

Comparative Connections

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China-Russia Relations:

China's Year of Russia and the Gathering Nuclear Storm

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By any standard, China's "Year of Russia" is unprecedented. The year-long celebration was officially inaugurated with President Putin's fourth visit to China in March, with more than 200 cultural, business, science, and political activities unfolding throughout China. Both sides hailed the relationship as being at the "highest level" and as the "strongest ever," which are both probably true.

Beyond the extravaganza, which will be followed by Russia's "Year of China" in 2007, Russia's energy *politik* continued. Political elites in Beijing and Moscow were faced with the challenging task of bridging misperceptions and dislike between ordinary Chinese and Russians that persist despite a decade of strategic partnership. This is particularly needed when the world, according to Moscow and Beijing, is overshadowed by the gathering "nuclear storm" of Iran and North Korea. Both have friendly relations with Russia and China while continuing to be at odds with the U.S., which is getting increasingly impatient with the nuclear potential, peaceful or not, of the two "rogue" states.

Putin in China

In his fourth official visit to China as president, Vladimir Putin brought with him a delegation of over 1,000 Russian officials and dignitaries of various capacities, as well as companies of performers. The visit also came at the 10th anniversary of the China-Russia strategic partnership of coordination and the fifth anniversary of the Sino-Russian treaty of good neighborly friendship and cooperation.

A grand ceremony was held in the Great Hall of the People to commence the high-profile Year of Russia in China. The audience of 5,000 was entertained by some of the finest Russian ballets and musicals, while leaders of the two nations spoke of a promising future tinged with doses of nostalgia. The Chinese people would not forget Russia's help during the War of Resistance against Japanese Aggression (1937-1945), President Hu Jintao noted. "Many courageous Russian people have sacrificed their precious lives on the Chinese land." Hu also expressed appreciation for the Soviet assistance to China after 1949, and stated that, "the friendship, which was forged and consolidated with blood and sincerity, will be engraved deeply at the hearts of the two peoples and becomes an important source of strength to boost the development of bilateral ties."

Putin's remarks on history, however, were less sanguine about the past and more directed toward the future. "Despite difficult turns of history, the peoples of Russia and China not only kept good relations with each other. Today, we are having an increasing understanding of the strategic advantage of our close bilateral contacts and intend to step them up for the good of the two peoples," stated Putin. "Our relations are not only a factor of geopolitical stability, they demonstrate an example of open international partnership, which is not aimed against third countries and contributes to the development of a more just world order," the Russian president underlined.

For Putin and his Chinese hosts, more pressing issues had to be dealt with first. Much of the Putin-Hu one-hour talk on the afternoon of March 21 focused on two issues: Iran and energy cooperation. The latter issue was more publicized, and the former given a lower profile, except for some occasional broad statements of principles for peaceful settlement from officials on both sides. There was, however, an unambiguous sense of anxiety and urgency permeating the Beijing summit regarding the Iran nuclear issue. Both Russia and China have huge commercial and strategic interests in Iran, which is also an observer at the Shanghai Cooperation Organization (SCO). Neither would like to see another nuclear-armed nation in an inherently unstable part of the world. Each wants to preserve the existing nonproliferation regime, which is now being torn apart by its potential and *de facto* violator(s) on one hand, and the U.S., the not-so-faithful but increasingly impatient chief enforcer of the system, on the other. If anything, the second term of the Bush administration has pursued a more discriminating policy of being perhaps "too soft" on its friends and allies (India, Israel, and Pakistan) and too harsh toward others (Iran and North Korea). It looks like Moscow and Beijing will have to choose from outcomes ranging from bad to worse.

As a result, the Iran nuclear issue was "likely" to be "topic No. 1" for the summit talks, according to Russian presidential assistant Sergei Prikhodko. Throughout the first quarter, Russia led an active mediating role in resolving the Iran nuclear crisis with its proposal to set up a venture inside Russia to avoid sanctions by Western powers. The impasse between Washington and Tehran, however, may render obsolete Moscow's approach. Prior to Putin's visit, Russia ruled out China's direct participation in the joint uranium processing venture. In Beijing, Russian officials sounded less confident about the prospect for Russia's mediation. "I don't know what position we shall take (at the UN Security Council), but very much will depend on China's stand," speculated Prikhodko. He clearly counted on more support and coordination from China to the extent that "China's role may be a focal one at a certain stage if the Iranian nuclear file is submitted to the UN Security Council," reported *Itar-Tass*, Russia's official news service.

