

Comparative Connections

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China-Russia Relations: *Market Malaise and Mirnaya Missiya*

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Perhaps more than any time in the past 10 years, the third quarter highlighted both the potential and the problems of this bilateral relationship. On the one hand, the two militaries successfully conducted their joint antiterrorism exercise, *Mirnaya Missiya* (Peace Mission) 2009, in China's Jilin Province. On the other hand, the closing of Moscow's huge Cherkizovsky market on June 29 uprooted tens of thousands of Chinese citizens doing business in Russia, while \$2 billion in goods were confiscated as "illegal" and "contraband." On the eve of the 60th anniversary of bilateral ties, Moscow and Beijing seemed to be stretching both the cooperative and conflictual limits of their strategic partnership.

Moscow blues

Russian authorities moved to close the sprawling Cherkizovsky market in Moscow at the end of June. It was done "without warning," according to China's *Xinhua News* on July 20. The closing directly affected 100,000 merchants, including 60,000 Chinese businessmen. For many, this was their "9/11," as a Chinese trader commented. In the initial process of closing the market, Russia's Federal Migration Service reportedly arrested 150 Chinese merchants who presumably tried to recover some of their confiscated goods.

China quickly reacted to the "incident." The day after the market was closed, China's Commerce Ministry urged Russia "to handle the issue in an appropriate manner and according to law," and that "the legal rights and interests of the Chinese businessmen in Russia need to be protected." It also called on Russia not to overreact against "illegal" and "counterfeit" goods in the Moscow bazaar. "The Chinese side pays deep attention to this and ... urges the Russian side to handle the issue with discretion," said Commerce Ministry spokesman Yao Jian. He also pointed out that it would take time to resolve the practice of "gray customs clearance," a historical tax loophole that traders have exploited to import goods more easily into Russia. "[China] hopes relevant Russian authorities and the Moscow city government take into account the historic factors ... avoid overreacting, and solve the problem via a friendly negotiation and in a gradual manner." Meanwhile, Chinese Foreign Ministry spokesman Qin Gang urged the Russians to "protect Chinese businessmen's interests in Russia." However, he also cautioned "all the Chinese entrepreneurs to abide by the local laws and regulations."

For those who did business in Russia, the laws and regulations regarding the market were vague and elusive at best. Over the past 20 years, much of Russia's foreign trade was conducted through the so-called "gray customs clearance," through which "clearance" companies in Russia

would “facilitate” imported goods into the market at a tax rate far lower than the official level. During the process, many, if not all, Russian Customs officials would be able to “benefit” by changing and distorting standard customs declaration procedures and documents.

Russian leaders were well aware of the problem and the damage that the “gray customs clearance” and its “outlets” (various large wholesale and resale markets in Russia) caused to the Russian economy. Efforts to curb such a practice, particularly after Vladimir Putin became president, did close some customs loopholes while leaving others untouched. Since 2001 the Russian government had tried three times but failed to close the Cherkizovsky market. What had happened, however, were periodic and random searches and crackdowns of Chinese merchants by the Russian authorities and individual law enforcement officers, culminating in September 2008 when the Moscow Auditing Office closed eight large storage facilities in Moscow holding \$2.1 billion worth of goods owned by the Chinese traders. The final shutdown of the Cherkizovsky market on June 29 suspended the operation of tens of thousands of Chinese merchants. Meanwhile, Russia appeared to continue to allow “gray customs clearance” in much of its trade with Spain, Italy, Germany, South Korea, Turkey, and others.

Concerns about what it characterized as the ongoing unfair treatment of its citizens in Russia prompted China to send to Moscow a large group of commerce, foreign affairs, customs, and provincial officials in late July led by Vice Commerce Minister Gao Hucheng. The Chinese delegation presented three issues:

- China does not object to Russia’s crackdown on smuggling and other criminal activities. However, in the course of law enforcement, Russia should protect the personal and property security, as well as the dignity of Chinese businessmen engaged in legal operation.
- The order to close the Cherkizovsky market without warning gravely damaged the normal operation of the Chinese businessmen because there was no time for them to sort out and transfer their goods. Russia needed to expeditiously help the Chinese businessmen transfer their goods to markets with safe standards to minimize losses.
- In June 2009, China and Russia had established a subcommittee on Customs operation and established a long-term mechanism for standardizing cooperation in trade. Proper settlement of this incident would be conducive to strengthening cooperation by stepping up the crackdown on “gray customs clearance” and helping Chinese businessmen adjust operational tactics and change the mode of trade, thereby promoting the healthy development of Sino-Russian economic relations.

