The third quarter was both routine and hectic for Russia and China. While top leaders socialized at summits (G-8 in mid-July and the Shanghai Cooperation Organization prime ministerial meeting in mid-September), Russian and Chinese diplomats were in overdrive to deal with North Korea’s excessiveness (missile tests) and Iran’s sluggishness in responding to outside “offers.” In both cases, the middling position of Beijing and Moscow was eroded because of the stalemate in the two nuclear talks. For Russia and China, it seems that working with friends is as difficult as confronting foes.

Spotlights and sidelines

The G-8 Summit in St. Petersburg turned out to be both a plus and a problem for Russian President Vladimir Putin. In normal terms, entertaining the world’s richest and most powerful nations in Russia’s most Westernized city should symbolize the final step of Russia’s grand return to the West since Russia’s admission into the forum in 1997. This time, an economically rejuvenated Russia – largely due to rising energy prices – was not well received by other G-8 members, whose views of Putin’s Russia ranged from the usual skepticism to outright hostility. Some of Russia’s “sins” included its suspension of natural gas supplies to Ukraine early this year and inviting to Moscow representatives of Hamas (considered by the U.S. to be a terrorist group) in March. The image of Russia’s assertive foreign policy was also paralleled by an increasing centralization of the Russian state over society and its strategic resources like energy. As a result, Russia bashing in the West, particularly in the U.S., reached an all-time high on the eve of the G-8 meeting.

China’s participation, together with those other “emerging economies,” (India, Brazil, Mexico, and South Africa) was more valuable for Putin. “Without the participation of such countries as China and India we can’t consider discussions on world economic problems and security comprehensive,” remarked Putin. As usual, the hosting nation usually has more weight in setting the agenda and this time, the topics included global energy security, education, and health care. Exactly how President Hu’s formal participation in the G-8’s “dialogues” actually raised China’s profile is a matter of perception. President Hu’s speech at the G-8 did echo much of the G-8 agenda. There was, however, a conspicuous focus in Hu’s speech on global energy security. And it was only in this area that Hu made three specific policy recommendations – mutually
beneficial cooperation, more R&D, and a stable political environment – while skimming over health care and education.

Indeed, the G-8 seemed a near perfect opportunity for the oil superpower (Russia) and the fastest growing economy (China) to tackle the issue of energy security. Two days after the G-8, the China National Petroleum Corp (CNPC) purchased 66,225,200 shares (worth $500 million) from the Russian state-owned oil group Rosneft in its initial public offering (IPO), which was the first time that Chinese oil companies ever had a foothold in Russia’s oil business. CNPC’s purchase, however, was only half of BP’s purchase of $1 billion and far below the previously speculated $3 billion possibility. China’s cautious and limited entrance into the Russian market reflects both the higher-than-expected IPO listing price and a strong sense of uncertainty about working with Russia on the energy issue, particularly the much-talked-about-but-still-unrealized Russian oil pipeline to China. Hu’s suggestion of “mutually beneficial cooperation” on the energy issue, therefore, may well be directed at his Russian counterpart. After all, only 3 percent of Russian natural gas exports and 5 percent its oil exports went to Asia, a troubling sum considering that Russia is the world’s largest exporter of natural gas and the second largest petroleum exporter. For Putin, however, the very concept of “global energy security” naturally includes the interests of energy producers for “fair pricing,” “unimpeded transportation,” and “long-term commitments” by consumers, etc., reported Vyacheslav Nikonov, president of the prominent Politika Foundation in Russia.

Perhaps the fact that the St. Petersburg G-8 took place was itself a success, considering the growing outcry in the U.S. prior to the summit to urge the Bush administration to boycott the meeting to “punish” Russia. At least for a few days, Russia-bashing in the West paused. The low expectation for the summit perhaps also led to a positive outcome: Bush and Putin took the opportunity to announce a new international initiative to prevent nuclear terrorism and stop the spread of nuclear and radioactive materials. Finally, Russia’s unique position within the G-8 (the weakest link?) may make it a vehicle for acting as a “bridge” between the world’s rich and poor, developed and developing nations. During the G-8 meeting, Putin held a trilateral meeting with President Hu and Indian Prime Minister Manmohan Singh, in addition to his separate meetings with each of them. Later in the quarter, the Russian foreign minister initiated a four-party talk, for the first time, with Chinese, Indian, and Brazilian counterparts on the sidelines of the September UN General Assembly session in New York City. “The aggregate amount of the gold and foreign currency reserves of the four countries [$1.3 trillion] is already greater than the aggregate volume of gold and foreign currency reserves of the G-7,” Russian Foreign Minister Sergei Lavrov delightfully told journalists following the four-party meeting. “Naturally, our countries have had more and more coinciding interests at economic forums and within the framework of international negotiations,” added Lavrov.

