

## China-Russia Relations: Party Time!

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As the war in Iraq was winding down, diplomacy quickened its pace. The pursuit of national interests yielded statecraft such as Russian President Vladimir Putin embracing the era of preemption with his Bismarckian shrewdness and Peter the Great style. With “three steps” – the Putin-Hu summit, the Shanghai Cooperative Organization (SCO) summit, and the St. Petersburg extravaganza – Chinese leader Hu Jintao left severe acute respiratory syndrome (SARS) at home and vaulted onto the world stage at the G-8 summit in the French spa town of Evian.

### **New Face? Old Game?**

For Putin, Hu Jintao ceased to be “who” quite some time ago. During the previous 19 months (October 2001 to May 2003), the two had three official bilateral meetings. The Russian president seemed determined to be – and was successful – the first foreign head of state to meet China’s soon-to-be paramount leader at every step of the latter’s final ascendance to power.

In October 2001, Putin sneaked in a two-day “working” visit to Russia by the then Vice President Hu on his way to Europe (for official visits to Britain, France, Spain, and Germany). The trip was widely believed to be a version of “foreign policy-101” for the future Chinese leader and it took place just a few weeks after the Sept. 11 terrorist attacks on the U.S. In December 2002, Putin traveled to Beijing to become the first foreign dignitary to size up Hu as the new general secretary of the Chinese Communist Party, the real power center in the world’s most populous nation.

The May 26-28 summit in Moscow this quarter was Hu’s first foreign tour as head of state. His stay in Russia was further prolonged, if not necessarily “sweetened,” by two multilateral gatherings: the third Shanghai Cooperation Organization summit (May 29) moved from Kazakhstan to Moscow, which connected the Hu-Putin Moscow summit to the tricentennial celebration of St. Petersburg (May 30–31). By the time they joined the G-8 on June 1 in France, the two – who represent the least developed part of the “axis of rich and powerful” annual gathering – had been companions for a week.



## **Step 1: Moscow Summit**

The Putin-Hu summit began with an informal, private “2+2” dinner (presidents and two first ladies) in Putin’s *dacha* at Novo-Ogaryovo, west of Moscow on May 26. This was followed by a busy two-day schedule for Hu. This included a formal three-hour summit in the Kremlin and a joint news conference. Hu also met with Prime Minister Mikhail Kasyanov, Russian Federation Council (Upper House) Chairman Sergei Mironov and Speaker of the State Duma (Lower House) Gennady Seleznyov. His speech at Moscow’s State Institute of International Relations called for constructing “a fair and just international political and economic order.” In the midst of all this, Hu found time to visit the Great Patriotic War Memorial Complex in Moscow, the Khrunichev National Aviation and Space Center, and to invite Putin for an official visit to China in 2004. The two presidents also authorized the start of a working group on preventing illegal migration to Russia.

A 10-point joint statement was issued, covering everything from their mutual commitment to the principles and spirit of the 2001 Sino-Russian Friendship Treaty (Article 1), the need for maintaining high-level contacts, promoting exchanges in the areas of economics, culture, education, science and technology, military, criminal justice, health care, immigration, and people-to-people contacts (Articles 2–5); supporting international cooperation, the UN, and “strategic stability”(meaning arms control) (Articles 6–8). The Iraqi and Korean issues were discussed in Articles 9 and 10.

Both sides hailed the results of the summit. The Chinese side, including Hu himself, constantly pointed out that Hu’s first foreign trip began in Russia, an indication of how important Russia was in China’s strategic view. Hu called Russia a powerful nation enjoying broad authority around the world. On several occasions, Hu stated that strengthening Sino-Russian relations was the consensus of the new generation of China’s “collective leadership” – another way of saying that the current state of China-Russia relations was unlikely to be altered by individual leaders.

In response, Putin declared that “[R]elations between Russia and China have never been at such a high level before,” and that cooperation between Moscow and Beijing “has become an important factor for peace and stability across the Eurasian continent ... for a more secure and fair world.” Other Russian officials argued that the summit “has a landmark significance from the perspective of the development of strategic partnership ... including the economy and military-technical cooperation.”