Despite the huge stakes for both Russia and China, the Iranian issue only received a sentence at the end of the joint communiqué (Article 4 of Section 9). Indeed, it was the shortest line of the 10 articles in the last section of the document. If anything, the brevity of the mention of Iran in the joint statement may be a sign of uncertainty regarding the future, if not the potential divergence of positions between Moscow and Beijing. The bulk of the joint communiqué dealt with areas of bilateral relations: high-level contact (Section 1); China's "Year of Russia" and Russia's "Year of China" (Section 2); border

issues (Section 3); Taiwan (Section 4); economic relations (Section 5); the environment (Section 6); humanitarian exchanges (Section 7); border security and military cooperation (Section 8); and world affairs (Section 9).

Second-term Bush “blues”

Despite its location at the end of the document, the last section of the joint communiqué is actually the longest, with 10 articles ranging from the role of the UN, antiterror, nonproliferation, Iran, Korea, the SCO, Israeli-Palestine conflict, Iraq, Central Asia, and Russia-China-India trilateral cooperation. In contrast to the relatively higher level of optimism in the “PRC-Russia Joint Statement on 21st Century International Order” issued at the previous summit (July 1, 2005) the assessment’s tone was rather reserved.

In its second term, the Bush administration clearly switched to a tougher stance toward both China and Russia similar to, if not identical to, the period during early 2001 when Russian “spies” were expelled and U.S. and Chinese military planes collided. All this occurred when the U.S. is increasingly hampered by the bloody situation in post-Saddam Iraq.

Coupled with the looming “judgment day” on the Iran nuclear issue, this new harder line toward Russia and China casts a rather discomfiting shadow for Putin and Hu. While their joint communiqué sidelines international issues, there is a distinct section (number 4) devoted to Taiwan: the two sides “are determined to support each other in their policies and actions to safeguard national sovereignty, unification, and territorial integrity. Russia will continue to pursue a one China policy, recognize the Government of the People’s Republic of China as the sole legitimate government representing the whole of China, and Taiwan as an inalienable part of China’s territory. Russia will not establish official ties with Taiwan or carry out official exchanges with it, opposing any form of ‘Taiwan independence,’ including the ‘legalization of Taiwan independence,’ will not accept ‘two Chinas,’ ‘one China, one Taiwan,’ opposes Taiwan’s joining the UN and other international organizations where statehood is required, and will not sell weapons to Taiwan.” And “Russia understands China’s efforts to realize peaceful reunification according to the ‘Anti-Secession Law’ and thinks the Taiwan issue is China’s internal affair, which external forces have no right to interfere in.”

While much of these statements appear “routine” in the PRC’s official rhetoric, there was, nonetheless, a sharp contrast to the July 2005 joint communiqué that did not even mention Taiwan. China’s official *Xinhua News Agency* quoted Hu Jintao’s words in the summit that enhancing mutual political trust “is a long-term task and there is the need for strengthening mutual support over the issues affecting each other’s core interests. And China highly values Russia’s staunch support with regard to the Taiwan issue.” The emphasis on Taiwan indicates China’s heightened concerns regarding the Taiwan issue and its relations with Washington, which may complicate Beijing’s ability to support Russia’s mediating role on Iran. It appears that it is difficult enough for Moscow and Beijing to keep the existing international system, no matter how skewed, let alone shape a new one for the 21st century.

Time to cheer up

Precisely because of the mounting difficulties with Washington, Russian and Chinese leaders had every reason to unwind with a heavy dose of culture. At a minimum, this would provide a sanctuary from a more complex and challenging world. Peace and stability between the two largest states in the Eurasian continent is perhaps the best deterrent to external challenges.