Traditionally, China, like India, tends to be more skeptical about the Moscow-Beijing-New Delhi linkage, brainchild of former Russian Prime Minister Primakov in December 1998. Russia’s persistence in this regard, however, seemed to have convinced at least some in China that the concept, if not actual policy, should be played out and stretched. Chu Shulong, a prominent scholar of international affairs at Tsinghua University in
Beijing, argued shortly after the G-8 for more attention to this new trilateral mechanism as “a natural extension” of the trilateral meeting of the three foreign ministers in 2005. In August, a pro-China newspaper in Hong Kong went so far as to trace the roots of “strategic cooperation” between China, India, and Russia all the way back to Lenin’s time in order to justify the current cooperation.

The renewed enthusiasm for the emerging Moscow-Beijing-New Delhi “axis” this quarter was perhaps no accident as Moscow and Beijing faced mounting diplomatic challenges to managing relationships with their friends: North Korea and Iran. Both seemed to have developed “talk fatigue,” though with different “symptoms.” While North Korea demanded more attention from Washington, strategic delaying and deflection seemed to be preferred by Iran. Both, however, undermine the middling position of Beijing and Moscow in the two sets of Six-Party Talks.

**Korea missile crisis: not quite “13 Days,” but…**

On July 5, between 3:23 and 8:22 am, Standard Korean Time (2:23 to 7:22 pm, July 4, U.S. Eastern time zone), North Korea test-fired seven missiles, including a long-range Taepodong-2 capable of hitting the western United States. This was done without prior notification to its neighbors, friends, or foes. Two of the missiles fell within the Russian economic zone in the Sea of Japan, according to Japanese sources. The United Nations Security Council (UNSC) held an emergency, closed meeting to discuss the issue, after a request to do so by Japan’s ambassador to the UN, Oshima Kenzo.

Initial Russian reaction to the test firing ranged from describing the test as “a controversial event” (Deputy Foreign Minister Alexander Alexeyev), “utterly counterproductive” (head of the State Duma Committee on International Relations Konstantin Kosachev), to “a violation of all generally accepted norms of behavior” (Foreign Minister Lavrov). Some argued that many problems of North Korea “have been provoked from the outside,” and that “North Korea breached no international obligations” but the question of “the ethics of international relations.” President Putin, though “disappointed” by the test firings, went as far as to say that the North Koreans were right in their assertion that they had the legal right to perform such tests. Putin, however, suggested that the range of North Korean missiles should be put on the agenda for six-nation talks on the North Korean nuclear program.

Official Chinese reactions were more reserved. Foreign Ministry Spokesman Liu Jianchao expressed “serious concerns” over the tests. Immediately after the tests, it was the foreign counterparts (U.S., Japan, South Korea, and Australia) of Chinese Foreign Minister Li Zhaoxing that took the initiative to call him. Privately, however, the Chinese were more critical. Shi Yinhong, a prominent Northeast Asia security expert, remarked that “China is extremely upset over the behavior of North Korea. This is something that China did not want to see.” Although North Korea’s real goal was to pressure the U.S. to drop its financial sanctions against the North and to have direct talks with the U.S., the tests instantly complicated and undermined Russian and Chinese positions in the Six-
Party Talks, which have been stalled since November 2005. Beijing and Moscow really feared that the tests would strengthen hardliners in both Japan and the U.S.

Indeed, less than half an hour after the first missile firing, Prime Minister Koizumi Junichiro was notified and this was followed by Japan’s new economic sanctions against North Korea. Although President Bush stated later that the tests only “isolated Korea,” and that the U.S. would continue to encourage Six-Party Talks, Japanese Self-Defense Forces reportedly went to higher alert. Japan diplomats at the UN also quickly introduced a draft UNSC resolution on July 8, seeking sanctions against the DPRK. The draft, co-sponsored by Britain, France, and the U.S., invoked Chapter 7 of the UN Charter, which authorizes sanctions or even military action and is more likely to invite more confrontational behavior from North Korea.

