



**China-Russia Relations:
Between Cooperation and Competition**

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By any standard, the third quarter appeared to be the finest moment for the Shanghai Cooperation Organization (SCO): the seventh summit in Bishkek, Kyrgyzstan was the largest summit ever held by the regional organization; the SCO heads of state signed its first multilateral treaty (Treaty among the Member States of Good Neighborliness, Friendship and Cooperation, or “The Friendly Treaty”) and it was the first time all member countries participated in a joint antiterrorism military exercise in Russia.

A closer look at the chemistry between Russia and China, however, reveals a far more complex interactive mode of cooperation, competition, and compromise. While security cooperation moved forward culminating in the *Peace-Mission 2007* military exercise, the game of petropolitik was heating up in Central Asia with Beijing gaining the upper hand, at least for the time being. The quarter ended, however, with significant progress in energy cooperation as the long-awaited Eastern Siberia-Pacific Ocean (ESPO) oil pipeline was about to extend a branch line to China’s energy-thirsty northeast region. Thus, in his eight years as Russian president, Putin seems to have set a solid record in dealing with Russia’s southern neighbor: pure geostrategy has outweighed market fundamentals and friendly partnership with Beijing.

SCO Summit in Bishkek

With 12 nations participating, the SCO gathering in Bishkek was the largest since its inception in 2001. Besides the six member countries (China, Kazakhstan, Kyrgyzstan, Russia, Tajikistan, and Uzbekistan), representatives of SCO observer countries (Mongolian President Nambaryn Enhbayar, Iranian President Mahmud Ahmadinejad, Indian Minister of Petroleum and Natural Gas Murli Deora, and Pakistani Foreign Minister Khurshid Kasuri) also attended. Among the guests were Turkmen President Gurbanguly Berdimuhamedow, Afghan President Hamed Karzai, and UN Deputy Secretary General Mark Molloch Brown. The summit was also joined by some 1,400 other guests and participants, and was covered by 508 journalists from 16 countries.

The summit produced the first multilateral treaty in the Eurasian region when the six heads of state signed “The Friendly Treaty,” the Bishkek Declaration, which outlines SCO priorities and future challenges, the SCO Action Plan on Ensuring International

Information Security, and other documents. Of these, the friendship treaty is viewed as the most important and was proposed by Chinese President Hu Jintao at the Shanghai summit in 2006. It reportedly provides a legal framework to ensure member countries will continue cooperation from generation to generation.

Many of these documents, declarations, and treaties overlap in their basic wording: multilateralism, equality, international law, UN, regional stability, development, environmental protection, cultural, educational, and sports exchanges, etc. The real goal for adopting the friendship treaty at this time was perhaps to provide a legal framework for the existing mode of cooperation and interaction between SCO members and observers, as well as reciprocity with the rest of the world. This may well be timely given the current and potential sources of instability in many parts of Eurasian.

Many firsts for *Peace-Mission 2007*

The inception of the *Peace Mission 2007* antiterrorism exercise was April 26, 2006 when the SCO defense ministers met in Beijing. They worked out a scenario for the exercise: deteriorating domestic political situation in state “A” (a nominal state in the Chelyabinsk and Kurgan regions in Russia that joined the SCO); the masterminding of a coup by separatists and the opposition to topple the legitimate president and the government of the country; and the escalation of internal armed conflict. The SCO states respond with political, diplomatic, economic, and forcible measures to settle the conflict, including a joint antiterrorist operation in cooperation with the state authorities and the law enforcement agencies of state “A” in order to destroy illegal armed units.

It took SCO military experts six rounds of talks to iron out and coordinate the details of the exercise. The bulk of the troops were Russian (2,000) and Chinese (1,600). Kazakhstan and Tajikistan contributed one airborne company each, while Kyrgyzstan and Uzbekistan sent an airborne platoon and staff officers, respectively. There were also more than 1,000 pieces of equipment including 500 combat and special vehicles and 70 fixed-wing airplanes and helicopters.