Prior to the arrival of the Chinese government delegation in Moscow, most of the Russian media predicted that the Chinese group would be “coldly” received. Regardless, the Chinese group held a series of meetings with Russian immigration, commerce, foreign affairs, audit agency, customs agencies, as well as the Moscow city government. From these meetings, the two sides reached consensus regarding the proper handling of the market closure and its consequences, with the following points from the Russian side: First, Russia understood China’s concern and would do its best to handle the market closure and transportation of cargo out of the market. Second, the

Moscow government made arrangements for the closure and clearance of the market that would ensure the interests of Chinese traders would be protected. Third, the Moscow government would provide legal consultation and assistance for Chinese business people affected by the market closure. Fourth, the Moscow government would soon meet with representatives of the Chinese traders and merchants in Moscow to discuss follow-up measures regarding transportation, storage, and merchandises sales as well as the relocation of Chinese merchants in Moscow. Above all, the Chinese merchants reportedly felt positive and cooperative signs from the Russians during and after the Chinese government delegation's visit to Moscow.

It remains to be seen how these policies and promises will be implemented. The Chinese merchants have been allowed to retrieve some of their goods from the Cherkizovsky market, though not without random impediments from local officials and reports of irregular police behavior. Where to store the huge quantity of goods, however, remained an unsolved issue. In August, officials of the Lenin District in Moscow indicated that another place outside Moscow proper would be considered for a new market for those uprooted merchants. Moscow's Mayor Luzhkov, however, urged foreigners – mostly Chinese and Vietnamese – to leave Moscow for good. By the end of August, Chinese Commerce Minister Chen Deming was still telling his Russian counterpart Elvira Nabiullina that he hoped Russia would continue to properly handle problems relating to the rights of Chinese merchants. The actual damage to bilateral economic relations may not be significant in terms of the overall Sino-Russian trade. However, the psychological and emotional damage and the credibility and reputation of the Russian economic climate, however, are enormous.

The issue of how Chinese merchants will do business in Moscow in the future is preoccupying Chinese Ambassador to Russia Li Hui. Many in Russia, however, fear the prospect of a "Chinatown" in Russia's capital, which may well be a key intention behind the closing of Cherkizovsky. "It is necessary to emphasize that the Chinese side is not seeking at all to base a Chinese community in Russia like a 'Chinatown' where Chinese people live in a cluster," Ambassador Li told Russian journalists at the end of September. What China wanted was "to create a modern and ordered commercial site for showing and marketing high-quality Chinese goods for the benefit of the development of bilateral trade and economic cooperation."

The economic relationship, nonetheless, is always the "weakest link" in Russia-China relations. Bilateral trade is only a fraction of China's trade with the U.S. (\$56.8 billion vs. \$334 billion in 2008). Nevertheless, bilateral trade plunged about 37 percent in the first half of 2009 and Russian GDP shrank over 9 percent. In June 2009, when the Cherkizovsky market was closed, Russia's inflation was 11.9 percent, the highest among the 11 leading economically developed countries, as compared to the same month of 2008.

Peace Mission 2009

In contrast to the rather gloomy market situation, Sino-Russian military interactions seemed more dynamic. The two successfully conducted the *Peace Mission 2009* joint exercise in China's northeastern Jilin Province in late July, staged the first-ever joint emergency-incident-handling exercise in the Heilongjiang River in late August, and carried out a joint exercise named *Peace*

Blue Shield 2009 in late September in the west sea area of the Gulf of Aden in conjunction with naval escort missions there.

