

Comparative Connections

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China-Russia Relations: From Election Politics to Economic Posturing

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In both substance and symbolism, the first quarter of 2008 was a transition for Moscow and Beijing in their respective domestic domains. Russia's Vladimir Putin switched roles with successor Dmitry Medvedev, but did not fade away. China's Hu Jintao sailed into his second five-year term as the next generation of China's leaders emerges. The quarter also witnessed political changes in neighboring countries with strong implications for Russia and China. South Korea inaugurated a pro-U.S. president (Lee Myung-bak) on Feb. 25. Pakistani general elections on Feb. 22 led to the victory by the opposition parties. Taiwan voters chose the pro-stability Ma Ying-jeou over pro-independence Frank Hsieh on March 22.

Beyond presidential politicking, Beijing and Moscow were confronted with a "domino" effect for self-rule. On Feb. 17, Kosova declared independence from Serbia. The fate of Taiwan remained uncertain for most of the first quarter as Beijing and Washington worked to rein back efforts by Taiwan's President Chen and the Democratic Progressive Party to move toward *de jure* independence. And, riots in Tibet in mid-March cast a long shadow over the 2008 Beijing Olympics.

Between domestic preoccupations and external challenges, Sino-Russian bilateral relations switched from hibernation in much of January and February to hyperactivity in March: leaders congratulated each other on elections and reelections; the two defense ministers set up a first-ever military hotline; and the Shanghai Cooperation Organization (SCO) worked out new areas of cooperation in personnel training and in combating arms smuggling, and stepped up cooperation with Afghanistan while trying to dampen Iran's bid for SCO membership.

"Putin puzzle" continues

Beijing closely observed the "changing" of the guard in the Kremlin in the first quarter. Putin's surprise move last December to name his successor and reposition himself focused the attention of Chinese pundits and the public. China's Russia observers were divided. They were certain about the outcome of the upcoming election, given the strong and effective steering by Putin and his team. In this regard, Putin and the thrust of his policies would not fade away. Uncertainties had two manifestations: Putin's relationship

with his “boss” Medvedev and Russia’s future relationship with the West, particularly with the U.S. An authoritative Chinese analyst on Russia pointed to a “structural dilemma”: the West is never at ease with a strong Russia pursuing its own developmental model.

What separates Beijing and the West in their respective perceptions of Russia’s leadership transition is a matter of substance vs. form. For the West, Putin’s rule means Russia’s departure from democracy. Beijing nonetheless sees that Putinism works for Russia. During eight years under Putin, Russia has gone from chaos to stability, fragmentation to recentralization, and poverty to initial prosperity. It is only natural for Russians to continue those policies, with or without Putin. For Beijing, Moscow seems to have finally figured out its own approach to modernity: not the West, nor the East, but somewhere in the middle – the Russian way. According to First Deputy Prime Minister Sergei Ivanov, the fact is “that never before in Russian history – either in tsarist Russia or the former Soviet Union or modern Russia – has the chief of state in good health voluntarily stepped down.” In contrast to Yeltsin’s “shock therapy” – meaning many shocks without therapy – Russia has opted for a “democratic and evolutionary development without any shocks,” stated Ivanov.

Part of the “Putin puzzle” is how Russia’s new team will construct its China policy. Although both sides repeatedly claimed that the current bilateral relationship is the “best” in history, such a state of affairs was achieved at a time of Russia’s historical decline and China’s historical rise. In the foreseeable future, Beijing will have to adjust itself to an increasingly stronger and more self-confident Russia. Over the past eight years, China has learned through firsthand experience that Putin’s ability to defend Russia’s national interests, including in relations with China, should never be questioned nor discounted.

Russia’s current tension with the West, though not all Russia’s fault, is not favored by some Chinese analysts. Guan Guihai, deputy dean of Peking University’s School of International Affairs, described Russia’s effort to claim the Arctic and Russian bombers flying “close-in” to U.S. carrier groups as “provocative” and even “blackmail,” which runs counter to normal behavior toward a nation that has normal diplomatic relations with Russia. At a minimum, China does not want to see another Cold War in which it may have to choose sides. Many Chinese analysts do see the possibility that a stronger and more self-confident Russia, presumably under President Medvedev, will find an appropriate place for itself between East and West.

Foreign policy coordination: from outer space to the Taiwan Strait

The end of Putin’s presidency in the first quarter, however, did not seem to create any major breaks in Beijing-Moscow teamwork in international politics. The two sides continued to cooperate in major international areas including Korean denuclearization, Iran, Kosova, Taiwan, and SCO. On Feb. 12, the two jointly submitted the “Draft Treaty on Preventing an Arms Race in the Outer Space” to the plenary session of the Conference on Disarmament Talks in Geneva. The Sino-Russian proposal came during a heightened pace on the part of the U.S. to perfect its own missile defense system and space-based

weapons platforms. The pending deployment of U.S. missile defense facilities in Poland and Czech Republic is part of the tension between Moscow and Washington. U.S. efforts culminated on Feb. 21 when a modified *SM-3* missile fired from the cruiser *USS Lake Erie* off the coast of Hawaii hit an “ailing” U.S. satellite travelling at more than 27,000 km per hour.

