



CHINA AND RUSSIA: THE PARTNERSHIP DEEPENS

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Relations between China and Russia became noticeably closer in the past year and, if the numerous agreements they have appended their signatures to come to fruition, they are apt to become still closer in 2016.

Arms Sales Resume

Perhaps most startling has been the resumption of Russian arms sales to the PRC. Robust sales that began after the demise of the Soviet Union and continued for fifteen years dropped sharply after 2006, with a major factor being Moscow's annoyance at the Chinese penchant for copying Russian designs and selling the items to third countries at lower prices that undercut Russia's. There were as well concerns within the Russian military about selling China weapons that could someday be used against them.

Whether because these misgivings had abated or, more likely, because of desperation in Moscow due to deteriorating economic conditions, sales resumed in 2015 as abruptly as they had been reduced nearly a decade before. In the spring, Russian President Vladimir Putin approved in principle the sale of S-400 air defense systems to China, making it the first foreign customer to acquire the S-400. Once deployed, it will provide a significant upgrade for the PRC's integrated air defense system. The deal will reportedly cost US\$ 3 billion.¹ In November, the two concluded a \$ 2 billion deal for the purchase of 24 Su-35 fighter planes.² A number of smaller agreements involving joint work in defense projects and in dual-use technologies have also been reached. Russia's Kaspersky Labs has agreed to cooperate with the state-owned China Cyber Security Company for defense against an unnamed state actor which had mounted sophisticated attacks against both countries.³

¹ Peter Dunal and Matthew Smith, *IHS Jane's 360*, March 31, 2014. <http://www.janes.com/article/36226/russia-china-s-400-deal-moves-forward> ;

http://www.defenseworld.net/news/14420/China_To_Get_S_400_Missile_Defense_Systems_From_Russia_On_Time#.VobbuPkrJhE

² <http://www.defensenews.com/story/defense/air-space/strike/2015/11/20/russia-china-su-35-deal-raises-reverse-engineering-issue/76102226/>

³ *South China Morning Post* (Hong Kong), December 17, 2015.

Trade and Investment

In December, the two countries' central banks signed a memorandum of understanding to expand cooperation to promote local currency settlements, bank card issuance, access to local currency bond markets, and credit-rating partnerships.⁴ Almost simultaneously, the Russian Direct Investment Fund (RDIF), Vnesheconombank (VEB), and the China-Eurasia Economic Fund (CEECE) announced the creation of a structure to finance Chinese exports to Russia and guide the flow of Chinese investment into projects in the Russian Far East and Trans-Baikal areas. Major foci were to be the transportation infrastructure and power generation sectors.⁵ VEB was said to be mulling yuan-denominated bond offerings in China on the Moscow Exchange.⁶ China's Silk Road Fund agreed to provide 730 million euros (about \$778 million) over a 15-year period for the Yamal liquid natural gas project.⁷ Russian agribusiness exports to China for the first eleven months of the year increased by over 14 percent, to \$1.2 billion and Chinese Premier Li Keqiang and Russian Prime Minister Dmitry Medvedev announced their intention to increase total bilateral trade to \$200 billion by 2020.⁸

Regional and International Initiatives

At a meeting of the prime ministers of the Shanghai Cooperation Organization, Premier Li announced six platforms for regional development: security, production capacity, connectivity, financial cooperation, regional trade cooperation, and cooperation to improve the lives of the people of the SCO's six members and their dialogue partners.⁹ Li and Medvedev also released a statement vowing to play a "constructive role" in the resolution of Iran's nuclear issue.¹⁰ Despite the PRC's long-standing opposition to economic sanctions against countries, China's largely still state-controlled press reported without comment on Russia's decision to impose food embargoes on Ukraine in retaliation for Kyiv's participation in a free-trade agreement with the European Union.¹¹ Moscow has supported Beijing's position on the numerous disputed territories in the East and South China seas; Beijing has in turn supported Moscow on the Kurils, which the USSR took from Japanese control after World War II. Tokyo's insistence that they be returned has thus far precluded the two signing a peace treaty formally ending the war. Some analysts believe that there is a tacit understanding between Putin and Xi Jinping that China will give Russia a free hand in Eastern Europe in return for Russia's understanding of Chinese hegemony in Asia.