The actual exercise was conducted in two phases: On Aug. 9, SCO defense chiefs held strategic consultations in Urumqi, China followed by a series of rehearsals at the Russian Army’s 34th Motorized Rifle Division range near Chebarkul town, about 80 km west of Chelyabinsk, in Russia’s Volga-Urals Military District. Execution of the antiterrorist drill was observed by SCO heads of state on Aug. 17 after the Bishkek summit.

Peace-Mission 2007 was unprecedented in many dimensions. For the first time in its 11 years of existence (from 1996-2001 it was known as the “Shanghai Five”), the SCO conducted a joint military exercise involving armed forces from all its member states. Although this was the fifth joint exercise, previously these exercises were either bilateral or there was a “missing link.” This was also the first SCO exercise conducted in conjunction with its annual summit meeting.

Moving thousands of non-Russian troops and their heavy equipment to the drill area was not easy, particularly for the Chinese military. Some 1,600 troops of the People's Liberation Army (PLA) and 45 aircraft were transported by rail (10,300 km) and air (2,700 km) to Russia, the longest force projection operation for the PLA in recent memory. It was also the first time China sent its airborne units to drills abroad.

Peace-Mission 2007 was by no means the SCO's largest drill, but it was perhaps the first time that the drill both looked and "tasted" right. Not only did SCO members dispatch their best units, they also integrated more closely and efficiently: generals gathered in the same situation room; all units interfaced through a Russian communication mechanism, though communication between Russian and Chinese forces had to rely on 200 interpreters; and commandos of different SCO states boarded and dropped from the same helicopter.

The actual exercise lasted only two hours before the SCO leaders. The intense two-week rehearsal with the elite 34th division of the Russian Army, however, was a media frenzy. Both Chinese and Russian media offered extensive reports of the drill, though for different reasons. Moscow's strained relations with the West and the U.S. may require a higher than normal military posture. Beginning early this year, the PLA has apparently switched from minimum to maximum in unveiling and publicizing its indigenously developed weapons systems, in reporting military drills, and in providing more transparency in its structure, procurement, and doctrine. Though this may be for transparency and/or deterrence purposes, the Chinese media lost no time in promoting the image and capability of the PLA, particularly those elite units dispatched to *Peace-Mission 2007*.

Beyond brothers in arms

More than other activities of the SCO, *Peace-Mission 2007* attracted considerable attention and even generated alarm, particularly from the U.S. From Washington's perspective, the SCO is close and yet far away: close because both of its ongoing antiterrorism wars (Afghanistan and Iraq) are being fought around the peripheries of SCO member countries; far away because the SCO is the world's only regional security organization without direct participation of the U.S. Worse, the SCO allowed some 80 nations to observe the rehearsals, but not the U.S. As a result, there is a growing perception that Moscow and Beijing are not merely creating their own "space," but are also poised to shape this regional security group into a military alliance.

Despite the media extravaganza, SCO leaders repeatedly stated that *Peace-Mission 2007* did not target any third party. Indeed, in its 11 years the regional group has been preoccupied with issues between or among its members within the confines of its own space: Shanghai Five (1996-2001) focused on confidence building and reducing border tensions and the SCO (2001-present) focused on antiterrorism and institution building. Meanwhile, the trend is to connect the SCO to the rest of the world. The SCO's official rhetoric, therefore, deserves serious consideration.

Shortly after the two-hour exercise, Putin denied that the SCO was anti-NATO. He pointed to the danger of terrorism in the region, which NATO does not face, and the growing and “predominant” economic aspect for SCO member states.

Putin’s view of the SCO’s mission was echoed by his Chinese counterpart. In his official speech at the Bishkek summit, President Hu Jintao focused on political coordination, economic cooperation, cultural exchanges, and external outreach. Indeed, the summit agenda and declaration tilted heavily toward political consolidation and socio-economic integration, in spite of the military exercise. Almost all of the specifics Hu proposed in Bishkek were focused on the expansion of cultural and educational cooperation: more scholarships for students from the other five SCO members, “exchange workshops” for middle-school students, winter holidays for college students on China’s Hainan Island, and promoting the teaching of one another’s language and cultures. Hu’s cultural-social focus serves China’s own interests with the nation fast extending its economic reach into central Asia. More “soft” touches with a predominantly Muslim dominated area would provide lasting lubrication for Beijing’s more tangible presence in the region.

