

China-Russia Relations: One Year Later: Geopolitics or Geoeconomics?

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Two one-year anniversaries – the Russia-China friendship treaty and the Sept. 11 attacks – were very much in the minds of Russian and Chinese leaders during the third quarter of 2002. Both China and Russia publicly expressed satisfaction with the historic treaty that “legalizes” bilateral interactions. Beyond that, Russian President Vladimir Putin’s Bismarckian diplomatic dexterity seemed to make Russia not only an eagerly sought member of the major power club, but also to position it in a crucial point between the West and the so-called “axis of evil” states (Iraq, Iran, and North Korea). Meanwhile, Beijing’s strategic and diplomatic constraints were somewhat alleviated by the country’s sustained economic growth. Between China and Russia, the much alluded to friendship treaty appeared only to offer another round of strategic maneuvering and mutual adjustment at the dawn of a new U.S. military doctrine of preemption that would displace deterrence.

Premiers’ Tough Talk: Profit First, Friendship Second

The quarter began with Russian Security Council Secretary Vladimir Rushailo’s visit to China on July 15-20 to celebrate the one-year anniversary of the friendship treaty. Rushailo met with almost all top Chinese leaders (President Jiang Zemin, Vice Premier Qian Qichen, Foreign Minister Tang Jiaxuan, Defense Minister Chi Haotian, acting State Security Minister Gen Huichang, and Public Security Minister Jia Chunwang). The seventh regular prime ministers’ meeting between Zhu Rongji and Mikhail Kasyanov in Shanghai on Aug. 21-23 was the most substantial high-level interaction for the third quarter. Compared with the previous meeting, the Zhu-Kasyanov meeting this time seemed to cover more issue areas (trade, energy, nuclear power, transportation, science-technology, space, banking, information technology, arms sales, aviation, humanities including education, culture, public health, sports, tourism, and media) but produced fewer tangible results. Only two commercial documents were inked: a two-year banking agreement for border trade settlement in using national currencies of Russia and China, and a \$200 million export credit for Russia.

In addition to addressing economic issues, the joint communiqué issued by the two prime ministers also called for international legal acts to ban space-based weapons and to combat terrorism. The two sides vowed to strengthen the Shanghai Cooperation Organization (SCO) and to support each other’s efforts to safeguard national sovereignty

and territorial integrity over the issues of Taiwan, Tibet, and Chechnya.

In his interview with Chinese media, Prime Minister Kasyanov expressed “complete satisfaction” with the result of the meeting. The Russians, however, were somewhat disappointed that China, after years of feasibility studies, continued to sideline a Gazprom offer to supply China with gas from Irkutsk Oblast through Mongolia. Instead, China offered the Russian energy giant a 15 percent stake in the construction of its own west-east transit gas pipeline, together with similar shares for Royal Dutch/Shell Group and the Exxon Mobil Group. Meanwhile, China bargained hard for the highest possible transit fees for any oil shipment from Russia to a third country such as Korea.

China’s hesitation at gas deals with Russia was largely caused by its preference for liquefied natural gas (LNG), which Russia does not provide. Another factor may have been Beijing’s strong desire to minimize its dependence on imports. Gazprom’s option to provide China with 30-35 percent of its energy needs more than doubles China’s own projection of 15 percent. While negotiating with Russia, China separately reached two long-term, multi-billion dollar deals for LNG with Australia and Indonesia in the quarter.

Some in Russia perceived this failure to reach a deal with China as a “wasted opportunity,” costing Russia \$350-400 million annually. The Chinese side had its own complaints. One was the huge trade deficit with Russia, which was seen as the result of overpriced Russian military hardware. Beijing wants to offset this by exporting more civilian goods to the Russian market. Russia, however, demanded higher quality Chinese exports. At a certain point, Moscow even pursued a “linkage” policy for Russian arms sales, which meant Beijing would have to purchase Russian civilian aviation equipment in addition to buying Russian arms. The ongoing World Trade Organization (WTO) talks, too, seem to divide the two. While China considers its negotiation with Russia as a process to connect Russia with international standards and therefore normal, Russia sees it as a Chinese effort to take advantage of Russia’s weaker position.

