

China-Russia Relations: Geo-economics for Geo-politics

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The second quarter of 2004 marked the beginning of Russian President Vladimir Putin's second term and the second year in office for China's Hu-Wen team. Normal consultations and exchanges remained dynamic at all levels, particularly over the issues of Iraq, Korea, and Central Asia. The meetings included the Putin-Hu mini-summit during the Shanghai Cooperative Organization (SCO) annual meeting in the Uzbek capital of Tashkent in June, the official visit of China's Parliament leader, Wu Bangguo, to Russia in May, and Russian Defense Minister Sergei Ivanov's visit to China in April.

Beyond these high-level exchanges, Moscow and Beijing pursued their respective policies and interests in different ways. While Putin maintained his high profile (attending the G8 Summit and the 60th anniversary of the Normandy landing), Beijing leaders seemed to soft-pedal the Russian factor: more attention to problem solving, particularly in economics, less rhetoric about the China-Russia strategic partnership; more attention to nations around Russia, less "major-power" politics of the Jiang-Yeltsin style; and more attention to areas outside Moscow, though not necessarily neglecting Moscow's central role in Russian politics.

Substance over Form

In late April, Chinese Foreign Minister Li Zhaoxing paid a three-day working visit (April 21-23) to Moscow and met with Russia's new foreign minister, Sergei Lavrov. Although Li's visit was timed for the SCO conference of foreign ministers (April 23), Li met with President Putin and Russian Security Council Secretary Igor Ivanov. The Li-Lavrov talks covered a wide range of issues including Iraq, Afghanistan, Korea, "new threats and challenges" for both nations, and bilateral economic relations. They also touched on Russia-China-India trilateral ties, a topic Moscow seems never tires of pursuing. "Interaction of Eurasia's three largest states can become a weighty factor of consolidation of international and regional stability and of counteraction to new threats and challenges of the modern epoch," said Russian Foreign Ministry spokesman Alexander Yakovenk.

China's top diplomat, however, appeared more interested in getting tangible results within the bilateral framework, particularly in "*fulfilling* [emphasis added] the consensus reached by the two heads of state and the China-Russia Treaty on Good Neighborliness, Friendship, and Cooperation (GNTFC)." Meanwhile, the Russian president had "plans" for his official fall visit to China to review "the entire complex of relations between the

two countries.” Foreign Minister Li concurred with the importance of the Russian president’s role in shaping bilateral relations by noting that Putin’s October visit to China “will be a landmark event of cooperation between our countries.”

When the two heads of state did meet in Tashkent for the SCO annual summit meeting in June, the Chinese president opted for more attainable goals. He proposed that the two sides: (1) make an outline on implementing the GNTFC as soon as possible with the aim to strengthen cooperation on major projects; (2) increase investment in the other side and expand local cooperation; and (3) handle any trade problems with the spirit of mutual benefit, mutual concession, and friendly consultation. In response, Putin pledged that Russia would give “full consideration” to China’s interests when making decisions on any projects related to China.

Hu’s proposals on specific steps for building a strategic relationship with Russia reflect a broad trend toward pragmatism and problem solving in China’s foreign relations under the fourth generation of leaders. This is not only with regard to bilateral relations with Russia, but also in other issues such as China’s policies toward Korea, ASEAN, India, the U.S., etc.

China’s efforts toward specific outcomes in relations with Russia make sense. Having signed the GNTFC in July 2001, it is time to put some flesh on the bones of the grand legalistic framework. Meanwhile, the end of the Jiang-Yeltsin era also led to a major review of the overall relationship with Moscow by China’s new leadership. A consensus seemed to have been reached that strategic partnership with Russia may not live up to its name if it remains without substance. The proliferation of inter-governmental commissions, subcommissions, and working groups since the 1990s – though reliable communicating and interfacing mechanisms – has yet to generate fresh impetus in real issue areas and therefore appears to be window-dressing. On the issue of the forever delayed oil pipeline project, the Chinese side views some Russian bureaucracies as obstacles rather than problem solvers.

