



China-Russia Relations: Coping With the Post-Kosovo Fallout

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Although domestic social instability, separatism, and terrorism started to increasingly preoccupy leaders of both countries, Moscow and Beijing continued to feel the chilly impact of the post-war (Balkan/Kosovo) world and responded by deepening their strategic partnership in various areas. However, the worse seems to be over, at least for the time being, for Russia and China in their respective relations with Western powers, as compared with the second quarter of 1999, when both Moscow and Beijing were sidelined and aggravated by U.S.-led NATO actions during the Kosovo crisis. Indeed, after Moscow was invited back to the Kosovo settlement and China's anti-American sentiments following the bombing of the Chinese embassy in May subsided, both started to mend fences with Washington.

Summit Within the Bishkek Summit:

Russian President Boris Yeltsin and Chinese President Jiang Zemin met for one-on-one talks in late August before taking part in a five nation summit in Kyrgystan. This was their first meeting since Jiang called on Yeltsin in a Moscow hospital in November 1998. Both leaders expressed their desire to counterbalance U.S. global reach with a more desirable multipolar world. The two heads of state explored possibilities for closer cooperation on various issues including the Korean Peninsula, regional security, and U.S. attempts to expand its missile defense umbrella to its allies in Asia.

The Taiwan issue was believed to be on the top of the agenda for this mini-summit. Taiwan's leader Lee Teng-hui declared in early July that the island had, and should have, an equal international status with the mainland. Lee's statement led to heightened tensions in already tenuous relations across the Taiwan Strait, as both sides began accelerating military preparedness for a possible showdown. An exploration of the Taiwan factor in Russian-Chinese relations at this point was logical. Russia's reassurance of its 'one China' policy in the wake of Lee's provocative statement came a week after the U.S. officially restated America's 'one China' stand on July 12. Meanwhile, Beijing watched deepening trade relations between Russia and Taiwan, its "runaway province." In 1998, Taiwan exports to Russia amounted to \$137.6 million, while imports from Russia totaled \$844 million. Although the island suffered a trade deficit of \$706.4 million, the fast-growing trade relations between Russia and Taiwan, albeit in large part through third countries due to the unhealthy nature of Russia's financial system, worried Beijing.

Taiwan is definitely interested in elevating its ties with Moscow onto a higher level and on a more comprehensive basis. Two days before Lee Teng-hui's statement for equal status with the mainland, top Russian trade officials led by Stanislav A. Smirnov visited Taiwan and agreed in principle to establish air transportation links between Taiwan and Russia. It was also reported that Taiwan officials were visiting some military-industrial complexes in Russia's Siberia. It happened that the cash-hungry Russian arms industry has been eagerly exploring the Asian market beyond China and India. Russia's successful arms-for-debt arrangement with South Korea, which now has reached \$450 million for its \$1.8 billion debt, serves both Moscow's interest for more influence in the Korean Peninsula and Seoul's desire to divert its arms supply from Washington.

Beijing's effort to coordinate policy with Russia was therefore understandable. At a maximum, it would be highly desirable for Beijing to have Moscow on its side should a limited use of force across the Taiwan Strait become inevitable. At a minimum, Beijing would like to see some restraint on the Russian side of an expanding and deepening relationship with cash-rich Taiwan. Apparently reacting to China's displeasure, President Yeltsin drafted in early July a decree to centralize the arms export procedure in order to prevent unauthorized contracts between foreign buyers and Russia's three largest arms manufacturers, Rosvooruzheniye, Promexport, and Rossiiskiy Tekhnologii (Russian Technologies).