Apparently, the bilateral friendship treaty does not necessarily mean friendly pricing in commerce. Pure commercialism, however, may be a sign of normalcy or even maturity in bilateral ties. At least it is a different mode from the highly politicized trade relations during the periods of “honeymoon” or open hostility.

Not everything was disappointing from the seventh prime ministers’ meeting. Russia was promised to expect China’s support in Russia’s bid for the WTO and China’s move to protect its market from unfair competition between metal makers would not affect Russian companies, at least for the current year. Meanwhile, China-Russia trade maintained its growth momentum for the first half of 2002, totaling \$5.45 billion, a 18.7 percent rise over the same period of 2001 which registered a record-high trade volume of \$10.67 billion. Major ongoing projects such as the 2,247-km long oil pipeline from Siberia to China’s northeastern part and the Tianwan nuclear power plants proceeded smoothly. The prime ministerial meeting also led to an agreement that China would now pay hard currency, not barter goods, for Russia’s arms transfers. Considering that a quarter of the annual trade now involves Russia’s arms sales to China, hard currency will

significantly simplify the process.

At the end of the day, both sides seemed satisfied. After the meeting, Prime Minister Kasyanov stopped over at Beijing where Chinese President Jiang Zemin spoke highly of the “new, favorable phase” in bilateral relations as a result of the progress made by the two prime ministers.

Bear’s Diplomatic Solo: Around China

There was no question that the two sides worked hard to move forward their bilateral relations. The “legal” framework provided by the friendship treaty, however, by no means constrained Russia from taking diplomatic initiatives around China.

The biggest breakthrough of Russia’s diplomacy in the third quarter occurred in Korea. Following Russian Foreign Minister Igor Ivanov’s visit to both Koreas in late July, the Democratic People’s Republic of Korea (DPRK) leader Kim Jong-il met President Putin in Vladivostok on Aug. 23. This was soon followed by the historical visit to North Korea by Japanese Prime Minister Koizumi Junichiro on Sept. 17. The result of the North Korean-Japanese meeting perhaps even shocked the Russians as Kim acknowledged the abduction of Japanese nationals by North Korean agents and suggested the DPRK would extend the moratorium on missile tests. Prime Minister Koizumi reciprocated with an economic assistance package worth up to \$10 billion to North Korea.

Chinese media described the Russian move as a challenge to the U.S. hardline approach to the Korean issue. Foreign Minister Ivanov, however, seemed to take extra steps to calm other major powers with big stakes in the Peninsula by stating that Russia was not monopolizing Korean affairs. “We are not trying to put a spoke in anyone’s wheel,” said Ivanov. President Putin was less evasive when he tried to convince Russian local officials of the importance of Kim Jong-il’s visit to Vladivostok. If Russia failed to link its trans-Siberian railroad with those of the Koreans, said the Russian leader, “it will be done via the territory of our respected neighbor – the People’s Republic of China.” And “that is the very reason why the North Korean leader is here at my invitation,” added Putin.

For Russia, any diversion of part of the cargo flows from the Far East through the Trans-Siberian railway to Europe would help enliven the sleepy railroads and seaports in the Russian Far East. The project was originally addressed during Putin’s visits to North Korea in July 2000 and South Korea in February 2001. Feasibility studies for connecting North Korean and Russian rail systems started in the fall of 2001 and Russia offered a \$120 million credit for renovating part of the rail system inside North Korea. The Russian Railway Ministry proposed on Sept. 20 to rebuild the railway in North Korea at the expense of the former Soviet debt to South Korea, which exceeds \$1 billion. With the quickened pace of North-South reconciliation and breakthroughs between Pyongyang and Tokyo, financial inputs from Seoul and Tokyo may contribute a sizable part of the \$3-4 billion total cost for restoring the rail system in North Korea.