There is no quick fix to these problems. Pragmatism, particularly in economic areas, may be the only possible approach to validate the China-Russia strategic partnership. Hu’s specific suggestions for working on economic issues, therefore, was part of China’s economic offensive.

Wu’s ‘Long March’ to Moscow from Siberia

For the same reason, Wu Bangguo, chairman of the Standing Committee of the National People’s Congress (NPC), conducted his first official visit to Russia on May 22-29. During his visit, Wu attended the China-Russia Forum on Border and Regional Cooperation and unveiled his own four-point proposal for strengthening bilateral economic relations: improving the trade commodity structure by increasing the technical content and added value of commodities; expanding investment; promoting border trade and regional cooperation; improving the cooperation environment by promptly resolving problems that arise in the course of economic and trade exchanges. In his talks with

Russian Prime Minister Mikhail Fradkov, Wu made two additional suggestions: enhancing the legal and regulatory ability of the government and economic cooperation among SCO member states.

Wu's week-long trip to Russia not only focused on substance, but also included an official visit to Russia's Far Eastern cities of Khabarovsk (May 22) and Irkutsk (May 23), where he mingled with local officials and businessmen and explored specific measures for economic cooperation. Wu's stopover marked the first visit to the region by a high-level Chinese leader. Both Russian cities are crucial for overall relations between Beijing and Moscow. While the former is Russia's key border city with China, the latter will be the beginning of the Angarsk-Daqing oil pipeline – which had been in question because of Japan's recent effort to build an oil pipeline to the Pacific coast – and a gas pipeline from the Kovyktinskoye field in the Irkutsk region. Wu's stopover in the Siberian cities is expected to promote these energy projects vital for China's long-term energy security.

Wu apparently did not act only as a salesman. In meetings with Russian lawmakers, Wu also made a three-point proposal for overall bilateral relations and a five-point proposal for enhancing parliamentary roles in promoting bilateral relations.

The Russians seemed to have a receptive ear to all these Chinese suggestions – although some may be too much for the other side to digest. In almost all cases – the Hu-Putin meeting, Wu's meeting with various Russian leaders, etc. – Russian leaders would agree with China's proposals, which essentially called for respect for the law of the market and to create a favorable environment for business. Russian officials may not be able to disagree because these specific issues are real and should be addressed, even if just to advance Russia's own interests. This leaves the onus on Russia before Chinese Premier Wen's visit to Moscow and Putin's official visit to China in the second half of the year.

China's diplomatic activities did not focus exclusively on Moscow as the center of Russia or on Russia as the center of the Eurasian landmass. NPC Chairman Wu Bangguo's visit to Russia not only started from Siberia, but part of his trip included Europe – Bulgaria, a former Eastern bloc nation. Before Hu Jintao's mini-summit meeting with Putin during the SCO annual meeting in Tashkent, the Chinese president traveled to Poland, Hungary, Romania, and Uzbekistan, all “peripheral” nations of Russia. In late June, Politburo member Li Changchun traveled to Kazakhstan, Ukraine, Greece, and France.

The second quarter also witnessed a stream of VIPs from Kazakhstan, the largest central Asian state, visiting China. They included Kazakh President Nursultan Nazarbayev and his defense, foreign affairs, transport, and communication ministers. Their visit led to several major deals in oil and gas, railroad construction, military assistance (\$1 million of unconditional aid), and confidence building measures. Without progress on the Russia-China oil pipeline, China has worked hard to secure energy, transportation, and other deals with Central Asian states.

Lubricate SCO with Commerce and Cash

The second quarter of the year is the SCO's "working quarter," which includes annual ministerial meetings that culminate in a summit.

The foreign ministers annual meeting in Moscow on April 22-23 did preliminary work for the SCO summit in June. Foreign ministers worked on setting up a multi-tier mechanism for consultations, including regular meetings between SCO permanent envoys at the UN; accepting Mongolia for observer status and Afghanistan's presence at the upcoming summit; India's request for SCO membership, etc. The foreign ministerial meeting was followed by a working session of the Executive Committee of the SCO Regional Antiterrorist Structure (RATS) in the Uzbek capital of Tashkent on April 30. Participants worked out a plan for the RATS executive committee for 2004-2006.