Russian and Chinese leaders and diplomats were therefore constrained as much by North Koreans as by the harsh reaction from Japan and other UNSC members. Foreign ministers of the two nations coordinated their policies over the phone and through other channels in order to produce “a firm, but utmost weighed reaction.” On July 9 Chinese Foreign Minister Li initiated phone calls to 11 foreign ministers of the members of the UN Security Council and the Republic of Korea. He insisted that any action should be conducive to maintaining the peace and stability in the region and the unity of the UN Security Council. The next day China sent to Pyongyang a “goodwill” delegation for the 45th anniversary of the China-North Korea military alliance led by Vice Premier Hui Liangyu. The group, however, also included Deputy Foreign Minister Wu Dawei, Beijing’s top nuclear negotiator, who also chairs the six-way talks on the North’s nuclear program. The same day, the U.S. and UK decided to postpone voting on the Japanese draft resolution in the UNSC, anticipating strong resistance from China and Russia, as well as awaiting China’s diplomatic probes in Pyongyang.

When China’s “goodwill” delegation to North Korea was received by several secondary North Korean officials but not top leader Kim Jong-il himself, China and Russia on July 12 circulated a draft UNSC resolution, which strongly urged the DPRK to immediately and unconditionally return to the Six-Party Talks and urged parties to work together to resume the six-party process as soon as possible. The bottom-line was that the UNSC document “must be firm, but not overly emotional” nor “contain threats,” according to Russian Foreign Minister Lavrov. Meanwhile, China’s UN representative Wang Guanya stated that if relevant countries forced the UNSC to vote on Japan’s draft UNSC resolution that contains sanctions, he would be compelled to exercise the right to veto.

On July 15, the UNSC unanimously adopted a compromise resolution without wording of economic sanctions that condemned North Korea’s recent missile tests and demanded that Pyongyang’s missile program be suspended. [Please see this quarter’s Regional Overview for details regarding UNSCR 1695.]

On July 16, President Hu met President Bush shortly after Hu arrived at St. Petersburg for the G-8 meeting. Chinese media reported the meeting with Bush was initiated by President Hu before the formal G-8 session. The Chinese press stated that “the two sides
pledged to continue to push for denuclearization of the Korean Peninsula through negotiations; to be committed to peace and stability in Northeast Asia; and to work together to promote the process of peaceful solution to Iran’s nuclear issue.” For this, Hu was “satisfied” with his meeting with Bush, and Bush was “thankful” for the meeting. The Hu-Bush St. Petersburg meeting apparently soft-landed the missile crisis. A week later, Secretary of State Condoleezza Rice said that China was showing evidence of becoming a responsible stakeholder.

On the second day of the G-8 conference (July 17), Putin and Hu held their “mini-summit,” a full day after the Hu-Bush meeting and about 13 days after North Korea test-fired missiles. The two exchanged views on the situation in the Korean Peninsula and urged all parties concerned to take into consideration the overall interests of peace and stability in the region.

At least for a while, this round of the Korean missile crisis subsided. The issue, however, is far from resolved. One thing is clear: both China and Russia have become somewhat alienated from North Korea. The China-Russian resolution, though less binding, is not very different from the U.S.-Japan one in terms of the political message it conveys. In late July, China reportedly started to freeze North Korean accounts in China, a move that further isolated Pyongyang. Japan became far more assertive, though it was somewhat reined in by the more moderate policy of the Bush administration. With the new and more nationalistic Prime Minister Abe Shinzo – who was behind the uncompromising stance as Koizumi’s chief Cabinet secretary during the crisis – taking office at the end of the quarter, the prospect for a negotiated peaceful settlement of the Korean nuclear issue became more distant.

Iran: slowly moving to nowhere?

If North Korea’s missile tests undercut the mediators’ role of China and Russia, Iran’s sluggish and inconsistent response to the West also erodes their position.