People-to-People Dialogue

2015 had been designated the China-Russia Youth Friendly Exchange Year; 2016 is to be the China-Russia Media Exchange Year. At the closing ceremony for the former, Premier Li declared that this was not to be regarded as an ending but as a new starting point for Sino-Russian friendship. Speeches emphasized the importance of creating bonds between youth as a basis for long-term cordial relations between the two countries. As for the year to come, a micro-film series called "Hello China"¹² had already been seen by over a hundred million people, "fully demonstrating the common aspiration of the two peoples for communication and exchanges and for sharing their respective experience."¹³

Limitations on the Partnership

Sharing common authoritarian values and a common adversary in the United States, the PRC and Russia can be expected to continue to cooperate in the near term on what Chinese media describe as mutual benefit. Yet there are concerns that, while the cooperation may be mutually beneficial, the benefits are far from equally distributed, leading to friction between them. And, although Xi Jinping does not challenge Russia's moves in Ukraine nor Putin criticize China's assertive behavior in the East China and South China seas, neither wants to become enmeshed in the foreign policy problems of the other. Note that, for all the talk of solidarity, the two continue to eschew the word alliance, preferring instead the more limited term "strategic partnership."

⁴ *Xinhua* (Beijing), December 17, 2015.

⁵ *Interfax* (Moscow), December 17, 2015.

⁶ *Interfax*, December 18, 2015.

⁷ *Interfax*, December 15, 2015.

⁸ *Interfax*, December 17, 2015.

⁹ <http://www.sectsc.org/EN123/>

¹⁰ *Islamic Republic News Agency (IRNA; Tehran)*, December 18, 2015.

¹¹ *Xinhua*, December 21, 2015.

¹² Available at <https://www.chinabookshop.net/hello-china-russian-version-with-disc-p-12600.html>

¹³ Ministry of Foreign Affairs, People's Republic of China, December 18, 2015. <http://www.fmprc.gov>

Russian concerns over reverse engineering of the weapons sold to China continue, amid suspicions that the reason only 24 Su-35s were purchased is that the PRC intends to capture the plane's embedded technologies such as thrust vectoring, passive electronically scanned array radar and infrared search-and-track system.¹⁴ Defense officials have complained that cheaper copies of Russian designs, sometimes stolen or acquired through third parties such as Ukraine, are cutting into its sales. As summarized by Russian-American analyst Nikolas Gvosdev, Russia's choices, both unpalatable, are either to sit back and take the hit, or sell even more advanced weaponry to the Chinese to make up for the sales shortfall, risking that they will copy those designs as well and export them.¹⁵

Beijing in turn is concerned that Russia sells arms not only to China but to two countries with whom it has ongoing territorial and other disputes: India and Vietnam. Russia has been the major supplier of equipment, including fighter planes and battle tanks, to the Indian military; Vietnam, locked in a bitter dispute with China over the Spratly and Paracel island groups, will soon take delivery of its fifth Kilo-class submarine. China has also invested in Ukraine, now the largest exporter of corn to the PRC. In March, Beijing lent Kyiv \$15 billion for housing construction, and in July agreed to facilitate the expansion of Ukraine's information technology sector.¹⁶ These and other projects increase China's stake in an independent Ukraine as well as strengthening Kyiv's ability to counter the effects of Russian sanctions.

