

China-Russia Relations: Back to Geostrategics

Yu Bin
Wittenberg University

The Year of the Rooster ushered in a quite different mold of Chinese-Russian interaction. In sharp contrast to the “oil-politicking” of much of the previous year, strategic gaming topped the agenda of bilateral relations for the first quarter of 2005. Several high-profile visits occurred, including the first China-Russia inter-governmental consultation on security issues and three rounds of talks between top military officers to prepare for the first ever joint military exercise in the fall. All this occurred in the midst of a sudden burst of “orange revolutions” in Russia and China’s western peripheries (Ukraine and Kyrgyzstan). To the East, Washington and Tokyo were hardening their alliance with the “2+2” meeting in Washington D.C. in February, in anticipation of China’s anti-secession law that was adopted in March.

Security Talks

On Feb. 1, Chinese State Councilor Tang Jiaxuan traveled to Moscow as a guest of Igor Sergeevich Ivanov, secretary of the Russian Security Council, for four days of inter-governmental talks on security issues. The Tang-Ivanov talks launched the first session of a Russian-Chinese consultation mechanism, focusing on the content and format of the security dialogue. “This will be the first time that China has created with another country an inter-governmental consultation mechanism on security issues,” Tang said.

China apparently initiated the security talks. Describing Russia as China’s “principal strategic partner,” the Chinese envoy stated that, “We decided to create such a mechanism with Russia because our positions are close on a wide range of international and regional issues, on our evaluation of the international situation, and also in the task of maintaining peace and cooperation in global development in general,” Tang said. The Tang-Ivanov talks were certainly in the mind of President Vladimir Putin, who received Tang in the Kremlin Feb. 2. Hailing the development of bilateral ties, the Russian leader called for further joint efforts in defending world peace and regional stability [emphasis added]. For this purpose, Russia and China “should intensify their consultations in dealing with world affairs to tackle all kinds of threats and challenges.”

The Chinese envoy echoed this by stating that, “We must focus on achieving longevity, stability, and commonality in these relations, rely on our own efforts, orient toward the whole world [emphasis added], and keep pace with the movement of the times,” a common phrase invented by former Chinese leader Jiang Zemin, implying that the existing Chinese-Russian strategic partnership should prepare to adjust itself to the new situation.

Taiwan was one of these regional issues for the security dialogue when Putin confirmed that Russia sticks to the “one China” policy, resolutely opposes any forms of “Taiwan independence, and supports China’s efforts in safeguarding national sovereignty and territorial integrity.” The Chinese envoy thanked Russia for its unswerving support of China on the Taiwan issue and on the anti-secession law.

The talks also addressed the prospects for development of the Shanghai Cooperation Organization (SCO) and measures to raise the efficiency of this organization. Both sides view the SCO as a key tool for maintaining stability in the region.

In addition to discussing security issues during his four-day stay in Moscow, Tang also explored possibilities for more tangible outcomes from this new security mechanism. In his meeting with Russian Prime Minister Mikhail Fradkov, Tang expressed hopes for “breakthroughs” in some “key fields of cooperation,” including economy and trade, the energy sector, science and technology, and investment. One such goal was to increase annual trade volume to \$60-80 billion in 2010.

Upcoming Joint Exercise: Small but...

The agreement to hold *Sodruzhestvo-2005 (Commonwealth-2005)*, the first-ever joint drill between the two militaries, was reached during Russian Defense Minister Sergei Ivanov’s December 2004 visit to China. The two sides, however, only decided on the force size, services, weapons systems, and a general time framework (August-September 2005), while leaving specific timing, actual location inside China, and procedure to be negotiated during the months leading to the exercise.

Three-and-half rounds of talks were held during the first quarter to detail the first joint exercise in the fall. Between Jan. 31 and Feb. 4, Col. Gen. Vladimir Moltenskoï, Russian Land Forces deputy commander-in-chief, visited Beijing. In early March, a group of PLA General Staff officers arrived in Moscow. The Chinese side, however, asked to delay the talks for “technical reasons.” The Chinese military delegation returned to Moscow March 14-16, when the two sides agreed that the drill be held for eight days in the second half of August and that military observers from the SCO member states be invited. This was immediately followed by Russian Chief of Staff Yury Baluyevsky’s “formal friendship visit” to China March 17-20 at the invitation of his Chinese counterpart, Gen. Liang Guanglie. China’s Premier Wen Jiabao also met with Baluyevsky, a sign that major progress was made in the discussion.

The back and forth by top military officers during the first quarter naturally drew curiosity, speculations, and expectations both in and outside the two nations. The two sides, however, insisted that the hypothetical enemy was “international terrorists,” or the drill practiced “peace keeping,” and their exercise did not target any third nation.