Hu’s educational offer was matched by Putin, who suggested creating a “SCO university.” Partially based on this de facto competition between Beijing and Moscow for cultural exchanges among SCO members, the Agreement on Inter-governmental Cultural Cooperation was signed in Bishkek.

Beyond the focus on education and cultural exchange, Kyrgyzstan President Bakiyev proposed more transport services and more favorable conditions for road freight, including the extension of Kyrgyzstan’s ongoing rail construction into China to the rest of the region. Kazakhstan and Russia were more interested in creating a SCO energy system, consisting of an information center, a database, and a trading market for energy products. Moscow appears eager for an energy network for the SCO since Russia’s role in the world’s energy market would be further enhanced. The joint communiqué signed by the SCO leaders, accordingly, addresses the idea of a single, coordinated, and efficient “energy club.”

In retrospect, economic cooperation has always taken a prominent role for SCO members. Three days after Sept 11, 2001, SCO held the first prime ministers meeting held in Almaty, producing a memorandum focused on economic cooperation. Although the agenda was pre-arranged, the fact that it was convened and went ahead with its agenda indicated the SCO’s devotion to economic development, regardless of external events. Subsequently, the SCO has moved steadily into the realm of economic interactions.

It may be some time before a SCO energy club takes definitive shape. Other ideas for SCO development were also tossed around. Putin went so far as to propose a SCO “health organization” so that member states could more efficiently coordinate efforts in dealing with infectious diseases such as tuberculosis. Some actions have already been taken as several groups of doctors performed missions to prevent infectious diseases in Tajikistan and Kyrgyzstan while the SCO summit was taking place in Bishkek. Also, a

mobile railway medical center will start operating in the SCO countries in the fall, according to Putin.

A league of its own

Given these non-security aspects of the SCO, military and security affairs are only a relatively small portion of the SCO, though they do attract more outside attention. In certain ways, the SCO operates more like the European Union, with most of its functional activities within the political, economic, and social areas. Even the EU, however, is not a close analogy for the SCO in that the EU originated in and admits new members based on political and cultural, if not racial, criteria (such as democracy and Christianity).

Contrary to the EU's political and religious uniformity, SCO members represent a diverse background of Christianity, Islam, Buddhism, and Confucianism. If observer members are counted, Hinduism can be added to the list. Beyond religion, the SCO unites the East and West, democracies and non-democracies, large and small nations, and relatively developed, newly industrialized, and less developed countries. Finally, the SCO member states boast a total area of 30 million sq. km., occupying about three-fifths of the Eurasian continent and claim nearly 1.5 billion people, accounting for a quarter of world population. If the observer states are included, the SCO covers almost half the world's population and 300 different ethnic groups: the SCO is a league of its own.

Such a vast landmass and mix of civilizations have many implications for both the international system and for the organization itself. At a minimum, the SCO serves as a forum for leaders at various levels to interface, for symbolic purposes and on substantive issues. The mere fact that such a large portion of the world is willing and able to talk to one another, pursue stability, development, and peace with itself and the rest of the universe is no small matter. This is despite the fact that the economies of the key member and observer states relate more to the outside world than to each other: Russia's energy, China's manufacturing, and India's information technology. For the foreseeable future, the SCO will remain preoccupied with its own issues and problems. Decision-making may never be swift and decisive given the equality of member states and its consensus-building process. It also means that many of its declared goals will not be reached any time soon. One example is that for the first time in three years, the SCO's Regional Anti-Terrorist Structure (RATS) produced on July 24 the first list of dozens of international religious extremist organizations (17 in Russia, six in China, and 24 in Uzbekistan). They include the Ul-Shura Higher Military Majilis of the United Forces of Mujahideen of the Caucasus, Al-Qaeda, Al-Jihad, the Muslim Brothers, Hizb-ut-Tahrir, Lashkar-i-Taiba, the Islamic Party of Turkestan, and the Taliban.