The two years of cultural activities, however, were badly needed for other, and perhaps more serious, issues that have besieged the two continental powers. That is, the Russians and Chinese do not very much know, like, let alone love, one another. In their unprecedented transitions from orthodox communism, Russia and China actually have been drifting apart politically and socially. While political elites have traveled to each other's capitals more often than ever, their peoples are fixated on the West. This is particularly true for Russians, who are becoming more "European" in the reform decade by relocating to Russia's European parts from the Far Eastern areas – approximately more than 1 million moved in the 1990s. A rising fear, real or imagined, goes hand-in-hand with an increasingly isolated Siberia, despite the historical settlement of the border issue in late 2004. Last year's large-scale chemical spill on China's Songhua River, which joins the Amur River on the Russia and China border, reinforced the stereotype among some Russians of an ever expanding, and polluting, China. The latest survey conducted by Russia's Public Opinion Fund found that half of Russians (48 percent) considered China to be friendly toward Russia, while 30 percent regarded China as an unfriendly nation. While the percentage of those who have a favorable opinion of China is still higher than the unfavorable group, the figures in 2002 were 67 percent and 18 percent, respectively. Therefore, the tangible improvement in Russian-Chinese political, strategic, and diplomatic relations has yet to find a corresponding base among the two publics.

That said, the Chinese hold more positive views of Russia than the other way round, particularly of Russia's younger (relatively speaking) and more charismatic leader Putin. It is not clear if this has anything to do with the absence of a great leader in post-Deng China. Yet many Chinese also see Russia over-playing the energy card with its "strategic partner" China. To be sure, people do not have any illusions about getting a "friendly" price from Russia, yet questions arise on how and why "Putin the Great" is unable to finish Russia's "feasibility studies" for a pipeline to China. For the Russians, the long-term concern is the trade structure with China, in which the vast Eurasian nation is to quickly become a raw materials supplier to its southern neighbor, a future not easily digested by many Russians.

For these reasons, and others, the sentiments of the two peoples need to be connected, which may prove to be much more challenging than defining bilateral relations as strategic partners. As China hosts hundreds of cultural activities across the nation, the Russian government has also assigned 337.8 million rubles for funding the "Year of Russia" in China.

For Putin, the “Year of Russia” was also a time to indulge in his personal obsession with oriental mythology. (Putin is a black belt in judo and claims to be a “super fan” of Chinese martial arts.) After high politics in Beijing, Putin took a sojourn to the 1,500-year old Shaolin Temple in Henan province in central China, which makes him the first among incumbent world leaders to join more than 1 million pilgrims a year in visiting the legendary temple. Putin personally added the temple visit to his itinerary, where ancient traditions of meditation, simple lifestyles, and kung fu are kept alive as China pursues commercialism and Westernization.

Still no oil from Russia

Despite the festive atmosphere, however, it became painfully clear for many in China that even the heart-felt sentiments behind China’s Russian Year won’t result in Siberian oil. In the midst of the high-profile political and cultural events during Putin’s two-day visit, the Russian president only talked about Russia’s oil, and did not allow it to flow to its energy-starved neighbor.

Of the 22 agreements signed in Beijing, three energy deals attracted the most attention. Still, they fell short of Beijing’s expectations. One was an agreement between the Russian company Transneft and the China National Petroleum Corporation (CNPC) to carry out a “feasibility study” on the construction of a 70-km branch pipeline from the Russian city of Skovorodino to the Chinese border. Despite the assurance from Putin that the much-anticipated oil pipeline to China would be built, Putin did not spell out when the project would receive approval. In Beijing, Russian Industry and Energy Minister Viktor Khristenko made clear that decisions about the Siberian oil link to China would not be undertaken until after the feasibility study was completed. Foreign Minister Sergei Lavrov hinted at a more specific time frame of 2006 or in the “near future.”

It appears that Russia’s grand energy-*politiking* continued in the “Year of Russia,” to China’s increasing frustration. After years of “feasibility studies” of the main East Siberia-Pacific Ocean (ESPO) oil pipeline, the Russian government made the final decision to go ahead with ESPO at the end of 2004 when Russian Prime Minister Mikhail Fradkov signed the governmental resolution. Now it is time for feasibility studies of the 70-km branch line that will skirt China and remain inside Russian territory all the way to the Pacific port of Nakhodka, which is opposite Japan. Russia’s apparent delaying tactic on this branch line to China is bizarre considering that CNPC already committed \$400 million to finance the branch line, though the actual format is yet to be determined.