The Silk Road and its financial underpinning is another cause for concern. Moscow's resistance to Beijing's attempts to create an infrastructure development bank under the Shanghai Cooperation Organization is thought to have been a factor in the Chinese decision to found the more broadly-based Asian Infrastructure Investment Bank (AIIB). Russia was not among the nearly two dozen countries participating in the initial launch of the bank in October 2014, applying to join only in April 2015. Even thereafter, Prime Minister Medvedev expressed his explicit opposition to the creation of alternative trade platforms to the World Trade Organization.¹⁷ According to a Russian analyst, the leadership believes that "it's a project to steal Central Asia from us, they want to exploit our economic difficulties [so as] to be really present in the region."¹⁸

The two nations also compete with each other in outer space as well as at the ends of the earth. As 2015 ended, Moscow's Interfax proudly proclaimed that Russia remained the world's leader in the number of space launches carried out in the past year: 26 versus 20 for the U.S. and 18 for the PRC.¹⁹ China, which describes itself as a "near-Arctic state," has been admitted as a dialogue partner to the Arctic Council, claiming its right to shipping lanes in the area. Russia has sent troops to its Arctic base and asserted its intention to prepare against "terrorism."²⁰ In the Antarctic, Russia built an Orthodox church near its research base complete with a priest who conducts services for the staff. Nearby is a classic Russian *banya*, i.e. sauna, that is supplied with imported birch switches. The logs for the church were brought from Siberia. Satellites beam Russian programs to flat screen televisions. Not to be outdone, the Chinese government has upgraded its Great Wall Station, including an indoor badminton court and living accommodations for 150 personnel.²¹

China's need to import energy notwithstanding, the oil and gas deals have encountered problems. Russian sources argued that state-backed Gazprom had waited too long to implement a "go east" policy to build a gas pipeline to China: Central Asian countries had already built three pipelines and embarked on construction of a fourth. Only the company's executives would profit if Gazprom persisted in its plans.²² Further compounding Gazprom's problems, the large Chinese commercial banks that were to have provided a substantial portion of the funding for the pipelines have become hesitant to do so. Many of the Russian companies involved in construction of the pipeline are on the U.S. sanctions list, meaning that any Chinese bank doing business with them could be barred from conducting business in the United States.²³

¹⁴ U.S. weapons analyst Roger Cliff cited in Wendell Minnick "Russia-China Su-35 Deal Raises Reverse Engineering Issue," *Defense News*, November 20, 2015. <http://www.defensenews.com/story/defense/air-space/strike/2015/11/20/russia-china-su-35-deal-raises-reverse-engineering-issue/76102226/>

¹⁵ Cited in Rakesh Krishnan Simha, "Rise of the Clones: Chinese Knockoffs Undercut Russian Arms Exports," *RosBiznesKonsalting (RBK) Online*, August 11, 2015.

¹⁶ Samuel Ramani, "Hey, Putin, Have You Seen How Much China is Investing in Ukraine?" *Washington Post*, July 24, 2015.

¹⁷ *Interfax*, December 16, 2015.

¹⁸ Simon Denyer, "In Central Asia, Chinese Inroads in Russia's Back Yard," *Washington Post*, December 27, 2015.

¹⁹ *Interfax*, December 26, 2015.

²⁰ <http://www.timesonline.co.uk> December 26 2015; <http://www.maritime-executive.com/article/Russia-prepares-for-arctic-terrorism>.

²¹ Simon Romero, "Countries Push for Upper Hand in Antarctica," *New York Times*, December 29, 2015.

²² *RBK Online*, December 15, 2015. <http://rbcdaily.ru/08>.

²³ (No author), "Russian Energy Sector Comes to Standstill Following US and EU Sanctions Tightening," *Washington Post*, December 24, 2015, citing Charter 97 (Belarus), <http://charter97.org/en/news/2015/12/24/184253/>