In late May, SCO economics and trade ministers met in Tashkent, to focus on the feasibility of a Central Asian common market for regional economic cooperation. China proposed to set up a regional cooperation development fund, a business forum, and an SCO website. A working group was formed to promote the development of transport and transit mechanisms. The ministers gave preliminary approval to 143 investment projects of mutual interest. Final approval will be given at a Moscow meeting of SCO prime ministers in September.

At the June summit, the SCO Regional Antiterrorist Structure was officially "launched" following the official debut of the SCO Secretariat in Beijing in January. Thus, after three years of focusing on construction of its basic structure and its legal foundation, the regional forum began full-scale cooperation with 12 meeting mechanisms, including meetings of its heads of state. The Tashkent summit also admitted Mongolia as an observer and accepted guest status for Afghanistan (Afghanistan Transitional Government President Hamid Karzai). Other documents signed included the convention on SCO privileges and immunities, an agreement on cooperation in the struggle against the illegal trafficking of narcotics, psychotropic substances, and their precursors, and a resolution to introduce Shanghai Cooperation Organization Day as a special annual public event. The Tashkent summit also approved the set up of a development fund and a business council (an entrepreneurs committee), and invited international organizations in the Asia-Pacific region to establish working relations with the SCO.

SCO expansion, however, was not without dispute. While Russia favors India's membership, others – China, Uzbekistan, and Kazakhstan – preferred a more cautious approach to admitting new members. Of the four countries that applied to participate in the June 2004 Tashkent summit, India and Pakistan were not accepted. The annual summit, however, did generate some fresh momentum. Kazakh President Nazarbayev suggested that the SCO should find better ways to implement relevant agreements and cooperative documents. Tajik President Emomali Rakhmonov proposed to fully exploit the role of the SCO Secretariat and the Regional AntiTerrorist Structure. Russian President Putin proposed to establish a liaison mechanism between the SCO and Afghanistan. Uzbek President Islam Karimov proposed to establish a Central Asia

Common Market. Kyrgyz President Askar Akayev said members should strengthen cooperation in areas of energy and transportation.

The most significant move for SCO development was made by Chinese President Hu Jintao, who offered \$900 million in preferential buyer's credit loans to the other five members. Hu believed that economic cooperation and the fight against three forces of terrorism, separatism, and extremism were two key areas the SCO should work on. Hu also suggested that the SCO operationalize, as soon as possible, the five specialized working groups concerning e-commerce, customs, quality inspection, investment promotion, and transportation facilitation. He noticed the "high complementary economy among members and the rich natural resources" and called on them to "start cooperation in various forms."

President Putin welcomed China's initiative to earmark soft trade loans to SCO member states. China's move, however, also challenged Russia's traditional hold, direct or indirect, on the Central Asia states. An immediate question was what Russia will and can do for the regional organization. Although Putin indicated that Russia was also in the position to provide such loans to SCO member states, he also implied that Russia was already providing economic assistance to those Central Asian states with low-price energy and other resources. In other words, Russia may not try to match China's offer. Moscow "would not like other participants in the organization to use Russia or China as donors," said Alexander Ivanov, head of the Asian Affairs department of the Russian Foreign Ministry. Instead, Russia prefers a more traditional role for major powers including China in Central Asia, that is, "maintaining stability in the region, non-admission of deterioration of the situation..."

