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China-Russia Relations: What Follows China's "Russia Year"?

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By any standard, the last quarter of 2006 was extraordinary for Moscow and Beijing, the first "Russia Year" in China was winding down, trade rose nearly 20 percent to \$36 billion, the Shanghai Cooperation Organization (SCO) strengthened, and their strategic interaction deepened.

The rest of the world was in a state of chaos and crisis, if not catastrophe: North Korea tested nukes; the Six-Party Talks went nowhere; the United Nations Security Council imposed sanctions on Pyongyang and Tehran; Saddam's execution at yearend has yet to bring stability, let alone peace, to the Middle East. Meanwhile, the world's sole superpower is seen as weakened by challenges from both outside (Iraq) and inside (midterm elections). Ironically, other major powers, including Russia and China, found themselves both unable and unwilling to manage the mess.

Year of Russia in China

In the evening of Nov. 9, the "Year of Russia" in China officially ended in a grand closing ceremony in the Great Hall of the People in Beijing. Chinese Premier Wen Jiabao and visiting Russian counterpart Mikhail Fradkov joined the occasion. Their closing speeches to 5,000 guests were preceded by the Russian and Chinese national anthems played by a Chinese military band and were followed by performances by Russia's Tchaikovsky Philharmonic Orchestra.

Calling the Russia Year to be of great significance in the history of China-Russia relations, Wen believed that Russia's "brilliant achievements" in various fields displayed throughout the "Russia Year" enabled the Chinese people to obtain a better understanding of Russia and ensured "friendship from generation to generation." Fradkov echoed those remarks, saying the "Russia Year" was "a qualified success" and injected new vitality into Russia-China relations.

China's Russia Year was officially launched March 21 when President Vladimir Putin paid his fourth official visit to China as Russian president. This time, Putin brought more than 1,000 Russian officials, businessmen, and artists to Beijing. A similar event never occurred even during the Sino-Soviet "honeymoon" (1949-59). In the next eight months, more than 200 activities of various kinds were conducted, mostly in China, including

cultural, performing arts, business, academic, science and technology, air shows, etc. About half a million Chinese people attended these events while millions more followed the Russian theme in the media.

Beneath the splendor of these largely government-sponsored activities, however, lies an awkward political fact of life: ordinary Russians and Chinese simply do not pay adequate attention to each other. Neither do they feel the urge to complement this “warm” strategic partnership relationship between their leaders. Decades of hostility drove them apart; more recent reforms have lured them to the West. It is precisely this lack of intimacy between Russians and Chinese that drove political elites to use the so-called “country year” (2006-07) to promote “all-round development” of the China-Russia strategic partnership. It remains to be seen how this deficiency will be affected by Russia’s Year of China in 2007.

Business as usual?

The real business for the visiting Russian prime minister was business: to co-chair the 11th prime ministerial meeting with counterpart Wen. On Nov. 9, Fradkov and Wen inked 17 documents covering economic agreements with a contract value of some \$800 million, a five-year plan for the development of bilateral trade, a pact pledging peaceful use of nuclear energy, documents for cooperation in the areas of education, and accords on insurance, banking, and natural gas. The two also agreed to establish subcommittees on environmental protection and aviation, apparently reflecting urgency in these matters. In their joint statement to the press, the two heads of government vowed to upgrade strategic cooperation in all fields. In more specific terms, the two premiers expressed consensus on the following nine issues:

1. Continue to maintain close high-level exchanges on bilateral relations and international issues in good time, and put forward ideas for giving guidance;
2. Include local development strategy into the framework of developing overall relations, and set up efforts for signing an official agreement for coordinating local development strategies;
3. Actively promote cooperation in oil, natural gas, and nuclear energy; make great efforts to improve the trade structure, and increase the percentage of mechanical and electrical products and high-tech products in bilateral trade;
4. Expand mutual investment, particularly in large projects and in production and processing;
5. Strengthen the mechanism for early warning and consultation on sensitive commodities in bilateral trade, standardize trade order, and properly handle problems, in order to ensure healthy and orderly trade and economic relations;
6. Promote medium- and long-term high-tech cooperation using big projects as support;
7. Promote exchanges in education, culture, healthcare, sports and other fields, and promote the work to set up cultural centers on the other side;

8. Cooperate in environmental protection and resolve issues on the utilization and protection of cross-boundary water resources in a friendly and responsible attitude; and
9. Protect the legitimate rights and interests of enterprises of the other side, and provide convenience for the entry, exit, and residence of personnel of the other side.