On June 6, EU foreign policy chief Javier Solana presented Iran with a package agreed on by the five permanent members of the UN Security – the U.S., Russia, China, France and Britain – plus Germany concerning the Iranian nuclear issue. The proposal includes both incentives aimed at persuading Iran to suspend uranium enrichment and possible sanctions if Iran does not comply. Iran promised to give an official response by Aug. 22. On July 31, the UNSC adopted Resolution 1696, demanding that Iran suspend its nuclear program within one month; otherwise, it will face sanctions. On Aug. 22, Iran officially responded to the Solana package, offering to talk again about suspension but would not accept this as a precondition. Several times in September, however, officials of the Islamic republic indicated that Iran may temporarily suspend its uranium enrichment and reprocessing activities, either as a confidence-building measure in response to growing international pressure, or with right and fair conditions. At the end of the day, however, the gap between Iran’s “rights” and America’s demands remains as wide as ever. Iran still leaves the door open for more talks. The danger of a military solution of the issue, too, continues to exist.
Throughout the quarter, Chinese and Russian leaders and diplomats coordinated their policies and continued to work for a negotiated peaceful settlement. On many occasions, they warned Iran that the Islamic republic should be flexible in responding to outside offers and demands.

Unlike the Korean case, Russia clearly takes the Iranian issue more seriously and takes more responsibility. On July 6, President Putin expressed his hope that Iran would respond to the proposals of the six nations as soon as possible. “My latest meeting with the Iranian president [at the SCO summit in Shanghai in early June] showed that Iran had positively taken the proposals. Certainly, we would favor a quicker reaction and a constructive and detailed discussion,” said Putin in a press conference. A week later, Iran’s uncompromising position at a meeting in Brussels between Javier Solana and Iranian national security adviser Ali Larijani clearly angered Russian Foreign Minster Lavrov, who was attending the G-8 foreign ministerial meeting in Paris. “We were disappointed by the absence of a positive reaction by Iran, particularly as this is at odds with what President Ahmadinezhad said to the Russian president a month ago at the Shanghai Cooperation Organization meeting.” “In Shanghai Ahmadinezhad promised to adopt a constructive stance in considering the ‘six’s’ carefully drawn up proposals.” Russia’s frustration regarding Iran continued throughout the quarter and into September after Tehran avoided a direct response to the UNSC resolution. Russian Foreign Minister Lavrov described Tehran’s actions as not “wholly satisfactory,” but suggested that the possibility for dialogue remains.

China seemed to let Russia take the spotlight in the Iranian case while trying to persuade Iran to be more accommodating. Immediately after the UNSC resolution on July 31, China’s deputy UN representative Liu Zhenmin urged Iran to maintain restraint, place importance on the international community’s popular demands and anticipations, and carry out the relevant demands of the resolution in practice. In mid-August, Chinese Assistant Foreign Minister Cui Tiankai visited Tehran and met his Iranian counterparts and Iran’s chief nuclear negotiator Larijani. During the SCO’s prime ministerial meeting in Dushanbe in mid-September, Chinese Premier Wen Jiabao told Iranian Vice President Ali Saidlu that Iran’s flexibility would help create conditions for an early resumption of the talks and the final settlement of the Iranian nuclear issue. Meanwhile, Wen also said China supports the international mechanism of nuclear nonproliferation and understands Iran’s concern about its right to the peaceful use of nuclear energy. “The crisis over Iran’s nuclear program needs to be settled through negotiations and other peaceful measures, since China is fully opposed to adoption of sanctions and resorting to force against Iran.”

China’s mediating role, like that of the Russians, however, seemed to be interpreted by Iran as supportive of Iran’s nuclear program rather than pressing for regional stability, as well as backing Russian and Chinese interests. Iranian officials and press continued to describe Russia and China as working hard to help Iran. In contrast, North Korea’s provocative behavior early in the quarter was perhaps derived from its diminishing distrust of China and Russia, and as a means to directly deal with Washington.
It remains to be seen how far this perception gap between Tehran and Pyongyang and their two mediators will be narrowed. It seems that neither the “hare” (North Korea) nor the “tortoise” (Iran) was helpful for Beijing and Moscow, as the two “nuclear rogues” continue to face the lone superpower. The job of the mediators is clearly becoming more difficult, if not impossible.