Behind the continuous tug of war over the pipeline lies divergent goals over the energy issue. For Beijing, it is, and should be, an economic issue to be determined largely, if not exclusively, by the mechanism of supply (Russia) and demand (China). Russia, however, has increasingly attached a strategic dimension to this trade. In the past few years, Russia has actively played its “oil card” between two Asian giants, China and Japan, while the price of oil on the world market soars, thanks in large part to demand from emerging economies like China and India and the instability of the Middle East.

In Beijing, Russian officials toyed with Russia's strategy to "diversify" energy supplies to the world market, presumably from its traditional export destination in Europe. And China was described as "a key element" in this emerging oil-*politik*, according to Minister Khristenko. Russian officials, however, did not elaborate on the specifics of this grand design. Its underlying conception is rather obvious. At a minimum, new markets for Russian oil and gas will create more demand for energy. China's seemingly endless appetite would lead to a higher price level than the current one even if Middle Eastern stability is assured. Moreover, any future price for China will be set by the market, which will, in turn, be used to adjust to market levels the currently "friendly" energy price for Russia's "near abroad" states (former Soviet republics).

Russia intends not only to diversify the market of its precious commodity, but also to spread the production risk from exploration to transportation, which has always been a challenge in the Siberian vastness. One of the three energy bills signed in Beijing forms two joint ventures with equal participation between Russia's Rosneft and China's CNPC. One deals in oil exploration and production in Russia, and the other is for marketing and retailing Russian oil products in China. In other words, Russia would gain access to China's huge and growing energy market while utilizing the Chinese for the more difficult and risky exploration.

Russia's "gas talk" in Beijing is part of the so-called "strategic diversification" in the energy sphere. Even though there is talk of supplying an estimated 80 billion cubic (2.8 trillion cubic ft.) of gas annually by 2011, this will not assuage China's frustration over the oil pipeline issue. No matter how irrational from China's perspective, the broader picture is Russia's concern of a perceived rapidly deteriorating bilateral trade structure in which Russia is rapidly becoming a raw material supplier to China. In 2005, only 2.2 percent of Russia's exports to China was machinery and other high-tech products, down from 28.8 percent in 2001; Russian-made machinery and electronic products made up only a fraction of China's \$350 billion of annual imports of mechanical and electrical products.

At the Beijing Business Forum on the second day of Putin's visit, the Russian president urged the Chinese to reverse the downward trend in Russia's machinery exports to China. President Hu, however, believed that Russian enterprises were "fully capable of achieving a bigger market share" in China "if they can bring their advantages into play and come up with competitive products and technology." In one of the five proposals he made at the forum, Hu pointed out that enterprises should be the "main force in the strengthening of international economic and technological cooperation," and governments should play a supportive and facilitating role "in their efforts to unfold mutually beneficial cooperation at different levels and in diverse spheres." "I sincerely hope that entrepreneurs in both countries would seek more partners, look for more opportunities, cooperate more and make still greater contributions in further promoting Sino-Russian economic and technological cooperation and promoting the development of strategic partnership between the two countries," noted Hu. Vice Premier Wu Yi, chairperson of the forum, too, urged cooperation between large companies of the two countries, especially on large projects. In the eyes of the Chinese, the Kremlin has

overplayed energy *politik*, focusing on strategic and political calculation at the expense of economic rationality. And the real problem of the “trade irrationality” [Putin’s words] cannot, and should not, be resolved solely by governmental regulatory means. The lack of competitiveness of Russian finished products is the key to the declining role of Russia’s machinery products in bilateral trade.