## **Russia’s Oil Confusion**

Economics topped the agenda for the Kremlin summit as Russian ministers of finance, energy, and economic development and trade joined talks. For the first time, Russian Minister of Public Health Yuri Shevchenko was also present, reflecting serious concern about the impact of SARS on bilateral economic interaction. Four documents signed in Moscow focused on economics, including a \$200 million credit line by the Construction

Bank of China to Russia's Bank for Foreign Trade (Vneshtorgbank) for 10 years to finance the exports of Chinese durable goods to Russia, a three-year contract supplying China by rail with 2 million tons of Russian oil beginning June 1, and a general agreement on the main principles for a 25-year, \$150 billion contract to supply oil to China via a Russia-China oil pipeline.

The emphasis on economics revealed a mixed picture at best. On one hand, bilateral trade registered four consecutive years of growth, reaching \$12 billion in 2002, making China Russia's sixth largest trade partner and Russia China's eighth. In 2002, China absorbed 55 percent of Russia's \$4.8 billion worth of arms exports. Despite this, bilateral trade occupied only a small portion of each other's total trade. Both had more extensive trade ties with the U.S., Europe, and Japan than with one another. There was a 30 percent hike, to \$4.15 billion, in trade for the first four months of 2003. SARS, however, cooled it off considerably as Russia closed most of its trading ports for quite some time. The disappointing economic relations contrasted sharply with the normal and stable strategic and political intercourse between the two countries. Wang Yizhou, a prominent Beijing analyst of international affairs, went as far as to describe the "hollowing" of strategic relations without a strong economic leg.

Perhaps the most bizarre element of China and Russia relations is the forever "clogged" pipeline issue. Its fate has been decided, and retracted, by numerous "final decisions" by Moscow. The project was first proposed by Russia in 1994. In 2000, Russia and China signed an intergovernmental agreement on the oil pipeline and China spent several million dollars on a feasibility study of the project. Yet newfound enthusiasm and lots of money from the Japanese for a pipeline to Russia's Pacific coast in late 2002 seemed to leave Russia unable to decide to which Asian nation, Japan or China, the Russian pipeline would go.

In early April this year, Russia reportedly approved the Angarsk-Nakhodka pipeline with a branch running to Daqing, China's biggest oil field where annual production declined by 2 million tons in recent years. In late April, however, Russian Deputy Foreign Minister Alexander Losyukov was quoted from Tokyo saying that "Moscow cannot but take into account the negotiations with China that have continued for several years now." He nonetheless insisted that the final decision would "be guided exclusively by economic factors, and not political considerations." Whatever the case, a decision would be made by Hu's state visit in May. A few days later, Russian Prime Minister Kasyanov said that Russia had decided that the Angarsk-Nakhodka oil pipeline would branch off to the Chinese city of Daqing. By the time Hu was in Moscow in late May to sign two contracts on the oil business, the pipeline case was still a "general agreement on the main principles and understandings," not a done deal. To alleviate China's anxiety, Russia offered its guests another three-year contract to increase the current oil shipments by rail to China to 2 million tons per year.

While Russian officials from oil minister to prime minister to president repeated that “feasibility studies” by experts would be the basis for the government’s final decision, Russian oil companies repeatedly claimed that they were ready to start laying a pipeline as soon as the government made a decision.

At the heart of Russia’s dilemma is a difficult balancing job between the desire to be strategically flexible and economically profitable with two end users (China and another Pacific outlet for Japan and South Korea), and the practical concern that there may not be enough oil to be pumped to both ends. “Laying a pipeline and waiting for resources for 15-20 years would be tantamount to burying \$5 billion for many years,” said Russian Deputy Foreign Minister Alexander Losyukov.

After the Hu-Putin summit in late May, Moscow’s comments regarding the pipeline changed on a weekly, if not daily basis. On June 11, Losyukov hinted that a decision on the construction of the pipeline to China would be made “in the near future.” A week later, Russian Prime Minister Kasyanov said that the study would not be done until September. Kasyanov’s words came the same day that Japan decided to invest up to \$7.5 billion in constructing the Angarsk-Nakhodka oil pipeline. In contrast, Russia may have to invest in its own portion (1,600 kilometers out of 2,400 kilometers) of the pipeline to China. No matter who gets to have the Russian oil first, China would have to wait until the autumn for the oil decision.