It is toward these multiple goals – security, stability, economic development, and cultural exchange – that the SCO reinforces its anti-terrorist “teeth.” In the aftermath of the Soviet collapse, the Taliban phenomenon (1996-2001 in Afghanistan) underscored a general state of instability in Central Asia because of those extremist forces. Even for large states like Russia and China, border stability remains a challenge. Three months before Sept. 11, the SCO came into existence with an explicitly defined mission of combating

terrorism, separatism, and religious extremism in the region. In retrospect, the formation of the SCO and its collective effort to combat the challenges from the stateless terrorist forces foretold the terrorist attacks on the U.S. In contrast, the U.S. was preoccupied with missile defense for the next war with a major power “challenger” to its supremacy.

Even at the military-technical level, *Peace-Mission 2007* was a realistic application of the Russian-Chinese military power to the declared antiterrorist goal of the SCO. Unlike the *Peace-Mission 2005* joint exercise held in China, there were no strategic bombers involved this time. Both sides dispatched fighter-bombers, plus attack helicopters. For unknown reasons, the much-talked about participation of the Chinese *J-10* fighter (equivalent to *F16* and with a Russian engine) never materialized. On the ground, only infantry fighting vehicles and other supporting vehicles, rather than tanks, were involved. Border guards, security force, and special police units took part. The inland environment did not require naval forces. In 2005, cruise missiles were launched from submarines, while marines hit the beaches for targets that looked more like a regular military assault than those involving stateless transnational terrorist groups.

Taken together, these activities show that SCO member states are working toward a community of nations with multiple goals and identical interests. In both set-up and substance, the SCO differs substantially from a typical military alliance.

Russia and China: same bed, different dreams, or else?

A military alliance is perhaps the least likely outcome for the SCO because Russia and China, having gone through the “best” (alliance in the 1950s) and “worst” (enemies in the 1960s and 1970s) in their relationship, are seeking and learning to maintain a normal mode of interaction with both cooperative and competitive elements. An alliance may take shape only under the extreme circumstances in which the core interests of both Moscow and Beijing are perceived to be harmed and endangered by the same adversary at more or less the same time. Short of that, both Beijing and Moscow would live with, cope with, and benefit from the existing international system even if it is dominated by the West, particularly by the U.S. The reason is simple: China’s historical rise and Russia’s steady recovery are occurring at the moment.

Even within the SCO, Moscow and Beijing may not have entirely identical interests regarding Central Asia. Moscow is more interested in stretching the SCO’s military and security functions because of its stronger military presence in these former Soviet republics. In April, Russia drafted a document calling for more coordination and integration of the SCO defense infrastructure as a basis for more stability and economic development. Other SCO members, however, did not reciprocate.

Beijing’s priority is to tap the SCO’s economic potential and expand its non-security related ties with member nations both within and outside the SCO framework. This became evident in mid-July when President Hu entertained Turkmenistan President Berdimuhamedow in Beijing and secured a 30-year deal that will supply China with 30 billion cubic meters of natural gas per year. This “deal of the 21st century” for the small

mountainous central Asian state, however, required transit rights through Kyrgyzstan and Kazakhstan before reaching China's northwestern province of Xinjiang. For this purpose, Hu traveled to Kyrgyzstan (Aug. 14-15) and Kazakhstan (Aug. 18) to work out separate deals that will allow Turkmen gas to pass through their territories. In his first-ever visit to Kyrgyzstan prior to the SCO summit, Hu inked 12 cooperation agreements. During his one-day visit to Kazakhstan, Hu and Kazakh President Nazarbayev reached an agreement on the construction of the second phase of the oil pipeline from Kazakhstan to China and on the construction of the longest gas pipeline in the world (7,000-km including 188 km in Turkmenistan, 530 km in Uzbekistan, 1,300 km in Kazakhstan, and over 4,500 km in China) to deliver Turkmen gas to China from 2009.