Work on Economics

For all the political and diplomatic maneuvering, economics remains the basis of, and a barrier to, the China-Russia strategic partnership; this is particularly true for the delayed and troubled pipeline project. Although Chinese officials redoubled their efforts to get more energy deals from other sources (Central Asia, etc.), they did not give up on the Angarsk-Daqing route. Russian companies, however, reportedly started "surveying jobs" in May 2004 for constructing power supply installations for pumping stations for the Taishet-Nakhodka oil pipeline (favored by Japan). This is being done even if an official decision by the Russian government will not be made until late 2004 or early 2005. All seven Russian localities through which the pipeline is to pass – Irkutsk, Amur, Chita, the Jewish regions, the Republic of Buryatia, Khabarovsk, and the Maritime Territories – have already approved the project. The only remaining question is whether to construct a spur line to China. As a preliminary move, Chinese Ambassador Liu Guchang was informed on June 30 that the consensus among Russian officials is that the Taishet-Nakhodka route was feasible as a trunk line, pending final decision in the fall of 2004. Once this is done, Russia will work with China for a spur line to Daqing, China. The Taishet-Daqing Pipeline, therefore, is still on the agenda.

While Russian oil is hard to come by, growing economic interaction also produced growing disputes. In late April, Russian customs declared it would apply discriminatory measures against commodities from China. A tariff hike adding no less than \$3.5 per kg of goods imported from China would boost the retail price for Chinese commodities in Russia by 50 percent. Further, Russian customs had orally told ports to tighten control over commodities imported from China without formally informing China of the decision. The discriminatory tariff was still in place at the end of June despite a formal inquiry by the Chinese side.

Not everything was negative, however. In April, the first land fiber-optic cable connecting Moscow and Beijing via Ulaan Baatar opened. China's Heilongjiang Province started importing electricity from Russia; the project is expected to import a total of 15.4 billion kilowatt hours of electricity over 10 years. In June, a Russian-Chinese investment forum in Khabarovsk led to the signing of 13 contracts worth more than \$1.7 billion. A few days later, another 30 contracts worth \$2.5 billion were signed at the 15th international fair in Harbin.

Meanwhile, the two sides tried to work out long-term projects and expand mutual investment. Russia's Far East Federal District and China's three northwest provinces – Liaoning, Jilin, and Heilongjiang – started a trade fair in Khabarovsk on April 14. Five days later, the ninth Russia-China forum on economic, trade, and investment cooperation between the two countries' regions, sponsored by the Chinese People's Society of Foreign Friendship, was held in Beijing. China and Sakhalin Energy of Russia are working on a project to supply liquefied natural gas to China.

Two Sides of Military-Military Relations

The second quarter was busy with military exchanges, starting with Russian Defense Minister Sergei Ivanov's trip to China in late April and the PLA Chief of Staff Liang Guanglie's visit to Russia in late May.

These visits occurred against a backdrop of heightened tension during Taiwan's presidential election, which produced dramatic results leading to a second term for pro-independence President Chen Shui-bian. Ivanov's visit was considered by his Chinese hosts – Chairman of the Central Military Commission (CMC) Jiang Zemin, Premier Wen Jiabao, Defense Minister Cao Gangchuan, PLA Chief of Staff Liang, and Deputy CMC Chairman Guo Boxiong – as very important.

The talks between Ivanov and his Chinese counterpart Cao covered a wide range of issues, such as the international situation, the Korean Peninsula, the SCO, Iraq, etc. The two, however, spent most of their time on collaboration among their armed forces and the "*framework* [emphasis added] of cooperation in military technology." This meant Ivanov was not to discuss military-technology issues with his Chinese host, which will be the topic for the 11th session of the Russian-Chinese commission for military-technological cooperation in December.

The two defense ministers, however, had quite a lot to cover, sometimes in Russian (Cao is a graduate of the Soviet Artillery Engineering Academy, 1956-1963). Their meeting in Beijing coincided with the launch for the PLA Navy of the latest destroyer in St. Petersburg and a diesel submarine that was to be sea-tested by the Krasnoye Sormovo plant in Nizhniy Novgorod shortly after (in May). A delegation of PLA sailors arrived in St. Petersburg to take part in the ceremony. The Russian military-industrial complex was kept busy by orders from China, which usually account for 40 percent of what Russia produces for export. Total deliveries to China in 2004 are estimated to exceed \$2 billion, up from \$1.5 billion in 2003. Meanwhile, thousands of Chinese students are studying at Russian military academies. Back in Beijing the defense ministers told reporters that they tried to figure out “how to raise the two countries’ military-technical cooperation to a qualitatively new level,” including a joint exercise, code-named *Frontier-2004*, in the summer within the SCO framework.