After the business meetings, Chinese President Hu Jintao and the National People's Congress Standing Committee Chairman Wu Bangguo met Fradkov. It is difficult to say whether Fradkov's meetings with Hu were part of the protocol or signs of China's satisfaction with the results of the trade deals and other bilateral agreements with Russia, or both. Most of the issues were negotiated previously, and were in conjunction with a huge Russian trade fair in Beijing where over 700 Russian enterprises from 46 regions displayed their products. The festive atmosphere of the final days of China's Russia Year nonetheless seemed to have had little effects on the hard bargaining between working-level officials (Vice Premier Wu Yi and Deputy Prime Minister Alexander Zhukov and other ministers).

Indeed, official agreements are usually part of an endless bargaining process. After all the high-level promises, leaders' personal interventions, and numerous "feasibility studies" (the most recent one started in late October by Russia's Federal Ecological, Technological and Atomic Oversight Service, or Rostekhnadzor), the long-awaited Russian oil pipeline to China is still in a state of obscurity. Either by desire or by design, the Russians kept sending out contradictory signals during the prime ministers' meeting.

For example, on Nov. 8 when the prime ministers were meeting, Russian Economic Development and Trade Minister German Gref revealed in Beijing that Russia had not ruled out the possibility of oil being supplied to China by rail from Skovorodino to China. "Everything will depend on the calculations. If it is more profitable than a pipe, then it will be possible, but for the moment a pipe is being planned," he told journalists in Beijing. This was ordered by the Russian fuel and energy complex commission whose decision was made in early October.

The Russian Industry and Energy Ministry and Economic Development and Trade Ministry evaluated building a tributary from the Eastern Siberia-Pacific Ocean pipeline to China, taking existing rail infrastructure into consideration. The decision was reached at a meeting of the government fuel and energy complex commission at the start of October. Other Russian officials, including Rosneft's regional representative Sergei Goncharov and Deputy Economic Development Minister Kirill Androsov, immediately dismissed the idea. Transneft CEO Semyon Vainshtok may have been closer to reality when he remarked that the decision to build a branch of the East Siberia-Pacific Ocean (ESPO) oil pipeline leading to China had been made. "I have the impression that the decision about building an elbow pipe is positive, but it's unclear when it will be unveiled."

Russian Deputy Prime Minister Zhukov offered the most affirmative assurance in the most recent round of pipeline talks. In his interview with the *China Daily* in Beijing Nov. 9, Zhukov stated that “[A] strategic decision on building this (oil) pipeline, including a branch to China, has been made.” His statement, for all its sincerity, was nonetheless not backed by the exhibition of Russia’s Transneft oil and pipeline company at the Russian Expo in Beijing. Transneft’s main showpiece was a route map of the East Siberia-Pacific Ocean oil pipeline, in which the pipeline’s Chinese branch was designated only by a dotted line. This was “representing either an intention or a subject of negotiation,” according to the Russian daily *Rossiyskaya Gazeta*. Transneft’s map display in Russia’s first national exhibition in Beijing in 25 years reportedly prompted the most questions. For their part, Russian officials in Beijing were “trying not to over-emphasize the question of the pipeline branch’s construction” in order “to avoid hitting a raw nerve.” “We are fulfilling our commitments, even the verbal ones,” Fradkov was quoted as saying to Russian media.

Russia’s delaying tactics are no longer disguised. It is not clear if a similar approach would be applied to the much talked-about gas deals between Russian gas giant Gazprom and the China National Petroleum Corporation. The main proposed gas lines from western Siberia to China’s northwest seem to be taking shape. The two sides, however, failed to narrow the price gap by yearend. Meanwhile in the Far East, the proposal by Exxon Neftegas Ltd. – the Sakhalin-1 project operator – to transport gas to China’s northeast via an extension from the newly constructed Sakhalin-Komsomolsk-Khabarovsk pipeline was blocked by President Putin, who was quoted by Russian *Interfax* news agency as saying at a meeting with Khabarovsk region Gov. Viktor Ishayev that *gas from the pipeline should only be used for internal consumption* [emphasis added].

The Chinese side did not hide its displeasure, but understood Russia’s indecision on the pipeline. Aside from Russia’s use of energy as a strategic instrument, the issue of the rapidly declining mechanical and manufactured components in Russian exports to China underscores Russia’s “contradictory attitude” toward China in the energy area, reasons Russian observer Mikhail Vorobyev. Currently, the share of electronic and engineering products in bilateral trade is only 12 percent. While the export of Chinese electronic goods to Russia has been growing, Russian deliveries of similar products to China have been steadily declining, from 28.8 percent in 2001, to 12.9 percent in 2003, 4.8 percent in 2004, and 2.1 percent in 2005. For the first nine months of 2006, the dollar volume of Russia’s machinery and equipment deliveries to China was merely \$135 million, against \$328 million for 2005, or about 1.3 percent of total Russian exports to China.