**China’s “Russia Year” and its dissonances**

In contrast to the mounting difficulties in getting Pyongyang and Tehran back to talks, bilateral interactions between Beijing and Moscow were in full speed, as more than 200 events at both the elite and popular levels unfolded across China and Russia. The “Russia Year” culminated in mid-September when some 40 Chinese and Russian journalists arrived in Moscow after driving together in their 13 SUVs for 16,000 km in 45 days from Beijing. Meanwhile, Russian and Chinese scientists set out on the second joint exploration of Siberia, following the first expedition to Lake Baikal a year before. Talks of a joint mission to Mars were also heard from time to time. And the oil pipeline from Eastern Siberia to the Pacific Ocean is reportedly being built at a fast tempo.

Not everything was in tune with the beat of the ongoing “Russian Year” in China: five Chinese nationals were among the 10 dead in an apparently racially motivated explosion in Moscow in late August; Russian officials in the Far Eastern districts continued to complain about lingering and allegedly new pollution from China in Russia’s Amur River region; two Chinese citizens died in a Russian airline crash in Irkutsk on July 9; the consul-attaché of the Chinese Consulate General in Khabarovsk was beaten by three young Russians; Russia was “puzzled” about China’s “hesitation” in allowing Russia to open a “trade office” in Shanghai; and by the end of the quarter, the two sides decided to shorten the term of bilateral visa-free visits from 30 to 15 days in order to prevent the trips from being “used for wrong purposes.”

At the end of the day, however, the quarter appeared just “normal” in the numerous and still growing interactions between the two large nations. Russia decided not to invite the Dalai Lama to a religious conference in Moscow in early July; China planned to finance the rebuilding of the Irkutsk airport and to spend $1.7 billion for environmental protection along the Sino-Russian border. On Sept. 28, Russia handed over to China the second *Project 956EM* (*Sovremenny*-class) destroyer equipped with *S-N-22 Sunburn* (*3M-80E Moskit*) supersonic anti-ship missiles as part of the $1.4 billion deal signed in 2002. The timing of the handover was also the first day of a week-long visit to China by Putin’s right-hand man, Presidential Chief of Staff Sergey Sobyanin, as a “guest” of the Chinese government. The stage is being set for the final portion of the “Russia Year” in China.
**Chronology of China-Russia Relations:**
*July-September 2006*

**July 2, 2006:** Russia decides not to invite the Dalai-Lama to the Moscow Religious Summit. Ye Xiaowen, head of the Chinese department for religious affairs, attends.

**July 8, 2006:** Chinese Foreign Minister Li Zhaoxing and his Russian counterpart Sergei Lavrov discuss via telephone the UN’s response to the missile tests by North Korea.

**July 9, 2006:** President Hu Jintao sends a consolatory message to President Vladimir Putin over the crash of an A-310 passenger plane at Irkutsk airport.

**July 9, 2006:** FM Li makes phone calls to foreign ministers of 11 member UNSC countries and the Republic of Korea.

**July 14, 2006:** SCO’s Antiterror Structure (RATS) approves Myrzakan Subanov, former head of the Kyrgyz Border Service, as director of the RATS’ executive committee, starting from Jan. 1, 2007.

**July 16-17, 2006:** President Hu Jintao attends dialogue meeting of the leaders of the G-8 in St. Petersburg. He first meets President Bush and then President Putin. Hu also visited the $1.346-billion “Baltic Pearl” construction project in the Red Village District in the southwestern part of St Petersburg, now being built by a Shanghai company.

**July 20, 2006:** FM Li holds phone talks with Russian counterpart Sergei Lavrov regarding implementation of the consensus reached by Presidents Hu and Putin during the G-8 meeting.

**July 24, 2006:** Russian Interior Minister Rashid Nurgaliyev holds second joint working group meeting in Moscow with Chinese counterpart Minister of Public Security Zhou Yongkang. They sign a protocol of border defense cooperation after discussing possible joint operations against trans-border organized crimes especially drug trafficking, training of personnel, and hosting children’s groups of each other’s police officers. Zhou also visited the Alfa Special Antiterror Troop of Russia.

**Aug. 9, 2006:** Russian First Deputy Foreign Minister Andrei Denisov and Chinese Assistant Foreign Minister Cui Tiankai agree via telephone to step up joint efforts in the UN Security Council to resolve the Lebanese-Israeli conflict.

**Aug. 21, 2006:** Five Chinese citizens among 10 killed in the explosion in the Cherkizovsky market in Moscow. Seven out of 55 injured were Chinese.