While the lack of competitiveness of Russian products in both Chinese and international markets cannot be redressed overnight, the Russians did have a medium-term, and perhaps achievable, goal in its China economic policy. Until Russia obtains the contract to construct more nuclear power generators in China, the Russian oil pipeline will remain on paper. On his first day, Putin made it clear that “cooperation between Russia and China in the energy sector includes continuation of our involvement in the construction of new nuclear facilities in China [emphasis added].” Yet, until at least one of the two Russian-built reactors in Tianwan (east China) becomes fully operational at the end of 2006, China may not contract for additional Russian reactors. “Should the first two reactors [be] successfully commissioned, Russia has the rights [emphasis added] to obtain a contract on constructing a third, fourth, and maybe other reactors,” claimed Russian Federal Atomic Energy Agency (Rosatom) Sergei Kiriyenko in Beijing. In the nuclear area – which means billions of dollars and years of employment for hundreds of workers – Russians’ needs, interests, and anticipations are at least as strong and passionate as those of the Chinese for oil and gas.

Chronology of China-Russia Relations January-March 2006

Jan. 4, 2006: President Vladimir Putin sends a New Year’s greeting to President Hu Jintao praising the “unprecedented level” of bilateral relations, and high expectations for the coming “Year of Russia” in China.

Jan. 11, 2006: President Putin holds brief talks with Chinese Vice President Zeng Qinghong while both attend the inauguration of Kazakh President Nursultan Nazarbayev.

Jan. 18, 2006: Russian-Chinese trade in 2005 rises by 37.1 percent to \$29.1 billion, making China Russia’s second largest trade partner after Germany.

Jan. 31, 2006: Russian Foreign Minister Sergei Lavrov and his Chinese counterpart Li Zhaoxing meet in London for talks on the Iran nuclear issue. Also covered are the Shanghai Cooperation Organization (SCO), environment, and “Year of Russia” in China.

Feb. 15, 2006: Maj. Gen. Zhang Qinsheng, assistant chief of general staff of the PLA, meets in Beijing with visiting Lt. Gen. Buzhinskiy, vice director of the International Military Cooperation Bureau and director of the International Treaty and Law Bureau under the Russian Ministry of National Defense. The two sides exchange views on how to further enhance the Sino-Russian military exchanges and cooperation.

Feb. 21-24, 2006: Russian Natural Resources Minister Yury Trutnev visits China, meets Zhou Shengxian, head of the Chinese Department for Environmental Protection, and signs a memorandum of understanding on joint water monitoring.

March 2-5, 2006: Russian Minister of Internal Affairs Rashid Nurgaliyev visits China. In Beijing, he and PRC Minister of Public Security Zhou Yongkang sign a protocol for setting up a joint working group on combating cross-border crime and another document on cooperation between the law-enforcement bodies of the two countries for 2006-2007. Nurgaliyev is received by PRC Vice-President Zeng Qinghong.

March 17-20, 2006: Russian Federal Agency for Atomic Energy Sergey Kiriyenko pays a working visit to China, including a trip to a nuclear power station construction site.

March 21, 2006: He Yong, a member of the Secretariat of the Communist Party of China (CPC) Central Committee, meets in Beijing with Vice Chairman of the Russian State Duma Vyacheslav Volodin, who is also secretary of the general council of the United Russian party. They exchange views on increasing party-to-party exchanges and promoting state-to-state relations.

March 21-22, 2006: Russian President Vladimir Putin pays a state visit to China as part of “Year of Russia” in China celebrations. Three oil and gas cooperation deals are signed; two pipelines are to be built from Eastern and Western Siberia to China and both states in a joint venture will develop the gas fields off of Sakhalin.

March 25-29, 2006: The commander-in-chief of Russia’s Ground Troops, Col. Gen. Aleksey Maslov, visits China on military cooperation. He holds talks in Beijing with the PLA’s chief of staff, Col. Gen. Liang Guanglie and Lt. Gen. Chen Xitao, deputy commander of the Beijing Military Area Command. He also visits the Nanjing military region and the Shanghai garrison, including the Chinese Ground Troops’ Command Academy in Nanjing and a tank combined unit.

March 29, 2006: Sixth meeting of the council of the SCO regional counterterrorism institutions is held in Tashken to discuss 15 issues, including approving SCO’s operation for the period of 2007-09 and holding antiterror exercises in China and Kazakhstan in August.