Peace Mission 2009 involved 3,000 military personnel, 300 items of ground equipment, and around 40 helicopters and fixed-wing aircraft. It was carried out in two separate areas and divided into three phases. The first phase involved Chinese and Russian Chiefs of Joint Staff (Chen Bingde and Nikolai Makarov) engaging in a “strategic consultation” in Russia’s far eastern city of Khabarovsk over a major terrorist “case” in China’s northeastern region. The scenario was that a terrorist group seized an administrative facility in China and “cracked down” on the local population. Following unsuccessful political negotiations, the Russian and Chinese military decided to use force with the two military chiefs announcing the beginning of the exercise maneuvers, which included the second phase (campaign preparation on July 23-25) and the third phase (execution on July 26).

The second phase was the longest as the two sides prepared and coordinated in the areas of planning, communication, and logistics in the Taoyuan training range near Baicheng City, Jilin Province. Russia sent a reinforced motorized rifle battalion, a tank company, a self-propelled howitzer artillery battery, and an airborne company along with 10 tanks, 37 BMPs, six self-propelled field guns, two SAM complexes, and eight 122-mm mortars. The Russian Air Force supplied five *Su-27* fighters; five *Su-24* bombers; five *Su-25* ground attack aircraft, four *Mi-8* combat helicopters, one search and rescue helicopter, and two *Il-76* military transports.

The Chinese fielded a combined-arms battle group consisting of a reinforced mechanized battalion, an artillery battery, an antitank battery, and a special-purpose company along with 10 tanks, 31 BMPs, nine 100-mm assault guns, 18 122-mm self-propelled howitzers, ten antitank missile complexes, four portable SAM complexes, 16 *Zhi-9* combat helicopters, eight *Mi-171* transport helicopters. The Air Force provided a fire support group consisting of six *JH-7A* (*Jianhong-7*) fighter-bombers, four *J-8 D/H* (*Jian-8*) fighters, four *Qiang-5B* ground attack aircraft, and four *HQ-6 Hongqi* ground-air systems.

In the final and execution phase of the exercise, the two sides practiced, for nearly two hours, joint blockade, air raid, ground direct bombardment, ground maneuvering, flanking operations, “vertical” (by helicopters) assault of terrorists’ stronghold, psychological warfare, pursuit of fleeing terrorists, etc. The exercise ended with a military parade by the two sides.

While the final phase of the exercise was brief, perhaps the most significant part was the joint training and preparation process. The two militaries lived, worked, practiced, socialized, and were entertained together for more than two weeks. In comparison, Russian and Chinese units simply performed separate missions for the *Peace Mission 2005* exercise with a rather low degree of interaction between the two militaries.

Although smaller in scale than its predecessors in 2005 (10,000, including 8,000 from China) and 2007 (6,500 personnel), *Peace Mission 2009* demonstrated a few new aspects of the bilateral military-to-military relationship. The officially defined goals by the Chinese side emphasized four major goals: to further China’s strategic cooperative partnership with Russia, to enhance mutual confidence in defense security and showcase the pragmatic cooperation between the two

armies, to demonstrate the will and ability of the two militaries for regional stability and peace, and to learn from each other's experience in order to increase the operational capability for joint military actions. Aside from these strategic goals, the operational size and nature of the forces were said to be far more suitable for combating terrorist targets than against any third state. The riots in China's Xinjiang area in early July were a clear reminder to both sides of the danger from terrorist and separatist activities.

Another noticeable aspect of the exercise was the beginning of some interoperability efforts between the two militaries. China offered to provide fuel to all Russian equipment including all aircraft, which was not an easy task given the complexities of Russian military equipment. Third, this type of joint exercise is becoming routine and regular. Indeed, it took only a few months for the two militaries to work out the details and execute it after the decision to hold it was made in February 2009.

Finally, the drill offered the two militaries rare opportunities to observe (if not spy), learn from, and even compete with one another in both training and everyday life at close proximity and over a period of some three weeks. The Russians dispatched 38 Chinese-speaking military interpreters to work with Russian subunits and in command and control entities at company-level and higher. Most of these interpreters are military intelligence officers and cadets from the graduating class of Russia's Defense Ministry Military University, Combined-Arms Academy, and Novosibirsk Higher Military Command School, where military intelligence officers are trained. The Chinese side matched this with their own 50 military and civilian Russian-speaking interpreters.