China-Russia military exchange continued in May when the PLA Chief of Staff Liang visited Russia. In addition to talks with Russian counterpart Gen. Anatoly Kvashnin, Defense Minister Ivanov, and other Russian officials, Liang visited Russian military facilities and units, including the airbase at Kubinka near Moscow, a motorized brigade stationed in the Moscow region, a Baltic Fleet warship at Baltiysk in the Kaliningrad region, and met with faculty and cadets of the Naval Academy in St. Petersburg.

The extensive military-to-military (mil-mil) relationship between the two nations is only part of the story. In retrospect, there has been an asymmetry in the two main areas of China-Russia mil-mil relationships. In the area of border demarcation, territorial security, and confidence-building measures, Moscow and Beijing have gone a long way toward converting what was once the world’s longest militarized border into one of peace, stability, and commerce. When it comes to Russian arms sales and technology transfers to China, however, Moscow has so far refrained from treating Beijing as a “normal customer.” Its arms shipments to China have been inferior to those for other nations such as India, despite the fact that both Asian nations are Moscow’s “strategic partners.”

In the past decade, Russia has been China’s principal supplier of military hardware and technology. Some of the major items to China include 50 *Su-27SK* fighters (licensed production of 200 *Su-27s*), 40 *Su-30 MKK* fighters, 4 *Kilo-class* submarines (8 more are being built), *S-300 Tor-M1 SAM* missile systems, 2 *Sovremenny-class* destroyers (two more are being built), *T-80* main battle tanks, etc. These weapons systems are at least 20 years ahead of China’s aging inventory. For its part, China has also contributed to the survival of the Russian arms industry as Russia’s domestic demand shrank during the post-Soviet years. In the 1990s, Beijing purchased more than \$4 billion of Russian arms. Current accounts show \$5 billion worth of existing contracts.

The current asymmetry in mil-mil relations between Beijing and Moscow is perhaps natural given the enduring geopolitical games nations play. In the absence of other major arms supplier(s), Beijing has no choice but to accept second best. That said, the current state of affairs in Russia’s military sales to China may have been the function of asymmetrical expectations between Beijing and Moscow. While “friendly pricing” may

be China's hope for being a strategic partner with Russia, the latter seems to want to be both "friendly and pricey." Without the ideological coating to arms sales to China, as was the case in the Sino-Soviet honeymoon of the 1950s, Russia's interests-based policy toward its strategic partner in the south could overplay its hand in the long run. It has forced China to actively search for alternative sources, as in the case of Russia's indecision on the oil pipeline.

China's predicament may not change significantly in the near future due to U.S. pressure on the Europeans and Israelis not to lift their arms embargoes. From early 2004, active deliberation by the European Union, particularly the French and Germans, to end the embargo has put psychological pressure on Russia to alleviate its "discrimination" against China. Mutual visits by high-ranking civilian and military officers in the second quarter may indicate that both sides are ready for higher level mil-mil relations. It remains to be seen how the arms deals between the two nations will evolve from China's massive purchases of weapons, which now account for 70 percent of total military transactions, to a higher percentage for licensing and joint development of new hardware. At the end of the second quarter, Russia and India are considering inviting China to join the joint research and development of the fifth generation multi-role fighter aircraft.

Chronology of China-Russia Relations: April-June 2004

April 12, 2004: Premier Wen Jiabao sends a condolence message to Russian Prime Minister Mikhail Fradkov over the April 10 mine blast in Siberia.

April 14, 2004: China and Russia open first land fiber-optic cable via Mongolia. The 7,500-km, 622 MPS link supplements existing undersea cable and communication satellites.

April 15, 2004: Delegation of Moscow government headed by Vice Mayor Vladimir Shantsev visits Beijing to strengthen contacts between Beijing and Moscow.