The implications of the Kim-Putin summit in August 2002 – the third since Putin came to

power and second time DPRK leader Kim traveled to Russia in one year – extended beyond economics. North Korea’s first family is historically more Russian than Chinese in its ideological roots. In the early months of 1950, former DPRK leader Kim Il-sung and Stalin worked out a war plan before selling it to Chinese Chairman Mao Zedong, who had a hard time persuading his colleagues to intervene after Gen. Douglas MacArthur’s successful Inchon landing in September 1950. Now, half a century after the three-year bloody conflict in which China bore the brunt of the war, the two Koreas are working toward eventual reunification while Taiwan is drifting away from the mainland. After years of window-shopping for a panacea that would reform North Korea’s dysfunctional economy, Kim Jong-il this time seemed to embrace the Russian model when he was quoted as saying that he was “1,000 percent” satisfied with his Vladivostok trip.

With a pending breakthrough in Northeast Asia, Russian Foreign Minister Ivanov flew directly from the Korean Peninsula to Macau and Hong Kong on July 28-29, the two special administrative regions of China. For Ivanov, getting investment, trade, and tourists to Russia was the priority in his meetings with local officials. Shortly before his arrival, Russia’s largest air carrier Aeroflot announced it would launch a direct cargo flight between Moscow and Hong Kong.

While Russian airlines were reaching out to southern China in the third quarter, they also made breakthroughs with Taiwan. On Aug. 24, Taiwan’s China Airlines made its first maiden flight from Taipei to Moscow; this was reciprocated by Russia’s Transaero Airlines on Sept. 1. Although the Moscow-Taipei direct flight was well within the “unofficial” framework insisted on by China for any country with diplomatic relations with Beijing, the growing and deepening interactions between Russia and Taiwan during the third quarter did not delight China.

In July, a high-level trade delegation from Taiwan ended a 25-day fact-finding visit to Russia. The group included officials from Taiwan’s Ministry of Foreign Affairs, the Council for Economic Planning and Development, and the Presidential Office. In August, a group of Taiwan legislators led by former Navy Commander-In-Chief Ku Chung-lien visited Moscow and met several leading Russian lawmakers and business people. In September, another high-level Taiwan delegation attended the 2002 Asia Pacific Economic Cooperation (APEC) forum’s International Investment Expo in Vladivostok. The 27-member group was led by Secretary General Chang Chun-hsiung of the ruling Democratic Progressive Party and included Taiwan Minister of Transportation and Communications Lin Ling-san and Chairwoman of the Cabinet-level Council of Labor Affairs Chen Chu. The Taiwan media described the visit as a “breakthrough” in bilateral relations.

During the third quarter China and Taiwan intensified their diplomatic battle around the world. Taiwan President Chen Shui-bian declared in August that a country exists on each side of the Taiwan Strait. It seemed that Taiwan was determined to take the battle of diplomacy to the mainland’s “backyard.” On July 27, the Taiwan-Russia Association, a private organization for promoting Russian-Taiwan trade, debuted in Taiwan and Chen

made the inauguration speech. In late August, the Russian chief representative in Taiwan declared that Russia was ready to cooperate with Taiwan in all fields, apart from the military sphere. Meanwhile, the island was frequented by Russian media, science, trade, and academic groups.

Last, but not least, Tibet also became an issue between Russia and Beijing during the quarter. In early July, Russian Deputy Foreign Minister Alexander Losyukov stated that Russia did not object to a visit to Russia by the Dalai Lama. Russia denied the Dalai Lama a visit in 2001, but this time Losyukov said, "We are ready to welcome the Dalai Lama and have nothing against his coming to Russia if it is a purely religious and not a political event." Other Russian foreign service officials went further adding, "We do not regard the Dalai Lama as an extremist, but have to take into account China's negative attitude on him as a political figure." By the time the Russian government decided to deny the Dalai Lama a visa in mid-August, the issue had become a hot potato in Russian domestic politics as religious groups demonstrated repeatedly against the denial.