The declared goal, however, sounds too modest to match the diverse weapon systems to be brought into play. Russia would contribute its strategic and tactical air forces (*Su-27SM* fighters, *Tu-95MS* and *Tu-22M3* strategic bombers), large surface ships and submarines to the drill. Despite the insignificant size of the Russian and Chinese military units to be involved (about 200 total and 100 from each side, a sliver of the number used in Russia’s 2004 exercise in the Far East, the largest in 15 years and which involved 70,000 servicemen, 58 ships, and 69 aircraft), the composition of the units will be “more military,” including amphibious landing forces, marines, and airborne forces for parachuting drills and beach assault. In contrast, the multilateral antiterror exercises in August 2003 were done by several SCO members’ law enforcement units and a few air force support units from China, Russia, Kazakhstan, Kyrgyzstan, and Tajikistan.

Behind the redoubled effort to prepare for the first military exercise by the two militaries, Russia and China had different ideas and interests. China was apparently in the driver’s seat. Not only did Beijing come up with the idea during Russian Defense Minister Sergey Ivanov’s visit in December 2004, but China also suggested that the tactical portion of the exercises be conducted on Chinese territory. China also suggested that Russians throw in more sophisticated weaponry.

Russian analysts were well aware of China’s preference for a larger and more substantial “military” exercise. In this regard, Taiwan looms large over the horizon of the Yellow Sea, where the planned drill will take place. Some in Russia believe that there should be some limits in developing military relations with China, reasoning that Russia is a Western democracy and that Russia’s Far Eastern region is perceived vulnerable to the “influx” of Chinese. Other practical factors, however, seemed to overcome these worries. One incentive for Russia is that the demonstration effect from joint exercises or those outside Russia would elevate Russia’s profile overseas as a major power. This is particularly needed when the Russian military budget is being seriously constrained by inflation. The record-high military spending of 187 billion rubles (\$6.7 billion) for the current fiscal year will be 10 to 20 percent less, particularly given fuel costs, if inflation is factored in. Joint exercises, therefore, are actually more cost effective for achieving a demonstration effect. Beyond this, the upcoming drill will be a time when the two militaries start to “synchronize” with one another. This is particularly important for Moscow that, despite billions of dollars of arms sales to its largest neighbor, has a limited idea of how the PLA has actually digested Russian hardware and technology. Finally, there is the hope that the involvement of Russia’s strategic aviation forces would impress the Chinese so much that the PLA Air Force would decide to purchase some of those expensive weapons platforms in the not-so-distant future, which may sustain the current level of Russian arms transfers to China. This will be particularly helpful for the Russian Air Force, which has to retire some of its aging strategic bombers (*Tu-95s* and *Tu-22s*), while there is little money available to procure the more advanced *Tu-160s*.

Military Sales: Successful Failure?

Perhaps more than any other area in China-Russia relations, arms sales to China have been one of the consistently brighter spots. It has so far served the interests of both sides: modernizing China's large but obsolete military (particularly the air force and navy), and keeping alive Russia's industrial-military complex, which has received little direct orders from the Russian military. Deliveries of Russian weapons systems since the early 1990s amount to some \$12 billion. Transactions of the 1990s included such high-profile items as 74 *Su-27SK* heavy fighters, licensed production of 200 *Su-27s*, 4 *Kilo* diesel submarines (2 *Kilo-877* and 2 updated *636s*), and 2 *Socermenny*-class guided missile destroyers. Since 2000, orders and deliveries have remained continuous and strong, ranging from 24 *Su-30MK2* (naval type, \$1 billion), 8 *Kilo-636s* (\$1.6 billion), 2 more *Socermenny*-class destroyers, 50 *Club* anti-ship missiles for the *Kilos*, 8 battalions with *S-300PMU-2* air defense systems (\$970 million), 100 *RD-93* aircraft engines (a modification of the *RD-33* engine that powers *MIG-29 Fulcrum* fighters), and more.

The success of Russian weapons in the China market also comes at a time when both sides seem more interested in moving from hardware purchases to joint development of weapons systems. Since 2004, there have been rumors that Russia will team up with India and China for the R&D for the fifth generation of fighters. China's media reported that China was negotiating with Russia's Sukhoi Company for joint research and technology transfers of *Sukhoi-37 Berkut (Golden Eagle)* fighter jets and technology related to the *AL-41* thrust-vector-control turbofan engines used on *Berkuts*. China reportedly also wants to import from MiG Corporation advanced electronics technology and stealth technology related to the *MiG-1.42* fighter jets. The two sides have already jointly developed the phased-array radar technology for the *Su*-series fighter-bombers.