What else is Russia capable of delivering to China besides raw materials? “If you do not count military equipment . . . and apart from civil aircraft . . . and power industry equipment,” wrote Vorobyev in *Vremya Novostey* in early November, “it seems that . . . Russia has nothing to boast of. And the volume of these deliveries certainly cannot change the overall picture of trade turnover. That is to say, in terms of the structure of trade; Russia is becoming a raw materials tributary not only of the most developed western countries, but also . . . China.” For decades, Russia, and the Soviet Union,

accepted, if not liked, the role of raw-materials supplier to West Europe. It remains to be seen if the Russians would accept a similar geo-economic fact of life with China.

Russia's nuke rush in China

Of all the “trade structure” talks, Russia’s continuous presence at and inroads into China’s vast civilian nuclear power construction business is perhaps the only hope for gaining access to China’s high-tech market. According to a Chinese government decision in March, the nation will increase its nuclear energy capacity from its current level of about 9,600 megawatts to 40,000 megawatts by 2020, which is about 4 percent of overall energy production. This means that China has to build, in the next 15 years, at least 32 nuclear power units, each capable of generating at least one gigawatt (1,000 megawatts).

Russia’s current foothold in China’s nuclear market is the two 1,000-megawatt units (the first unit is now operating at 75 percent capacity and will reach full capacity in spring 2007; the second unit will be test-run in the second half of 2007) in Tianwan, Jiangsu Province, which operate alongside four French reactors and two Canadian ones. In the past few years, the Russian government has lobbied heavily for additional Russian deals with China. While commenting on the “trade structure” issue in Beijing, Prime Minister Fradkov was quoted saying that “[S]ome special, if not preferential, conditions must be created to encourage the activities of our businesses prospect” in China. Fradkov’s effort was part of Russia’s effort to win in the next round of China’s nuclear reactor bidding. Upon his return from the 11th prime ministers meeting in Beijing, Putin instructed in a Cabinet meeting on Nov. 13 that the Russian government “broaden civilian economic projects with China.” “The efforts must be continuous and targeted with due account of our goal of diversified relations and broader civilian projects,” said Putin.

While these efforts to increase Russia’s presence in China’s nuclear market are not unimportant, China announced on Dec. 16 its decision to buy (for \$5.3 billion) four AP 1000 reactors from U.S.-based and Japanese-owned Westinghouse. Part of the reason for China’s decision was safety-related technology. China prefers more efficient low-speed turbines to the high-speed ones offered by Russia’s Atomstroyeksport. Russia does not manufacture low-speed units. Meanwhile, buying them or setting up joint ventures with Western firms would reduce Atomstroyeksport’s profitability noticeably. Another factor in China’s decision was that the deal with Westinghouse would transfer more technology to China than other tenders would (France’s Areva and Russia’s Atomstroyexport). “All international tenders would be judged on their commercial and technical merits,” remarked a Chinese nuclear energy official recently.

The Westinghouse deal does not preclude future installation of Russian units in China, as the four Westinghouse reactors will be constructed in Guangdong and Zhejiang provinces. Indeed, ongoing construction at the Tianwan site – which is capable of accommodating eight power units – appears to prepare for the third and fourth Russian units. And in late September, a protocol was signed during the 10th Russian-Chinese commission on nuclear cooperation in Beijing, with the clause that further cooperation at the Tianwan construction site and other nuclear sites in China would depend on the

successful launch of the first two reactors at Tianwan. Indeed, installing nuclear reactors from other manufacturers (French-German or U.S.-Japanese) is not as economic as putting similar Russian reactors there.

What is worrying Russia, however, is the medium- and long-term. “The total transfer of the know-how of AP1000 nuclear plant construction from Westinghouse to China will undermine the company’s positions on the Chinese market,” said Andrei Cherkasenko, board director of the industrial investment company Atomprpomresursy on Dec. 27. “The Americans’ victory on such terms [full technology transfers to China] will undermine their positions on the Chinese nuclear power plant construction market, because the Chinese, following a routine practice, will master the know-how during the construction of the four reactors and will then build nuclear power plants with this type of reactor on their own,” Cherkasenko predicted. “These four power units will be Westinghouse’s last project in China.”