The competitive aspect of the exercise, however, should not be over-emphasized. The three weeks of joint training prior to the July 26 final execution was full of Sino-Russian friendship and cooperation. The Chinese side tried very hard to accommodate the Russians with 8 tons of meat, 3.6 tons of fish, 27 tons of vegetables, and 3 tons of fruit, 45,000 liters of mineral water, and even currency conversion services for Russians to purchase Chinese goods.

A mixed and a "mature" relationship

In sharp contrast to this Sino-Russian "happy hour" for the two militaries, 60,000 Chinese merchants were struggling to salvage their business and to survive both the coming Russian winter and the end of their Russian dream. All of this was happening when everything else between China and Russia seemed to be business as usual: leaders meeting whenever there was a chance (four times by the end of the third quarter between Hu Jintao and Dmitry Medvedev), diplomats vowing to work together on issues from Iran to North Korea, "language years" unfolding, 550 Chinese children from the earthquake region in Sichuan spending three weeks in Vladivostok where just six months before a Chinese cargo ship was chased and sunk by the Russian coastal guard, presumably a victim of Russia's "gray customs clearance" practice.

All of this – cooperation, conflict, and contradiction – may be what Li Hui, China's new ambassador to Moscow, meant when he commented on the eve of the 60th anniversary of diplomatic ties that the China-Russia relationship had become "increasingly mature," a rather sober and accurate description of the state of Sino-Russian relations.

Chronology of China-Russia Relations July-September 2009

July 1, 2009: China and Russia hold the third round of consultations of the military expert teams for the *Peace Mission 2009* led by Ma Xiaotian, People's Liberation Army deputy chief of General Staff and Lt. Gen. Antonov, deputy chief of army staff of the Russian Armed Forces.

July 7, 2009: Chinese Foreign Minister Yang Jiechi calls Russian counterpart Sergei Lavrov about the situation in China's Xinjiang-Uighur Autonomous District. The two also discuss key bilateral and international issues.

July 22-26, 2009: *Peace Mission 2009* is held in China's Jilin Province.

July 22, 2009: Foreign Minister Lavrov meets Chinese counterpart Yang Jiechi to discuss the Korean nuclear issue on the sidelines of the ASEAN Regional Forum held in Phuket, Thailand.

Aug. 18, 2009: Foreign Minister Yang telephones his Russian counterpart Lavrov.

Aug. 28, 2009: The newly appointed Chinese Ambassador to Russia Li Hui arrives in Moscow.

Aug. 31, 2009: Russian and Chinese border guards hold a first-ever joint emergency-incident-handling exercise named *Guomen Lijian (Country-Gate Sharp Sword)*, in the Heilongjiang River. Some 14 vessels and more than 240 personnel join the one-hour joint exercise.

Sept. 4, 2009: The finance ministers and central bank governors of Brazil, Russia, India, and China (BRIC) gather in London to discuss the current situation of the world economy and their fiscal and monetary policy responses. They call for enhancing and consolidating the role of the Group of 20 major developed and developing countries (G20) in managing world economy.

Sept. 6, 2009: While patrolling the Gulf of Aden, eight Russian naval officers board the Chinese missile frigate *Zhoushan* at the invitation of the third Chinese naval escort taskforce.

Sept. 9-10, 2009: Chinese Supreme People's Court President Wang Shengjun and Russian Supreme Court President Vyacheslav Lebedev participate in the Shanghai Cooperation Organization's 4th Conference of Presidents of the Supreme Courts in Cholpon-Ata, Kyrgyzstan.

Sept. 10, 2009: *China Central Television (CCTV)* opens a broadcast in the Russian language. The channel is expected to serve a potential 300-million person audience in the 12 nations of the Commonwealth of Independent States, Eastern Europe, and the Baltic states.

Sept. 18, 2009: The Chinese and Russian naval escort taskforces carry out a joint exercise named *Peace Blue Shield 2009* in the west sea area of the Gulf of Aden.

Sept. 23, 2009: President Medvedev meets President Hu Jintao in New York at the annual UN General Assembly.