China's energy "drive" through Central Asian states during the third quarter occurred at a time when Sino-Russian energy talks ran into various difficulties, ranging from Gazprom's pressure on Exxon to abort a contract to export natural gas from its Sakhalin I project and to redirect all supplies to Gazprom, a nearly 11 percent increase in the construction cost of the ESPO pipeline, and failure to reach agreement in the Sino-Russian talks for both eastern and western gas line routes. The much talked-about Russian gas supply to China may well be postponed to 2020. As a result, China's petrodrive in Central Asia will essentially bypass Russia.

This prospect alarmed the Russian president, who immediately offered Kyrgyzstan – shortly after Hu's official visit – an unusually generous \$2 billion for this small central Asian state of just 5 million people and a 2006 government budget of just \$600 million. "...We are talking about investments of up to \$2 billion," Putin said in a meeting with Kyrgyz President Bakiyev. "We only need good projects. We are ready to take all necessary measures in order to ensure the financing of these projects," Putin added. Russia's latest effort to "regain" Central Asian states means that the game of petropolitik is far from over. Despite all the assurances from Turkmenistan, it is common knowledge that it has not followed through on its intent to upgrade and expand its Soviet-era gas pipelines, as proclaimed in the meeting with heads of state of Russia and Kazakhstan in May. It remains to be seen if Turkmenistan's "China card" is real or leverage for bigger and better deals with this new energy "kid."

Although China's economic drive and Russia's expanding security interest in Central Asia may complement one another in dealing with extremist forces in the region, Beijing's rapid economic advancement into these Central Asian states is not perceived as entirely harmless by Russia. Indeed, Russia's embrace of the idea of an SCO "energy club" may well be an effort to regain influence, if not control, in the energy sector in this part of the world. At a minimum, Moscow wants to avoid competitive pricing at its expense when there are multiple energy suppliers for one big customer (China).

While Beijing and Moscow both prefer a multilateral world, they may differ on how to achieve such a global power configuration. *Peace Mission 2007* took place at a time of considerable tension in Moscow's relations with the West. It is also true that Putin announced publicly that Russia's strategic bombers would resume its routine patrol missions, which is reminiscent of the Soviet practice during the Cold War. Beijing,

however, has essentially stood aside in this new round of posturing between Russia and the U.S. Most Chinese analysts do not believe that the two former superpower rivals would return to the “good-or-bad” old days. Some have warned that a return of the Cold War-type confrontation between the two former enemies would severely limit, not broaden, China’s strategic space because China would have to choose between the two and that is not in the interest of China and the rest of the world. A soft-landing of the current Russia-U.S. tension, therefore, serves the interests of all. For this reason alone, a military alliance for the SCO is perhaps the last thing that Beijing would like to see. Regardless of how Russia will deal with current tension with the West, a rapidly rising China is unlikely to alter its existing strategy for a peaceful rise.

Given these differences between Moscow and Beijing, it is safe, as well as realistic, to say that the strategic partnership between the two large powers is not as strong or weak as is commonly perceived. This does not necessarily mean that the SCO will never become a military alliance. The potential exists. What is more important, however, is to see that the potential for it not to become an alliance is perhaps greater.

Chronology of China-Russia Relations July-September 2007

July 2-4, 2007: Gu Xiulian, president of the All-China Women’s Federation and vice chairwoman of the Standing Committee of the National People’s Congress, visits Moscow and meets Boris Gryzlov, chairman of the State Duma, First Deputy Prime Minister Dmitri Medvedev, and Moscow Mayor Yuri Luzhkov. Gu was part of an 80-member delegation for the 4th China-Russia Women’s Culture Week.

July 9, 2007: The Council of SCO foreign ministers meets in Bishkek to discuss preparations for the SCO summit in August. It approves the agenda for the summit including the text for the “Friendly Treaty” and agrees to step up contacts with SCO observer states and broaden the activity of the SCO-Afghanistan Contact Group.

July 9, 2007: The Sino-Russian energy sub-commission, part of the preparation for the annual prime ministerial meetings, meets in Beijing. Russian Industry and Energy Minister Viktor Khristenko says the construction of a branch to China of the East Siberia-Pacific Ocean (ESPO) pipeline is due to begin in 2008. The branch line will carry 30 million tons of oil annually and be financed and most likely constructed by China.