SCO and beyond

For all the poorly disguised displeasure regarding Russia’s perceived role as China’s raw material “tributary,” the Moscow-Beijing strategic partnership will continue, if not thrive, in the foreseeable future. Part of the reason is that their bilateral relationship have gone way beyond a single pillar but is a growing web of interactions across strategic, political, diplomatic, economic, and social interactions. It is simply impossible – if both sides remain rational and pragmatic – to halt the thick, complicated, and still largely mutually beneficial ties because of problems in one pillar.

This is particularly true in the case of the SCO, a joint security venture between Russia and China. Indeed, the last quarter of 2006 witnessed significant widening and deepening of their investment in the SCO. This was perhaps a natural extension of the sixth SCO summit held in June 2006, in which four of 10 signed documents related to cooperation in the defense and security sectors. In the last quarter, major SCO institutional-building activities included:

- The SCO educational ministers’ meeting in Beijing in mid-October.
- In late October, Lt. Gen. Zhang Qinsheng of the Chinese General Staff traveled to Russia to attend the first round of meetings with representatives from the national defense ministries of Russia and other SCO member states on issues concerning the time, venue, name, training programs, troops, and organizational forms of the joint military exercise to be held in 2007.
- In early November, there were indications that joint SCO exercises in Russia were being redefined as a “joint” antiterrorist drill with the Collective Security Treaty Organization (CSTO). Despite considerable overlap in membership between the SCO and CSTO (The CSTO includes Armenia and Belarus, and the SCO has four observer members: India, Iran, Mongolia, and Pakistan), it will be the first time these two Russian-dominated groups work together.

- A 10-day forum was held in China's University of National Defense in Beijing Nov. 7-16 with the theme, "China's peaceful development and the SCO," with 25 senior officers from SCO members and observers.
- A special meeting by SCO "emergency ministers" (law enforcement and police agencies) was held Nov. 22 in Beijing to discuss creation of an SCO disaster relief center to coordinate member efforts to cope with civil emergencies.
- The SCO Business Council met in Moscow Dec. 6-7 to set up an SCO energy club and a unified health-care system.

While the SCO redoubled efforts to enhance organizational cohesion, officials and scholars denied that it was in opposition to NATO. Indeed, this was the theme of a two-day conference in Almaty, Kazakhstan in late November. This, however, does not prevent the regional security mechanism from becoming a "model" for "future world order structure," according to various participants of the conference.

More practical needs, however, may also push Moscow and Beijing to further cooperation and coordination through the SCO. In the last quarter, both Russia and China were faced with new challenges as a medium between the U.S. and its allies on the one hand and the so-called "axis of evil" nations of North Korea and Iran on the other regarding the latter's moves toward nuclear weapons status, declared or disguised. In both cases, Russia and China had to board the U.S. "boat" – going along with UNSC sanctions against Pyongyang and Tehran, though with considerable efforts to soften the wording – while distancing themselves from Iran and North Korea. The problems and crises, however, are far from over and not without dire consequences for Moscow and Beijing as well as the rest of the world. Faced with a diminishing ability to cope with smaller nuclear countries on their peripheries, it is logical to consolidate existing multilateral security mechanisms such as the SCO and CSTO.

Into a new world of disorder?

For these reasons, and others, including a Russia-bashing trend in the U.S., President Putin seems ready to elevate the strategic relationship with China. In his congratulatory message on the 57th anniversary of the PRC's founding, Putin noted that "[I]t is important that relations between our countries are confidently developing in the spirit of strategic partnership and *allied relations* [emphasis added] in the new 21st century." It is unclear if the Russian presidential press service, which handles Putin's PR, made a mistake either in the original or the translated version of the presidential message. There has been so far no effort to correct it.

Putin's geopolitical sense was not far from reality. A week after his message to Hu Jintao, North Korea tested a nuclear weapon. Although a flurry of diplomatic efforts including UNSC sanctions (Resolution 1718) brought Pyongyang back to the Six-Party Talks in Beijing on Dec. 18, the six sides failed to make progress toward denuclearization. A day after the fifth round Six-Party Talks in Beijing went into "recess" on Dec. 22, the UNSC passed Resolution No. 1737, which imposes sanctions against Iran, whose angry rhetoric was directed as much at Russia and China for failing to veto

the U.S.-sponsored resolution. It looks like both sanctions would be too little and too late to reverse the wave of nuclear proliferation, as various neighbors of Iran and North Korea had indicated their interest in developing their own “peaceful” nuclear capabilities.