**Aug. 22, 2006:** Prosecutors from six SCO member countries attend a meeting in Dushanbe. Russia and China were represented by Prosecutor-General Yuriy Chayka and Deputy Procurator-General of the Chinese Supreme People’s Procuratorate Hu Kehui.
Aug. 24, 2006: SCO holds its trade ministerial meeting in Uzbek capital of Tashkent. Chinese Vice Minister of Commerce Yu Guangzhou and Russian Deputy Minister of Economic Development and Trade Vitaliy Savelyev joins the meeting. A decision is made to set up a working panel specialized in promoting regional energy and telecommunications cooperation.

Aug. 31-Sept. 1, 2006: Seminar of Russian and Chinese media workers held in Beijing as part of the Year of Russia in China. Russian First Deputy Prime Minister Dmitri Medvedev and Chinese Vice Premier Wu Yi sent congratulation messages.

Sept. 8, 2006: The seventh session of the space exploration sub-commission of the Russian-Chinese commission for the preparation of regular prime minister meetings held in Moscow. Russian Federal Space Agency Chairman Anatoly Perminov and head of the China National Space Administration Sun Laiyan approve and confirm the program of Russian-Chinese cooperation for 2007-2009, including a joint space exploration program.

Sept. 15, 2006: The fifth meeting of the SCO’s prime ministers held in the Tajik capital of Dushanbe, focusing on energy, transport, and telecommunications as priorities.


Sept. 20, 2006: Russian FM Sergei Lavrov initiates a meeting with foreign ministers of China and Brazil, and defense minister of India on the sideline of the UN in New York. They agreed to continue this at various multilateral forums.

Sept. 21, 2006: First Deputy Minister of Industry and Energy Andrei Reus and Chinese counterpart deputy chairman of the committee on science technology and industry of national defense Jin Zhuangling launch the first session of the bilateral commission on cooperation in civil aviation and aircraft-manufacturing. An agreement was signed to co-develop a trainer aircraft. They endorse a 2007-10 plan for cooperation and discussed the possibility of co-developing a large transportation plane.

Sept. 21-22, 2006: SCO holds first supreme court presidents conference in Shanghai. They discuss cross-border crime and measures to strengthen judicial cooperation to fight the “three evil forces” of terrorism, extremism and separatism. Russian Supreme Court Chairman Vyacheslav Lebedev and Chinese counterpart Xiao Yang attend. The conference also decides to set up a permanent conference of supreme court heads.

Sept. 26-30, 2006: Russian Presidential Chief of Staff Sergei Sobyanin visits China as guest of the Chinese government. He meets Secretary of China’s State Council Hua Jianmin, Vice-President Zeng Qinghong, and chief of the Communist Party Central Committee’s chancellery Wang Gang. He also visits Shanghai.
**Sept. 27, 2006:** Chinese State Councilor Tang Jiaxuan and Russian Ambassador to China Sergei Razov attend a reception in Beijing for the 57th anniversary of the establishment of diplomatic relations between China and Russia. President Hu attends a song and dance performance by the Alexandrov Ensemble of the Russian Armed Forces.

**Sept. 28, 2006:** Fifty Chinese and Russian scholars and experts join the first non-governmental “friendly strategic dialogue mechanism” in Beijing, co-sponsored by the China Association for International Friendly Contacts (CAIFC) and the Russian Institute of Security, National Defense and Justice.

**Sept. 28-October 3, 2006:** Chief of the Russian Federal Agency of Atomic Energy Sergei Kiriyenko visits China for the 10th meeting of the Russian-Chinese subcommission on nuclear cooperation as part of the preparation for regular meetings of Russian and Chinese prime ministers and visits the Tianwan nuclear power plant.

**Sept. 29, 2006:** The 10th session of the Russian-Chinese atomic energy cooperation commission held in Beijing and co-chaired by Russian Federal Atomic Energy head Sergei Kiriyenko and Chairman of the Chinese Commission of Science, Technology and Industry for National Defense Zhang Yunchuan. The two sides plan atomic energy cooperation following the commercial start-up of two units of the Tianwan nuclear power plant.

**Sept. 29, 2006:** Eighth meeting of the SCO regional antiterror agency council held in Beijing. Twelve documents were signed and Russia took chairmanship of the council.