A "China Threat" for Russia?

Russia's diplomatic initiatives around China's peripheries during the quarter can certainly be part of the overall Russian diplomatic offensive as President Putin continued his skillful realpolitik around the world. Indeed, once Putin secured his place with major powers, particularly with the U.S. after Sept. 11, he seemed free to pursue his secondary goals, including Russia's relations with the so-called "axis of evil" states (Iraq, Iran, and North Korea). Seen in this light, Russia's historic friendship treaty with China may give President Putin the license to explore the limits of China's tolerance in dealing with thorny issues such as Taiwan, Tibet, religious freedom, etc.

There are limits, however, in making such an argument. Alternative interpretations examine the impact of ongoing debates in Russia about how to live and deal with China, whose power continues to rise regardless of the impact of the Sept. 11 attacks and China's apparent discomfort with the U.S.

Throughout the third quarter, top Russian officials kept reassuring domestic audiences that China was not a threat to Russia. On July 10, Foreign Minister Ivanov dismissed the claim by some Russians that China could pose a threat to Russia in 10 years. In late August, while inspecting Russian military units in the Chita Region in the Far East, Defense Minister Sergei Ivanov, too, claimed that China did not represent any military threat for Russia. In both cases, these top aides of the Russian president responded to questions regarding a perceived "invasion" by Chinese migrant workers to Russia's Far East. Both dismissed the necessity and feasibility of building a "high fence" or an "iron curtain" along the Russia-Chinese border to ward off Chinese migrant workers. Instead, they highlighted the need to develop legal frameworks for accommodating the inflow of Chinese workers whose contribution to regional development should be welcomed.

The Russian foreign and defense officials appeared to be fighting a two-front war: one to maintain and develop friendly relations with China; the other to alleviate, to deflect or, if

possible, to reverse growing domestic anxiety about a threat from Chinese migrant workers into the Far East of Russia. In part, the problem has been exacerbated by a continuous outflow of Russians from the Far East to other parts of the country. In the past decade, 1.2 million Russians left the region. Population losses in various regions in the Far East range from 10 to 57 percent (in the Magadan region). During the same period, Chinese nationals residing in the Russian areas bordering on China grew from 15,000 to 200,000 according to Russian estimates. Russian regional leaders attributed the outflow of Russians to the worsening economic conditions and higher than average heating and electricity costs in Russia's Far East.

The situation had deteriorated to such a degree that President Putin held a regional development conference in Vladivostok before he met North Korean leader Kim Jong-il on Aug. 23. "Russian citizens have almost been ousted from labor markets due to migration in the Far East," Putin told the audience. Shortly after President Putin returned to Moscow, the Russian president dispatched Secretary of the Security Council of the Russian Federation Vladimir Rushailo to lead a special group to tackle the "crisis situation" in Russia's Far East. According to Rushailo, the principal purpose of the tour was to ensure "national security and sustainable development of the region." For Russian leaders, economic development in this part of Russia had become a matter of national security. The group inspected the Russia-China border and observed the customs clearing formalities and passport control procedures. While local officials suggested attracting Russian-speaking people from Ukraine, Belarus, and other Commonwealth of Independent States countries, Rushailo called for special attention to the development of Russia's military equipment and to use the latest military equipment more effectively in order to ensure Russia's national security.

If there was indeed a "crisis" in this part of Russia due to a bad economy, the motivation behind Russia's outreach to North Korea, Taiwan, Hong Kong, and Macau became apparent. More economic interactions with these economic entities would bring the necessary inputs to the region. A more developed economy would in turn attract more Russian-speaking people.

While the Russian economy started to slow (GDP grew by 3.8 percent in the first six months as against last year's 5.4 percent), China's continued to boom. In late September, the country had for the first time surpassed the U.S. as the most attractive destination for foreign direct investment, according to an AT Kearney survey of senior executives of the world's largest companies.