Comparing with the indecision and contradictions regarding the pipeline to China, Russia made quick decisions for oil and gas business with other countries. In early June, Russia and Japan signed a \$2 billion contract for the construction of the world’s largest liquefied natural gas (LNG) plant in Russia’s Sakhalin Island with an annual capacity of 9.6 million tons of LNG, mostly earmarked for export to Japan. On June 26, Putin and British Prime Minister Tony Blair held a signing ceremony for a \$6.15 billion deal to construct a gas line to Britain.

## **Step 2: SCO for a Multipolar World Order**

Set up in 1996 in Shanghai, the SCO (Russia, China, Kazakhstan, Kyrgyzstan, Tajikistan, and Uzbekistan) had been deeply affected, and sometimes stalled, by the U.S.’s strategic return to Central Asia after Sept. 11. SCO’s own internal inefficiency and inaction were also part of the problem. Nonetheless, the fact that it is still around, alive, and even trying to speed up its institutional development is an exception when various international organizations (ranging from the UN to NATO to G-8) are plagued by division and neglect. Hu’s participation at the SCO summit was designed to set the SCO on the fast track.

As usual, all important issues and preparations were thoroughly deliberated at the SCO’s National Coordinators meeting (April 1) and the SCO Foreign Ministers Conference (April 29). The Moscow annual summit, however, resulted in several key decisions. This included launching the SCO Secretariat in Beijing and a regional antiterrorist

structure in Bishkek; approving procedures for drafting the budget; appointing China's ambassador to Moscow Zhang Deguang as first executive secretary; approving rules for the SCO councils of heads of state, heads of government and foreign ministers, and on conferences of the heads of various agencies; conducting the first SCO antiterror drill in August (without Uzbekistan); holding SCO's second prime ministerial meeting in Beijing in September to promote economic cooperation; and to finalize its operating budget.

A six-point declaration was issued. In addition to covering all these points, the document also states that the SCO, upon its debut, would be willing and able to establish contacts with other international organizations and countries. The goal was to foster a new security concept featuring mutual trust, equality, disarmament, and security cooperation. Iran, Pakistan, India, Mongolia, and Turkey expressed their intention to join the SCO.

The durability of the SCO can be partially explained by China and Russia's overlapping interests in Central Asia. Despite a growing U.S. presence there, Moscow needs the regional organization to preserve and advance its traditional influence and interests. For Beijing, a platform is also highly desirable for managing its western borders and creating a stable environment. Economic interests, too, become both ends and means for Beijing's interactions with Central Asian states. Hu's first foreign tour ended with visits to two of China's neighbors – Kazakhstan (June 2-3) and Mongolia (June 4-5). This highlighted China's intention to further integrate its neighbors. In bilateral terms, the SCO is also a useful interface for Russia and China to regulate their interests in this highly volatile region. As a result, the SCO, which started as a confidence building mechanism and ad hoc forum in 1996, took the first crucial step in Moscow toward becoming a regional political forum, a security mechanism, and even an economic web.

The China-Russia effort to speed up SCO institutionalization was part of a much stronger push toward a multipolar world order in the age of unipolar preemption. By late June, the long-discussed China-India-Russia triangle started to take shape when Indian Prime Minister Atal Behari Vajpayee paid a week-long state visit to China, the first in 10 years by an Indian prime minister. The vision of Russia's former Prime Minister Yevgeny Primakov finally bore some tangible fruit, thanks to consistent efforts by Russian officials, including Putin's visits to Beijing and New Delhi last December.

### **Moscow and Beijing's "Peace Rush" for Korea**

In the post-Saddam era, Korea quickly became an issue of mutual concern for Moscow and Beijing. Early in the first quarter, Russian Deputy Foreign Minister Losyukov launched a well-publicized, "mini-shuttle" diplomacy between Beijing, Pyongyang, and Moscow (January 18-22), which included a meeting with DPRK leader Kim Jong-il. (See "China's Dilemma in the Current Korean Crisis," *PacNet* newsletter, Feb. 20, 2003, [www.csis.org/pacfor/pac0308.htm](http://www.csis.org/pacfor/pac0308.htm)). In late April, China hosted U.S.-DPRK-PRC trilateral talks in Beijing, without Russian participation. The Beijing talks were a compromise between the DPRK insistence on talks with the U.S. and the latter's demand

for a multilateral approach. Russia's absence, however, contrasted sharply with Putin's special relationship with DPRK leader Kim.