The Future

Whether these cracks in public solidarity will become fissures depends on a number of factors. For one, it is conceivable that the U.S. will find common cause with Russia. The Obama administration's 2009 effort at what it called a reset failed due to Washington's resistance to Putin's annexation of the Crimea, pressure on the Ukrainian government, and support of the Assad government in Syria.²⁴ But were a new administration to accept Russia's fait accompli in Crimea and agree to cooperate against the Islamic State in Syria while Putin ceased backing subversive activities in Ukraine, an important pillar of support for the Sino-Russian strategic partnership would be removed. Many Russians feel that their country has more to gain from a closer relationship with the West than with China. Chinese analysts appear to be watching this possibility carefully: taking note of U.S. Secretary of State John Kerry's two trips to Moscow, a commentator in *Global Times* opined that the United States would "have" to end its isolation of Russia.²⁵

Another problem that could conceivably be solved involves the 70-year old dispute between Japan and Russia over the Kurils. Prime Minister Abe Shinzō has made resolution of the issue a major part of his political agenda, considering it a filial obligation to carry on the efforts of his late father, a former foreign minister. The USSR long ago offered to return two of the four island groups, but was rebuffed, as was the Russian successor state when it reiterated the offer. Recently, in a meeting with Putin, Abe, drawing on a metaphor from judo, in which the Russian leader is adept, indicated his willingness to conclude a "draw." Since Putin replied that he considered Abe's offer more a clear win, it can be presumed that the Japanese leader asked for more than the two islands. Despite the lack of agreement, the exchange nevertheless represents the most positive news in decades.²⁶

A putative agreement between Russia and China to divide their spheres of influence into Europe for the former and Asia for the latter ignores the reality that Russia is an Asian nation as well, with the bulk of its territory, though not the majority of its population, located east of the Ural mountains. The Russian Far East, far less developed and whose residents have markedly lower incomes than the country's western-dwelling citizens, would benefit from increased trade and investment from Tokyo. Japan could also serve as a counterweight to increasing Chinese influence there.²⁷

An additional, and arguably the most important, factor that could impact the Sino-Russian partnership is the uncertain future of the Chinese economy. The ongoing volatility of the stock market causes anxiety, as did the abrupt two percent devaluation of the yuan in August. Despite the International Monetary Fund's decision to include the yuan in its Special Drawing Rights basket, capital outflows increased. Though still very large, the PRC's foreign exchange reserves have contracted. According to J.P. Morgan, as of September 30, overall debt reached 211 percent of gross domestic product, up from 201 percent in 2014 and 136 percent in 2007. The central government launched a multi-trillion yuan program to address one major cause of the problem, local government debt, by converting it into longer-maturity lower-interest bonds. However, financial analysts warn that such measures simply postpone the inevitable while exacerbating its effects.²⁸ In short, China's economy is struggling, which could result in failure to implement its ambitious plans, thus reducing the value to Russia of cooperation with the PRC in exchange for financial aid. The goal of a Silk Road linking Asia to Europe from a Chinese hub may not be implemented, which would be a severe blow to Xi Jinping's much publicized China Dream and end his efforts to play the Great Game in Asia.

Other powers have tried to play the Great Game and failed. Central Asia has been the undoing of several empires, and could be for China as well. For now, that seems to be a risk that the Chinese leadership is willing to take. And, for the foreseeable future, Russia seems willing to play along with the PRC, for want of better alternatives.

²⁴ <https://www.whitehouse.gov/the-press-office/us-russia-relations-reset-fact-sheet>, June 24, 2010.

²⁵ Cui Jian, "U.S. Isolation of Russia May Come to an End," *Global Times*, December 21, 2015.

<http://globaltimes.cn/content/959741.shtml>

²⁶ (No author) "Japan's Future With Russia/Abe Seeks "Draw" with Putin Over Northern Territories," *Yomiuri* (Tokyo) January 2, 2016.

<http://the-japan-news.com/news/article/00026448430/>

²⁷ For a comprehensive treatment of economic and political issues in the Russian Far East, see Rensselaer Lee and Artyom Lukin, *Russia's Far East* (Boulder, CO: Lynne Rienner, 2016) *passim*.

²⁸ *Wall Street Journal*, January 3, 2015, <http://www.wsj.com/articles/crash-course-how-chinas-turbulent-year-derailed-reform-1451714582>.