Preemption and Bilateral Asymmetries

If relations with the sole superpower are largely beyond their grasp, leaders of the two countries do not seem able to take for granted their respective domestic politics. Events during the third quarter indicated that certain internal issues, such as religion and migration in Russia, could seriously strain leaders' options. A year after the friendship treaty, the perception/misperception gap between Russia and China, particularly at the societal level, seems to be widening. While ordinary Chinese and media usually portray

Russia in glowing terms, the average Russian and a significant portion of Russia's free media appear bewildered and troubled by the image, real or fantasized, of massive Chinese migration into Russia's thinly populated Far East. Whatever the case, Russian and Chinese national cultures seem always to be the opposite of one another. While the Chinese tend to see Russia's Far East as an opportunity, the Russians view it as deserted, bleak, and uninhabitable. During the third quarter, these cultural and behavioral differences, among other things, led to a sense of "crisis" at both national and regional levels in Russia. The friendship treaty, however, has 19 years to go.

Russia's sense of crisis was not shared by leaders in Beijing. The challenge was nevertheless of a different kind. A major leadership shakeup is under way in China and will lead to a quite different mix of political elites in the world's most populous nation and fastest growing economy. Although the changing of the guard in Beijing will not match Yeltsin's sudden exit from power a few years ago, Russia has its own "who is Hu?" problem in that the incoming generation of leaders in China are not Russian-speaking nor able to sing "Moscow Nights." Most of them were home grown and many have extensive experience in dealing with Western countries during the reform decades. These new faces in China belong to the same generation (post-World War II) as President Putin's colleagues. Their visions for China and the world – as well as their ability to steer the vast country into the post-post-Cold War world – have yet to be demonstrated.

Chronology of China-Russia Relations July-September 2002

July 3, 2002: Fu Quanyou, chief of General Staff of the Chinese military meets Victor Chechevatov, president of the Military Institute of the General Staff of the Russian Armed Forces in Beijing.

July 4, 2002: The bilateral committee on science cooperation under the Joint Commission for the Regular Meetings of Heads of Government of China and Russia convenes in Harbin, China. The two sides discussed cooperation between the two countries' national research institutes and former military technology.

July 8-10, 2002: Russia Nuclear Energy Minister Alexander Rumyantsev visits Beijing with a delegation of nuclear experts to attend the sixth meeting of the Russian-Chinese commission on cooperation in the nuclear energy field.

July 8-13, 2002: Chinese Finance Minister Xiang Huaicheng visits Russia and holds talks with his Russian counterpart Vice Prime Minister and Finance Minister Alexei Kudrin and Russian Central Bank President Sergei Ignatyev.

July 11, 2002: Chinese Foreign Ministry spokesman Liu Jianchao confirmed that Chinese and Russian signal units would conduct a joint exercise along the China-Russia border in mid-August in China's Inner Mongolia. Liu noted that this was the agreement in 1994 when the two sides signed an agreement on the prevention of dangerous military activities.

July 13, 2002: A high-level trade delegation from Taiwan ends a 25-day fact-finding visit to Russia. Its members included executives of Taiwan's leading enterprises and officials from Taiwan's Ministry of Foreign Affairs, the Council for Economic Planning and Development, and the Presidential Office.

July 15–20, 2002: Russian Security Council Secretary Vladimir Rushailo visits China and meets with Chinese President Jiang Zemin, Vice Premier Qian Qichen, Foreign Minister Tang Jiaxuan, Defense Minister Chi Haotian, acting State Security Minister Gen Huichang, and Public Security Minister Jia Chunwang.

July 16, 2002: Russian President Putin and Chinese President Jiang exchange congratulatory messages for the first anniversary of the "Sino-Russian Good-Neighborly Treaty of Friendship and Cooperation."