Although Russia officially welcomed the Beijing talks, its repeated statements that Russia was ready to join broader format talks on the DPRK nuclear issue revealed its displeasure at being left out of the process. In the wake of the China-Russia summit in Moscow, Russia seems more impatient as several U.S.-proposed multilateral formats simply excluded Russia. "None of the issues involving North Korea can be resolved without consideration of Russia's interests and its participation. This is unequivocal and clear," said Losyukov on June 11.

After this, Russian officials sent more confusing signals regarding Korea. On June 18, Foreign Minister Ivanov went so far as to say that Russia supported a possible reexamination of the North Korean nuclear problem at the UN Security Council, a stance that Russia had consistently opposed. In February, Russia was one of the two member states in the IAEA that did not support a decision to refer the Korea case to the UN Security Council. Back home, Deputy State Duma Speaker Vladimir Lukin said that the introduction of UN sanctions against North Korea would be absolutely justified. Two days later, Deputy Foreign Minister Yury Fedotov argued that there should be no hurry to have the dispute over North Korea's nuclear program put on the agenda of the UNSC.

Both Moscow and Beijing want a peaceful resolution of the Korean crisis. None would support the use of force. Beyond this, however, the two face quite different consequences of the current crisis. A nuclearized DPRK certainly constitutes a bigger threat to China due to its smaller nuclear forces. Nuclear proliferation in East Asia, which is highly likely if the DPRK goes nuclear, would immediately complicate China's security calculus simply because of China's geostrategic position. Last, but not least, is Taiwan's potential to acquire nukes. For these reasons, Beijing may have a stronger desire than Moscow to see a nuclear-free Korean Peninsula. Russia, on the other hand, seems more interested in preserving its foothold in the Peninsula and its special relations with Kim Jong-il.

### **Step 3: St. Petersburg's White Nights**

At the time when the Korean "pressure pot" was brewing, "white nights," or round-the-clock daylight caused by the summer solstice, descended upon St. Petersburg, halfway around the earth. In late May and early June, the city, its ancient buildings, and the quiet and beautiful Neva River, all glowed under the never-setting sun and the tricentennial celebration of the city. Parades, banquets, fireworks, bilateral and multilateral summits overwhelmed 44 heads of state from around the world, including China's President Hu.

Beneath the lavish and spectacular scene of Russia's window to Europe, however, was its turbulent 20<sup>th</sup> century history, which had a lot to do with China thousands of miles away. It was here that Russian Bolshevik leader Vladimir Lenin set up the first communist system, which inspired generations of Chinese leaders, including Mao and Deng. Germany's bombardment and the city's (then called Leningrad) heroic defenders in

World War II may well be part of Hu's early education during the Sino-Russian honeymoon. Almost a century later, St. Petersburg again connected China's fourth generation leaders to the world scene.

Here, Hu had mini-summits with several heads of state, including Canadian Prime Minister Jean Chretien, Greek Prime Minister Kostas Simitis, Polish President Aleksander Kwasniewski, Japanese Prime Minister Koizumi Junichiro, and Indian Prime Minister Vajpayee.

The St. Petersburg celebration also highlighted an emerging divergence for Putin and Hu. While the Russian leader abandoned his usual behind-the-scenes "KGB" work-style with lavish and wasteful displays, Hu began his first foreign tour a week before by cutting China's extended diplomatic protocols to the minimum. Putin is now viewed by many Russians as an almost saintly figure, while Hu has managed to get his government closer to ordinary Chinese (See "Hu's Mini 'New Deal'," *PacNet* newsletter, March 6, 2003, [www.csis.org/pacfor/pac0311.htm](http://www.csis.org/pacfor/pac0311.htm)).

Hu does not speak Russian. Nor does his new ambassador to Moscow, Liu Guchang. He was the only foreign leader, aside from former U.S. President Bill Clinton, who cared to visit the State Duma (Lower House) during an official visit. Some Russian lawmakers recalled that Clinton came to meet them as an outgoing head of state while Hu has just assumed the leadership position. In fact, Hu visited all three legislatures and met all three prime ministers in Russia, Kazakhstan, and Mongolia during his first foreign tour.