Both Russia and China dismissed the U.S. argument for why it destroyed the satellite and tended to see it as the Pentagon’s effort to secure supremacy in controlling outer space. Prior to this test, the U.S. had rejected the Sino-Russian proposal against weaponization of space, saying it will oppose any legal regime or other restrictions that seek to prohibit or limit U.S. access to or use of space.

For Moscow and Beijing, U.S. efforts to secure its place in outer space are worrisome enough. Events on earth, however, more directly affected the two. In his Feb. 5 annual intelligence assessment to the U.S. Senate, National Director of Intelligence Michael McConnell listed Russia and China as threats to the U.S. in several areas including finance, cyber security, and espionage. Meanwhile, the U.S. elections make things more difficult for Moscow and Beijing in their relationships with the sole superpower. John McCain, for example, claimed that he “looked into Putin’s eyes but could see there only three letters – K-G-B.” Hillary Clinton went further saying “Putin does not, by definition, have a soul.” On the eve of Taiwan’s presidential election on March 22, the U.S. deployed two aircraft carrier groups, the *USS Kitty Hawk* and the *USS Nimitz*, close to Taiwan. At more or less the same time, on March 14, the Chinese and Russian Ministries of Defense finally opened a direct telephone line after years of negotiations.

Bilateral economic relations: highs and lows

In the past eight years, the Sino-Russian strategic partnership has considerably broadened and deepened, ironically, without a much talked about oil pipeline from Siberia to China’s northeast that was initially suggested by President Yeltsin in 1994. Now, Yeltsin is dead, the pipeline is still in the pipeline, and it remains to be seen what Prime Minister Putin will do in this vital area of Russian-China economic cooperation.

A glimpse at the bilateral economic relationship shows rapidly expanding economic relations between Moscow and Beijing. The year 2007 registered the highest growth of bilateral trade: total annual trade of \$48 billion in 2007 was a 44 percent jump over the previous year. Beyond this phenomenal growth in bilateral trade were several worrisome signs, particularly in the energy sector. In 2007, Russian oil exports to China fell about 10 percent, putting Russia fourth in China’s overall oil imports. To China’s displeasure, the Russian oil company Rosneft demanded a large price hike, which effectively breaches its contract with China National Petroleum Corporation (CNPC) signed in December 2004 on delivery of 48.4 million tons of oil to the year 2010 for \$6 billion. Rosneft sought to revise the terms of the contract in 2007, given the steep increases in world oil prices. CNPC, nonetheless, expected Rosneft to scrupulously uphold its responsibilities under the original contract. A compromise was reached in mid-January to increase the price by \$0.675 per barrel effective November 2007. The net result is that China gets less by

paying more while Russia exports less for more or the same payment. To complicate matters further, the long expected Eastern Siberia-Pacific Ocean pipeline (ESPO) has been delayed another year to September 2009.

While Russian oil shipments decline and the pipeline is delayed, proposed Russian gas exports to China also continued to stall in the first quarter. During President Putin's official Oct. 14, 2004 visit to China, Russia's Gazprom and CNPC signed an agreement on strategic cooperation in Beijing. In March 2006, Gazprom and CNPC signed a protocol on gas shipments from Russia to China, which documented the main agreements of the schedule, volumes and routes of gas deliveries, and the principles for shaping the price formula. The first gas is to be shipped to China in 2011, and the annual gas volume is to reach 68 billion cubic meters by 2020. The parties failed to come to terms and the talks were put off until 2007. The main issue has been the "price gap" between the two sides. While the Russian side insists that its gas deliveries should be based on the "market," which essentially means the current European gas price of \$300 for 1000 cubic meters, China is not ready to accept the Russian pricing formula.

Part of China's current reluctance to formulate its pricing strategy for Russian gas may be its expectation that other sources of gas, particularly from Central Asian nations such as Turkmenistan, would force Russia to lower its price. The Turkmenistan-China gas line will be 7,000 km long (188 km in Turkmenistan, 530 in Uzbekistan, 1,300 in Kazakhstan, and over 4,500 km in China). It will start to deliver gas to China from Jan. 1, 2009 with an estimated volume of 30 billion cubic meters.