July 25, 2002: Russian Deputy Foreign Minister Anatoly Safonov and the Chinese First Deputy Foreign Minister Li Zhaoxing conclude in Moscow the second meeting of the Russian-Chinese Working Group on struggle against international terrorism.

July 27, 2002: Taiwan-Russian Association inaugurated to promote trade and investment between Taiwan, Russia, and the Commonwealth of Independent States.

July 31, 2002: Chinese delegation tours Russia for science and business cooperation. It includes 62 representatives from 10 central and regional state enterprises and 27 research centers, including China's leading shipbuilding, nuclear energy, aerospace and defense industry corporations, the research institute of defense industry, and major enterprises of China.

Aug. 1, 2002: Chinese Foreign Minister Tang Jiaxuan and Russian Foreign Minister Igor Ivanov hold talks on the sidelines of the ASEAN Regional Forum in Brunei. They discuss Korea, Iraq, Taiwan, and Putin's visit to China at the year end. Both call for the UN Security Council to take the lead in settling the issue of Iraqi weapons proliferation.

Aug. 8, 2002: The inter-ministerial working group for the formation of a regional antiterrorist center of the Shanghai Cooperation Organization (SCO) holds its first meeting in Bishkek, Kyrgyzstan. SCO comprises, China, Kazakhstan, Kyrgyzstan, Russia, Tajikistan, and Uzbekistan.

Aug. 17, 2002: Russian President Putin extends birthday greetings to Chinese leader Jiang, who is described as "a longtime friend of the Russian people" and who "made an invaluable contribution" to the friendship of the two countries.

Aug. 19, 2002: Russian Vice Premier Viktor Khristenko and Chinese State Councilor Wu Yi hold the sixth session of the Russian-Chinese commission in Shanghai. A protocol was signed to prepare for a regular prime ministers meeting on Aug. 22.

Aug. 21-23, 2002: Russian Prime Minister Mikhail Kasyanov visits China for the seventh prime ministerial meeting with his Chinese counterpart Zhu Rongji Aug. 22. They discussed issues of trade, energy cooperation, military, and technical ties. A final communiqué and three documents are signed by the two prime ministers. After the Shanghai meeting, Kasyanov flew to Beijing to meet President Jiang Aug. 23.

Aug. 24, 2002: Taiwan's China Airlines launches a direct link between Taipei and Moscow. The Taiwan airline carries an 11-member of Russian journalists who returned to Russia Sept. 1 with Russia's Transaero air carrier's first flight to Taiwan (Aug. 31–Sept. 1). Regular Russia-Taiwan flights will be launched by the end of the year.

Sept. 1, 2002: Taiwan recognizes Mongolia.

Sept. 8-13, 2002: A high-level Taiwan delegation led by Secretary General Chang Chun-hsiung of the ruling Democratic Progressive Party completes its “successful” and “breakthrough” visit to Russia. Chang arrived in Vladivostok in his capacity as chairman of Taipei-Russia Exchange Association and as the head of a 27-member delegation to attend the 2002 APEC forum's International Investment Expo.

Sept. 9, 2002: Trade officials from the six SCO member states assemble at Xiamen in southeast China for the SCO investment forum held at the sixth China International Fair for Investment and Trade.

Sept. 11, 2002: SCO issues a joint statement on the anniversary of the Sept. 11 attacks on the U.S. It calls for the new concept of international security under the principles of mutual confidence and equality as well as the full coordinating role of the United Nations for international peace and security.

Sept. 14, 2002: Russian Foreign Minister Igor Ivanov and his Chinese counterpart Tang Jiaxuan meet in New York during the 57th session of the UN General Assembly and discuss preparations for President Putin's Dec. 1-3 state visit to China.

Sept. 23-27, 2002: Head of the International Relations Department of the Chinese Communist Party Central Committee Dai Bingguo conducts five-day visit to Russia for talks with Russian Foreign Minister Ivanov, Russian Presidential Economic Adviser Andrei Illarionov and Russian Association of Entrepreneurs Organizations head Sergei Borisov.