It will be interesting to see how "Putin the Great" and the rather humble Hu interact and advance their national interests.

### **Chronology of China-Russia Relations April-June 2003**

**April 1, 2003:** SCO national coordinators complete preliminary work on the formation of the regional antiterrorist structure (RATS) in Kyrgyzstan. This included the definition of the work procedure, financing, and a mechanism for launching the RATS. Its headquarters will be in Bishkek (the Kyrgyz capital) and the secretariat in Beijing.

**April 1-2, 2003:** SCO experts meeting on emergency responses held in Beijing to draft a pact on mutual help in case of emergency, which is to be signed in the autumn.

**April 3-4, 2003:** Russian Deputy Foreign Minister Yuri Fedotov consults in Beijing with Chinese Deputy Foreign Minister Wang Guangya on the Iraq problem. The two sides issue a joint statement calling for the end of the hostility. Chinese FM Li Zhaoxing meets Fedotov.

**April 8, 2003:** FM Li talks on the phone with Russian counterpart Ivanov about the

humanitarian situation in Iraq and urges a peaceful solution to the Iraq issue within the UN framework. Both sides call for a peaceful solution to the North Korean nuclear issue.

**April 29, 2003:** SCO foreign ministers meet in Almaty, Kazakhstan to finalize documents for heads of state meeting in late May in Moscow. They also discuss issues regarding SCO organization, Afghanistan, Iraq, regional security, and economic cooperation. China's ambassador to Russia Zhang Deguang is approved as SCO secretary general. Russian FM Igor Ivanov and Chinese FM Li discuss preparations for first visit to Russia by Chinese President Hu in May.

**May 2, 2003:** Russian President Putin sends condolences to President Hu after death of the crew of *Submarine 361*.

**May 9, 2003:** Russian FM Ivanov and Chinese FM Li discuss the Iraqi issue by phone and agree the UN should play an important role in postwar Iraq.

**May 16, 2003:** Deputy FM Yang Wenchang visits Moscow to coordinate Chinese and Russian positions on a UN Security Council resolution on postwar Iraq.

**May 17, 2003:** Russian Il-76 cargo plane lands in Beijing with 30 tons of medicine and equipment (\$1.33 million) from the Russian Ministry for Civil Defense and Emergencies to assist China's anti-SARS effort.

**May 26-31, 2003:** Chinese President Hu visits Russia on his first foreign trip as president. Hu conducts state visit to Russia (May 26-28), attends third SCO summit (May 29), and joins St. Petersburg's tricentennial celebration (May 30-31).

**May 30, 2003:** Russian Defense Minister Ivanov holds talks with Chinese Defense Minister Cao Gangchuan in Moscow.

**June 3, 2003:** Russia's Sevmash defense industry shipyards in Severodvinsk begin to construct two Kilo-class diesel submarines for China's Navy to be completed by 2005, part of May 2002 contract for eight diesel submarines for China.

**June 16, 2003:** China's Defense Ministry notifies Russia of three ballistic missile test launches planned for June. A Dong Feng-31 intercontinental missile, a Dong Feng-21 middle-range missile and a Ju Lang-2 submarine missile are to be tested.

**June 16, 2003:** Eight Russian teenagers attack and rob a Chinese embassy counselor in western Moscow.

**June 18, 2003:** Russian and Chinese foreign ministers hold talks in Phnom Penh during ASEAN Regional Forum annual meeting.

**June 25, 2003:** Chinese doctors, microbiologists, and infection experts arrive in Russia to research SARS. They will work in Russia until July 7; Russian scientists will work in China from July 10.

**June 26, 2003:** China and Russia agree to jointly survey oil and natural gas resources in their border areas. Scientists from China's Heilongjiang Province and Russia's Primorskiy Kray will make a separate survey within their territorial land some 200 kilometers away from the border according to a common standard method. A joint expert panel will coordinate the survey.

**June 25–27, 2003:** SCO Council of National Coordinators meets in Dushanbe to discuss budget and activities of SCO permanent agencies, the secretariat and the Regional Anti-Terrorist Center.