Despite all these impressive and encouraging trends regarding arms/technology transfers to China, there has been a growing uneasiness in Russia regarding a possible decrease and/or even eventual withdrawal of Russian arms from China's shopping basket. It is ironic that these fears come in the wake of the "best" year of Russian arms sales in 2004 (\$5.7 billion, a 33 percent hike over \$4.3 billion in 2003). Some of the reasons for Russia's pessimism are: poor management and quality control in Russian arms companies; lack of sophistication in Russian weapon systems, particularly in the electronic and software areas; lack of any large orders like the hundreds of heavy fighter-bomber deals with China and India (*Sukhoi-27s* and *Sukhoi-30s*) in the 1990s; increased R&D capability of Russia's traditional arms customers such as India and China; future competition from the European Union and possibly Japan; and poor after-sale services, etc.

For these reasons, among others, some in Russia are urging that more sophisticated weapons be transferred to China. This will help Russia position itself in the China market before the EU lifts its ban on arms sales to China, according to Konstantin Makiyenko, deputy director of the Center of Strategy and Technologies Analysis. Makiyenko argued that Russia should promote in China aircraft systems with phased and slot array radars, i.e., the *Sukhoi-30MK3* fighter with the *Zhuk-MSE* radar, and *Su-27K-UB* deck multirole

plane with the *Zhuk-MSFE* radar, as well as extended-range air-air missiles. In addition, Russia should promote the powerful *Tupolev Tu-22M3* naval missile platforms. For the Chinese Navy, Russia should offer destroyers on the basis of *Project 956U* or *Project 11551* ships, i.e., multi-role and well-balanced surface vessels. The Chinese Navy also should get more advanced *Project 677* submarines, following those *Project 636* diesel-electric submarines currently under construction. Russia's nuclear-powered submarines of *Project 949A* should also be considered for China.

To what extent these ideas will be translated into policy remains unclear. The mood and chemistry between Moscow and Beijing, however, seems to go forward with more cooperation in both security issues and arms/technology transfers.

Oil Still Lubricates Relations

Despite the heavier-than-usual security agenda in China-Russia relations, oil issues were not completely eclipsed during the first quarter. Rather, they assumed a more opaque, if not mythical, dimension regarding both the pipeline and the fate of the Russian oil firm Yukos.

After the sale of a 76.79 percent stake of Yugansk, the main production arm of Yukos, to a Baikal Finance Group on Dec. 19, 2004 for \$9.35 billion, Russian Industry and Energy Minister Viktor Khristenko announced Dec. 30 that Yugansk's assets would be handed over to a separate, wholly state-owned company, and up to 20 percent of the shares in this company might be offered to the China National Petroleum Corporation (CNPC). On the same day, Russia's state-owned Rosneft bought Baikal Finance Group.

The real picture behind the purchase of Yugansk started to emerge in January when the Russian newspaper *Vedomosti* reported that CNPC helped Rosneft pay for the main Yukos subsidiary by offering a \$6 billion credit in return for 48.4 million tons of oil to CNPC by 2010. The Chinese credit would be used to pay off short-term loans provided by Russian banks for the purchase, which had to be settled in full in January under the terms of the auction.

Both Chinese and Russian officials denied any direct financing of Rosneft's acquisition of Yugansk with Chinese money. The "credit-for-oil" arrangement, however, at least indirectly lubricated the transfer of Yukos' assets to state firms. A spinoff effect of this CNPC credit was the creeping back to life of the officially "dead" oil pipeline to China. Indeed, this may be the exact purpose of a "secret visit" to China in mid-January by Viktor Khristenko, Russia's industry and energy minister. Khristenko reportedly promised China that a branch of the Far East oil export pipeline to China would be built, and that a specific plan will be finalized in May. Upon returning home, the Russian minister publicly stated that, "The decision by the president and the prime minister will be implemented, and the oil will flow to China." Chinese media paraphrased Khristenko's term "flow to" as an indicator that Russian oil will go to China through the oil export pipeline, not merely through the current method of shipping oil by rail.

Throughout the first quarter, Russia business circles, government officials, and the media toyed with the idea that the planned oil pipeline connecting Taishet in the Irkutsk region, Skovorodino in the Amur region, and Perevoznaya Bay in the Maritime (Primorye) territory does not rule out the possibility of building a branch to China. "The distance between Skovorodino and China is 70 kilometers, and (the construction of) this branch will not cost too much," commented Sergei Grigoryev, vice president of the state oil transportation company Transneft; adding, "A decision on building a branch to China will be made in the course of the project implementation."