April 19, 2004: Ninth Russia-China annual forum on inter-regional cooperation, dealing with economy, trade, and investments, held in Beijing.

April 20-23, 2004: Russian Defense Minister Sergei Ivanov visits China for talks with counterpart Col. Gen. Cao Gangchuan, Chairman of the Central Military Commission Jiang Zemin, Premier Wen Jiabao, Deputy Chairman of the Central Military Commission Col. Gen. Guo Boxiong, and Chief of the PLA's General Staff Col. Gen. Liang Guanglie.

April 21-23, 2004: Chinese Foreign Minister Li Zhaoxing visits Moscow and meets DM Lavrov, President Putin, and Russian Security Council Secretary Igor Ivanov. Li joined the SCO conference of foreign ministers on April 22-23.

April 23, 2004: Russian Communist Party Chairman Gennady Zyuganov visits China and meets with Li Changchun, member of the Political Bureau Standing Committee of the CCP Central Committee.

April 27, 2004: Boris Gryzlov, chairman of the State Duma and leader of the One Russia party, holds talks with a delegation of the CCP headed by Wang Lequan, Political Bureau member and secretary of the Xinjiang Uygur Autonomous Region.

April 28, 2004: Russian Deputy FM Sergey Razov and PRC Assistant FM Li Hui hold talks in Beijing to discuss “topical issues of international relationships.”

April 30, 2004: Executive Committee of SCO Regional Antiterrorist Structure (RATS) meets in Uzbek capital of Tashkent.

May 6, 2004: Chinese President Hu Jintao sends Putin a congratulatory message on his second presidential term.

May 10, 2004: Hu sends condolences to Putin after an explosion on May 9 in the capital of the Chechen Republic. Hu reiterates China’s opposition to any form of terrorism.

May 14, 2004: Russian First Deputy FM Eleonora Mitrofanova ends visit to China: she was invited by Deng Rong, the daughter of Deng Xiaoping.

May 15-19, 2004: Hong Kong’s chief secretary Donald Tsang pays an official visit to Russia and meets with acting Russian FM Lavrov. They discuss bilateral cooperation in economics, transport, culture, and tourism.

May 17-23, 2004: Chinese Chief of General Staff Liang visits Russia for talks with Russian counterpart Gen. Anatoly Kvashnin, DM Ivanov, Russian Security Council Secretary Ivanov, and Russian Vice Premier Zhukov.

May 22-29, 2004: Wu Bangguo, chairman of the Standing Committee of the Chinese National People’s Congress, arrives in Russia for a seven-day visit to four Russian cities (Khabarovsk, Irkutsk, Moscow, and St. Petersburg). Wu meets with Putin, PM Mikhail Fradkov, Chairman of the Federation Council of the Federal Assembly of Russian Federation Gergei Mironov, and Chairman of Russian State Duma Boris Cryzlov.

May 24, 2004: Li and Lavrov talk over the phone on a UN Security Council resolution on Iraq.

May 28, 2004: Meeting of economics and trade ministers of SCO member states in Tashkent produces memorandum and a protocol. China proposes a regional cooperation development fund, a business forum, and an SCO website. A working group is formed to promote development of transport and transit.

June 9-30, 2004: Russian military conducts its largest exercise in 15 years, code-named *Mobilnost-2004*, in the Far East and border areas with China. A total of 5,000 servicemen and 600 pieces of hardware are involved. Russia notified China of the exercise.

June 16-17, 2004: SCO annual summit in Tashkent with a ceremony at the opening of antiterrorist center. Chinese and Russian presidents talk on the summit sidelines.

June 23, 2004: Military delegation from China's Jilin Province visits Sakhalin as part of plan to implement cooperation agreement between the Pacific Border Guard Directorate of Russian Federal Security Service and China's border guards' department.

June 30, 2004: Chinese ambassador Liu Guchang informed that the consensus among Russian officials is that the Taishet-Nakhodka pipeline route is feasible, pending final decision in the fall of 2004.