July 10-11, 2007: The 2nd Sino-Russian inter-ministerial financial dialogue is held in Moscow to discuss how to maintain macroeconomic balance and sustained growth against the backdrop of global economic imbalance including the U.S. dollar dependence of both the Russian and Chinese economies.

July 12-15, 2007: Chinese Foreign Minister Yang Jiechi visits Russia at the invitation of his counterpart Sergei Lavrov to “review the entire spectrum of international problems”

including the Six-Party Talks on the DPRK nuclear issue, bilateral relations, and the upcoming joint military exercise in August. Yang met President Putin July 13.

Aug. 9-17, 2007: SCO's six member countries conduct a joint antiterrorism drill, *Peace Mission 2007*.

Aug. 13, 2007: The Russian-Chinese working group in charge of cross-border and interregional trade and business cooperation and preparations for regular meetings between the two countries' prime ministers meets in Vladivostok.

Aug. 16, 2007: SCO annual summit held in Bishkek, Kyrgyzstan. The "Treaty of Long-Term Good-Neighborliness, Friendship, and Cooperation among SCO Member States" is signed.

Aug. 24, 2007: Russian Economic Development and Trade Minister German Gref visits Beijing for the 10th session of the sub-commission for trade and economic cooperation of the Russian-Chinese commission in preparation for the regular prime ministerial meeting. His counterpart was Chinese Minister of Commerce Bo Xilai.

Aug. 29- 31, 2007: A unit of Chinese navy warships – the destroyer *Guangzhou* and the integrated supply ship *Lake Weishanghu* – visits St Petersburg after 30 days of continuous sailing. It is the first time China's naval vessels enter the Baltic Sea.

Aug. 31, 2007: The sub-commission for environmental protection, part of the bilateral commission preparing for regular meetings between prime ministers, held in Beijing.

Sept. 1-8, 2007: Chinese State Councilor Chen Zhili visits Russia at the invitation of Deputy Prime Minister Alexander Zhukov to co-chair the eighth session of the China-Russia committee on cultural and humanities cooperation in Moscow. She also participates in activities of Russia's China Year and meets Prime Minister Mikhail Fradkov Sept. 4.

Sept. 4-6, 2007: One hundred of China's elite Snow Leopard Commandos of the People's Armed Police (PAP) join 600 special task force Vityazj (Knight) of the Russian interior troops in the antiterrorism exercise *Sodruzhestvo-2007 (Cooperation-2007)*. The first time the PAP participated in an international, joint antiterrorism exercise outside China.

Sept. 5-9, 2007: A delegation led by President of the Supreme Arbitration Court Anton Ivanov visits China and meets President of the Supreme People's Court of China Xiao Yang and Member of the Standing Committee of the Political Bureau of the Central Committee of the Communist Party of China Luo Gan.

Sept. 8, 2007: President Putin meets President Hu on the sidelines of an APEC summit in Sydney, which, according to Putin, would likely be their last face-to-face encounter

before he leaves office in March 2008. In this fifth meeting in 2007, Putin assures Hu of continuities in Russia's relations with China.

Sept. 14, 2007: Chinese Premier Wen Jiabao sends a congratulatory message to Viktor Zubkov on his appointment as prime minister.

Sept. 26-28, 2007: Chairman of the Russian Federation Council Sergei Mironov visits China at the invitation of Chinese top legislator Wu Bangguo. He attends the second meeting of the Cooperation Committee of China's National People's Congress and the Russian Federation Council. He meets President Hu and Premier Wen on Sept. 27.

Sept. 28-29, 2007: Russian Deputy Prime Minister Alexander Zhukov visits China to co-chair the 11th Session of the Committee for the Regular Meeting of Chinese and Russian Premiers in Hangzhou. Russian Deputy Prime Minister Alexander Zhukov and his counterpart chaired the meeting. He meets Premier Wen on Sept. 29.