feet would necessitate a comprehensive modernization program that is only possible by means of huge capital investment in all productive sectors and a broad reform of the judicial system. Russian firms, big or small, are in no position to make such investments. Meanwhile, China's economy is huge and expanding rapidly. Its Gross Domestic Product (GDP) has miraculously averaged 8% per annum over the last 30 years. In 2012 the Chinese economy is ten times larger than it was in 1980, with Chinese GDP reaching \$5.9 trillion in 2011. Most experts believe that China's economy must grow by at least 8% every year to create enough jobs to prevent social unrest. In February 2012 the International Monetary Fund (IMF), in its latest forecast (World Economic Outlook) projected that China's economy will grow by 8.25% in 2012 and 8.75% in 2013. Thus, China is not heading for a hard landing in the mid-term and will remain a driving force of global growth in the coming years.. By comparison, until it develops a diversified and competitive economy and sustained economic growth thus resumes in non-energy sectors, Russia will have much to do to keep pace with China's development.

China, for its part, can afford to formulate strategies which downsize the level of Russian fuel imports. A quick look at the present situation shows that Russia's fear of losing many potential energy contracts with China is well founded. In 2009 China took an 11% stake in KazMunaiGaz Exploration Production, a subsidiary of KazMunaiGaz group, for \$949 million, thus increasing its influence in Central Asia's energy market. This acquisition is part of a decade-long wave of Chinese investment abroad, especially in oil, mining and other kinds of natural resources. Moreover, Chinese companies have been extremely active on the northwest border with Kazakhstan, a very large but sparsely populated country.

In September 2009 Venezuelan President Hugo

Chavez also announced a partnership with China, worth \$16 billion, to exploit some of the richest iron ore and tar sands deposits (which may be a source of future oil production) near the Orinoco delta. Chavez didn't give many details about the document, but said this investment would be made over a three-year period. Chinese companies involved in the Orinoco project are contracted to produce 450,000 barrels of oil per day for the state company *Petróleos de Venezuela (PDVSA)*. However, also in September 2009 Caracas announced a similar agreement with a consortium of five Russian companies which will make a \$20 billion investment in Venezuela over the next three years and gain the right to prospect in the Orinoco Delta as well. Russia has also mimicked China by increasing its involvement in oil fields on the African continent.

Chinese oil companies are mostly interested in obtaining shares in major oil fields which are close to production stage, or at their late stages of development. The Chinese government seeks to ensure it has long term energy resources because over the next five years China's economy will require in excess of 11 million barrels of oil per day to prop up its growth, according to analysts. Chinese companies in Africa have embarked on a course of diversification, from construction projects and natural resources exploitation to projects in partnership with local African producers and financial institutions. China is thus vigorously competing with some of the biggest U.S. and European multinational corporations in the search for rare and indispensable resources, energy and otherwise, in the continent.

Favouring a non-aggressive and a rather diplomatic form of strategy in negotiating with its economic partners, China is pursuing its global interests discreetly and pragmatically. For instance, it is competing in Eastern Europe not only with the U.S. and the European Union (EU) but also its ally, Russia (witness the huge loan China offered the Republic of Moldova and the non-refundable loan of half a million euros recently granted to Romania), a sign that the Asian giant wishes, if not world leadership, at least an expanded sphere of world influence. In these circumstances, although Russia has gained substantial profit from the export of military technology (China is its second largest sales market after India), China's geopolitical ambitions

and the powerful weapons it has been equipped with raise concerns among experts and surely give headaches to many strategists in Moscow.

Another complication in Russian-Chinese relations is the accelerating modification of the ethnic composition of East and Far East Siberia resulting from illegal immigration from China, a trend seemingly difficult to halt. The scant attention paid to this issue by the Chinese authorities seems to suggest that they don't really intend to address it in the near future. Moscow knows very well how much harm ethnic conflicts (the north Caucasus comes to mind here) can do to stability and doesn't want new ones breaking out thousands of miles away from the capital. Another source of possible dispute is China's violation of environmental norms in the Khabarovsk region. Russian local authorities are multiplying their calls for more respect for regional ecosystems. These concerns, however, will remain in the background for as long as economic interests prevail.

Essentially, the way Russia relates to the EU and U.S. hinges on the influence it wields as an effective leader within the Shanghai Cooperation Organization (SCO) and particularly in East Asia. But the same holds true of China, which is also a member of the SCO. It's hard to say to what extent Russia can effectively manage the conflicting aims of both its alliance and competition with its East Asian strategic partner, but the ambitions of China become clearer by the day.

¹“Russia-China unity on Syria as Putin arrives in Beijing,” BBC, June 5, 2012.

<http://www.bbc.co.uk/news/world-asia-china-18327632>

²Ibid.

³“Russian Parliament Approves Massive Increase in Protest Fines.” RIA Novosti. 05 June 2012.

<http://en.rian.ru/russia/20120605/173855383.html>

⁴“Russia's Duma Passes Bill on Unsanctioned Rallies.” RIA Novosti. 06 June 2012.

<http://en.rian.ru/russia/20120606/1738690>

⁵“Rossiyakaya Gazeta publishes new rally law on website, in June 9 issue.” Itar Tass. 8 June 2012.

<http://www.itar-tass.com/en/c32/442749.html>