The Russian Natural Resource Ministry (NRM) apparently conducted an assessment of the availability of oil reserves for both the trunk line to the Pacific coast and a branch line to China's Daqing. In a press release late January, Sergei Fyodorov, director of the state policy and regulation department at the NRM, announced that the trunk and branch lines combined would require an increase in reserves of 2.8 billion tons in Eastern Siberia and the Far East. Other sources at the NPM indicated that field reserves in Eastern Siberia are sufficient to fill the Taishet-Pacific Ocean pipe.

President Putin, too, got involved in the new twist. In his Jan. 26 meeting with Semyon Vainshtok, president of the Russian oil pipeline monopoly Transneft, Putin was informed that Transneft has "... now started work on designing the Far East project with a branch to China." Six days later, Putin met with Natural Resources Minister Yuri Trutnev who informed Putin that a system of licensing for the East Siberian pipeline was ready.

By early February, China's oil pipeline dream received another boost when Sergey Oganessian, head of the Russian Federal Energy Agency, announced that the first oil to be pumped along the Eastern Siberian Pipeline would go to China, which is already a client of Rosneft. China's \$6 billion credit to Rosneft, therefore, seems able to deliver both oil and an oil pipeline.

Warming up Russian-China Relations for Colder Days

The warming trend in Chinese-Russian bilateral relations across political, security, and economic areas, has had its own momentum, caused at least partially by a colder external environment. At the international system level, U.S. President George W. Bush is more determined in his second term to reshape the world, not just the Middle East. While the nuclear issues with Iran and North Korea are yet to be resolved, the "Orange Revolution" has popped up on Russia and China's peripheries, challenging and toppling existing governments. This is particularly true in the former Soviet republics. But in almost all cases, people's power has yet to create efficient and stable governance. For both Russia and China, instability, corruption, and even violence around their periphery seems to continue and directly affects the operation of their regional mechanisms (the Commonwealth of Independent States and the Shanghai Cooperation Organization).

Beyond these immediate concerns, 2005 is full of anniversaries: it is the 60th anniversary of the end of World War II; 60 years after the U.S. atomic bombing of the Japanese cities of Hiroshima and Nagasaki, and 100 years after the Russian-Japanese war, which was

fought over China. The current political and strategic climate around China and Russia does not match the more turbulent years of the Cold War, let alone the devastation of the real wars (World War II, the Korean and Vietnam Wars). It nonetheless is a very different place, in which all previous rules may or may not apply in an increasingly unipolar world dominated by the two most powerful nations (the U.S. and Japan). The questions and challenges for Russian and Chinese leaders are not only how to commemorate the past, but how to keep the peace, no matter how “cold” it is.

Chronology of China-Russia Relations January-March 2005

Jan. 11, 2005: China-Russian trade for 2004 reached \$21.23 billion, with a \$3.03 billion surplus for Russia, 34.7 percent growth over 2003.

Jan. 31-Feb. 2, 2005: Moscow Mayor Yury Luzhkov visits Beijing and Shanghai. He meets in Beijing with Jia Qinglin, chairman of the National Committee of the Chinese People’s Political Consultative Conference.

Jan. 31-Feb. 4, 2005: Col. Gen. Vladimir Moltenskoi, Russian Land Forces deputy commander-in-chief, leads Russian delegation to Beijing to work on details of the joint Russian-Chinese military exercise in the fall.

Feb. 1-4, 2005: Chinese State Councilor Tang Jiaxuan visits Russia as guest of Igor Ivanov, secretary of the Russian Security Council. During the visit they reach agreement to create and launch a Russian-Chinese inter-governmental consultation mechanism on security issues. Tang is also received by President Putin and PM Mikhail Fradkov.

Feb. 14, 2005: Chinese FM Li Zhaoxing and Russian counterpart Sergey Lavrov exchange views on the Korean Peninsula nuclear issue in a telephone conversation.

Feb. 21, 2005: Russian Deputy FM Alexander Alexeyev meets in Moscow with Li Bingcai, executive deputy director of China’s Taiwan Affairs Office of the State Council. They discuss China’s anti-secession law and “certain issues concerning Russian-Chinese relations and also the situation in East Asia.”

Feb. 25, 2005: Shanghai Cooperation Organization (SCO) holds its annual foreign ministerial meeting in Astana, Kazakhstan. A joint communiqué is issued calling for a nuclear-free Korean Peninsula as well as for peace and stability in the region.

March 1, 2005: Branch of Khabarovsk-based Chinese Consulate General opens in Vladivostok, ending need to travel 700km to Khabarovsk to resolve visa and business problems. China has become the Maritime Territory’s biggest trade partner with trade between the territory and China exceeding \$829 million in 2004, the volume of Chinese investment reaching \$9.5 million.