As the calendar turns to 2007, the world according to Moscow and Beijing is moving toward chaos and crises. Despite their newly acquired national power, both Russia and China face a harsh geostrategic, and perhaps historical, fact of life: the declining ability and authority of the U.S. in the eyes of both its friends and foes is not only undesirable but also dangerous.

In a provocative forecast of the world’s future, Aleksandr Khramchikhin, head of analysis at Moscow’s Political and Military Analysis Institute, argued that there would not be a “multipolar world” in the wake of the U.S. unipolar moment, but “there will be chaos” as a result of the death of the world’s nuclear nonproliferation regime. China’s analysts were a full year ahead of their Russian counterparts in debating the implications and pitfalls of the “American decline.” Contrary to an increasingly fashionable view, both inside and outside China (Roger Cohen, “Welcome to the new bipolar world – China vs. America,” *International Herald Tribune*, Nov. 23, 2006), prominent America scholars such as Shen Dingli and Wang Yiwei in Shanghai argued that a fast decline of the ability of the world’s sole superpower may not be a desirable thing for China and the rest of the world.

The ability of Russia and China to soft-land the 800-pound “guerrilla” (the U.S.) is limited. The middle position between the sole and unpopular superpower and the vast but increasingly volatile world has served the interests of both Russia and China in the past decade, but may not be maintainable. The alternatives – join the U.S. camp or side with U.S. foes – are either undesirable or unthinkable. Welcome to the year of confusion, chaos, and crises.

Chronology of China-Russia Relations October-December 2006

Oct. 1, 2006: President Putin sends Chinese counterpart Hu Jintao a message of congratulations on the 57th anniversary of the PRC.

Oct. 3, 2006: Russian border guard department chief Igor Kurilov and director of the central border guard division of China’s Inner Mongolia autonomous district Ji Yafei sign in Novosibirsk a cooperation plan to hold joint exercises in 2007 at one border crossing point with a scenario to fight terrorism and illegal trade in arms and ammunition.

Oct. 13, 2006: Russian and Chinese finance ministers hold first inter-ministerial financial dialogue in Beijing.

Oct. 13-14, 2006: China’s special envoy Tang Jiaxuan visits Moscow to discuss North Korea’s nuclear test. He meets Foreign Minister Sergei Lavrov, Defense Minister Sergei Ivanov, and President Putin. The talks were requested by the Chinese side.

Oct. 18-19, 2006: SCO holds its first education ministerial meeting in Beijing to discuss cooperation in the education sphere. An expert team will be set up to verify education certificates of SCO member states.

Nov. 6, 2006: The seventh session of the China-Russia Cooperation Committee on Education, Culture, Health and Sports is held in Beijing. It is co-chaired by Chinese State Councilor Chen Zhili and Russian Deputy Prime Minister Alexander Zhukov.

Nov. 7-16, 2006: Some 25 senior SCO military officials meet in Beijing to participate in the second “China’s Peaceful Development and the SCO” forum and to discuss how to step up defense cooperation. Officers from observer nations of Mongolia, Pakistan, Iran and India also attend.

Nov. 9-10, 2006: Russian Prime Minister Mikhail Fradkov visits China to take part in the 11th regular meeting of Sino-Russian prime ministers and to attend a ceremony wrapping up the Year of Russia in China. This is preceded by the 10th meeting of the committee for regular meeting of prime ministers chaired by Vice Premier Wu Yi and the Deputy Prime Minister Alexander Zhukov on Nov. 7.

Nov. 18, 2006: Chinese and Russian presidents meet on the sidelines of the 14th APEC summit in Hanoi. This was preceded by the Russian-Chinese foreign ministerial meeting between Li Zhaoxing and Sergei Lavrov Nov. 18.

Nov. 20-23, 2006: Russian Minister for Emergencies Sergei Shoigu visits Beijing to attend a SCO emergency ministers conference for coordinating and integrating measures in time of emergency. An action plan on cooperation in disaster relief is passed.

Dec. 12-17, 2006: Russian Communist Party Chairman Gennady Zyuganov visits China as part of the regular exchange agreement. Zyuganov travels to Beijing and Shanghai.

Dec. 24, 2006: Russian PM Mikhail Fradkov discusses further Russian-Chinese cooperation with Chinese special envoy Tan Jiaxiuan in Ashgabat, Turkmenistan while attending the funeral of President Saparmurat Niyazov.

Dec. 28, 2006: President Putin sends New Year’s greetings to Chinese President Hu Jintao, saying that Russia and China have achieved impressive results in promoting mutually advantageous cooperation and the upcoming Year of China in Russia “will serve as a powerful incentive to open the potential of strategic partnership between the two countries more fully.”