China's calculus, however, may not work. On March 11, a meeting in Moscow by top gas officials of Russia, Kazakhstan, Turkmenistan, and Uzbekistan led to an agreement to sell all gas at European prices (about \$300 per 1,000 cubic meters) effective January 2009. Russian media noted that the high gas price Central Asian nations charge Russia would dampen incentives for these states to build their own gas pipelines to Europe and China, leading to a virtual monopoly of gas delivery infrastructure for Russia. And until recently, the man in charge of Russia's gas giant of Gazprom (from 2000) was Dmitri Medvedev. Welcome to the brave new world of Medvedev.

Chronology of China-Russia Relations **January-March 2008**

Jan. 10, 2008: Sino-Russian trade reached \$48 billion in 2007, up 44.3 percent year-on-year and the highest annual growth since 1993.

Jan. 24, 2008: Xi Jinping, a member of the Standing Committee of the Political Bureau of the Central Committee of the Communist Party of China (CPC), meets Gennady Zyuganov, president of the Communist Party of Russian Federation in Beijing. Xi praises the recent development of the China-Russia strategic partnership, vow that China is committed to making joint efforts with the Russian side to boost the partnership. Zyuganov was in China on an invitation from the Chinese Communist Party.

Feb. 12, 2008: China and Russia submit a joint proposal for an international treaty to ban the deployment of weapons in outer space at the UN-sponsored Conference on Disarmament in Geneva.

Feb. 21, 2008: Chinese Ambassador to Russia Liu Guchang and Russian First Deputy Foreign Minister Andrei Denisov attend a ceremony commemorating release of the “Collection of Documents of Russia and China for the Period 1999-2007.” They sign a consultation plan for 2008 on behalf of the two countries’ Foreign Ministries. Nearly 100 people, including Federation Council Member and former Russian Ambassador to China Rogachev, Russia-China Friendship Association Chairman Titarenko, diplomats of the two countries, and journalists, attend the ceremony.

Feb. 26, 2008: Venshtorgbank (VTB), Russia’s biggest bank, opens its first Chinese branch in Shanghai. The Shanghai branch will cooperate with China UnionPay system to provide banking card services to both domestic and Russian clients. It also plans to offer RMB services within three years. VTB is the largest international banking group in Russia. Operating in 17 countries with assets of \$80 billion, VTB is however a latecomer to China’s lucrative banking sector, now saturated by more than 300 foreign banks.

March 3, 2008: President Hu Jintao initiates a telephone talk with Russian President-elect Dmitry Medvedev. Hu congratulates Medvedev on winning the elections and wishes him success. He invites Medvedev to pay an official visit to China.

March 6, 2008: Russian Emergency Situations Ministry sends three *IL-76* aircraft loaded with 10 heavy-duty diesel generators and 16,500 quilts in response to the snow disaster that struck southern China.

March 11, 2008: Russia, Kazakhstan, Turkmenistan, and Uzbekistan decide to sell gas at European prices (about \$300 per 1,000 cubic meters) beginning January 2009.

March 13, 2008: In a phone talk with President Hu, President Putin calls for the continuation of the “comprehensive development of Russian-Chinese strategic cooperation.” Hu thanks Putin for Russia’s humanitarian aid for the snow disaster in southern China.

March 14, 2008: A direct military hot line is opened between Russian and Chinese defense establishments. Defense Minister Anatoly Serdyukov and his Chinese counterpart Cao Gangchuan hold a telephone talk and agree the direct line ensures timely consultations and coordination between the two sides on hot issues around the world.

March 18, 2008: President Putin sends a letter to President Hu congratulating him on being re-elected president of China. Putin “re-confirms Russia’s intention to develop the strategic partnership with China to the benefit of our peoples and in the interests of strengthening international peace and security and building a just multipolar world order.” President-elect Medvedev sends a separate message to congratulate Hu.

March 18-19, 2008: National coordinators from the SCO member states meet in Beijing to discuss the Dushanbe summit of SCO heads of state and foreign ministers, and current affairs, including more cooperation with Afghanistan at the SCO-Afghanistan Contact Group.”

March 24, 2008: Iran submits an official membership application to SCO’s Secretariat, according to Iranian Foreign Minister Manouchehr Mottaki during his visit to Dushanbe, Tajikistan. Chinese Foreign Ministry spokesman comments the following day that China welcomes Iran’s desire to strengthen cooperation in all spheres with the SCO, but “The decision on the admission of Iran to the SCO should be made unanimously by all members of this organization.”

March 24, 2008: Foreign Minister Sergey Lavrov and Chinese Foreign Minister Yang Jiechi discuss important bilateral issues by telephone, including the March 22 elections in Taiwan.

March 27, 2008: A session of the SCO’s Council of the Regional Anti-terror Structure (RATS) in Tashkent signs into effect two documents: an agreement on cooperation in fighting the smuggling of arms, ammunition, and explosives and an agreement on personnel training for the SCO member states’ anti-terror formations. At the initiative of the Chinese, the session considers issues related to ensuring security during the Olympic games in China.