The Yeltsin-Jiang talks were also an effort to coordinate policies by the two major powers before the "Shanghai Five" summit with Kazakhstan, Kyrgyzstan, and Tajikistan. The actual agenda and outcome of the summit largely reflected some of the major concerns of Russia and China in the post-Kosovo era. In addition to continuous efforts for border stability, force reduction, and confidence building along the 7,000 kilometer border between China and the four former Soviet states bordering China, regional security seemed to dominate the multilateral summit. This was against the backdrop of increasingly active insurgent and separatist movements, mostly by Islamic militant groups, within all five states. The collapse of the Soviet empire and continuous decline of Russian power and influence in central Asia has created a de facto power and ideology vacuum in central Asia. It happened that at the very moment of the summit, 1,000 armed Uzbek Islamic guerrillas in southern Kyrgystan kidnaped 16 hostages, including four Japanese mine engineers. The need to contain these militant groups was considered particularly urgent in the wake of the Kosovo crisis a few months before when U.S.-led NATO intervened for humanitarian reasons. Domestic stability, therefore, assumes a geopolitical dimension to keep the West out of the heart of the Eurasian continent in what the West claims is the 'post-sovereignty' era of international politics.

One significant step taken by the "Shanghai Five" during this summit was a declared effort to engage in dialogue at all governmental levels (heads of state, government, and ministerial levels) in order to coordinate policy actions over issues ranging from terrorism, separatism, religious extremism, drug trafficking, arms smuggling, and illegal immigration. Significantly, the five countries promised in their joint statement that they would by no means allow anyone to make use of their territories to engage in actions harmful to the territory, security, and social order of any of the five countries. A "joint action plan" for these issues will be developed by the summit participants in the next few months, modeled after the existing "joint supervision group" for border security and confidence building issues.

Domestic Priorities

The focus on domestic stability during the Bishkek summit in August was not accidental as both Moscow and Beijing turned inward after their busy, but often futile, efforts to offset expanding Western power and influence during the Kosovo crisis. This is particularly true for Russia as its domestic instability continued and even worsened during the third quarter of the year. The Russian military appeared by mid-September to be able to contain Islamic militant groups in Dagestan where the conflict was the worst inside Russia since Chechnya's 1994-96 war for independence. However, a series of terrorist bombings, including attacks on three Moscow residential buildings, claimed hundreds of lives and posed perhaps the most serious challenge to President Yeltsin.

These domestic problems, plus routine economic difficulties, at least partially contributed to the extremely high turnover rate of Russia's prime ministers (four prime ministers in 17 months). With the August 9 appointment of Vladimir Putin as Yeltsin's yes-man, one must doubt how much Kremlin insiders could even attempt to halt Russia's economic dissolution, let alone maintain Russia's foreign policy-making capabilities and consistencies. Domestic issues crowded Yeltsin's agenda to such an extent that he almost dropped his trip to Bishkek, Kyrgyzstan for the Shanghai five summit in late August (Yeltsin did not go to the third mini-summit in July 1998 due to poor health). It was reported that only President Jiang Zemin's last-minute hotline call persuaded the Russian president to make the trip.

China, too, had to deal with mounting problems at home. Ethnic and religious separatism remained active, particularly among the Uighurs in western China. The perceived 'internationalization' of the Tibetan issue was another major concern of Beijing. Although economic slow-down (below 8 percent growth rate as compared to the double-digit rate in the early 1990s) was much anticipated, the social ramifications are just starting to unfold. In July, the government launched a major media and political campaign to root out the influence and organization of Fa Lun Gong, a mysterious traditional meditation network penetrating far and wide in China. The crackdown was overwhelming with daily blasting of the cult dominating the primary hours of the main channels of the state media. Even the Taiwan leader's July 9th statement of equal international status with the mainland was overshadowed by this domestic concern. The media barrage on Fa Lun Gong started to subside only in August when the Taiwan issue was heating up.

Military Relations and Arms Sales

Sino-Russian cooperation in the military sphere resumed in 1990 after a long break. Yeltsin's visit to China in December 1992 resulted in a memorandum of understanding in the field of military-technical cooperation. Nonetheless, during the first half of the 1990s, military cooperation with China remained at the level of arms purchases (some \$6 billion between 1991 and 1997), and Russia always set relatively restrictive conditions for those transfers. This is largely due to what the Chinese side assesses as Russia's initial honeymoon with the West after the end of the Soviet empire and its lingering misgivings and distrust against China.

Table 1
Major Russian Arms Transfers to China (1992-1999)

Time	Items	\$ Amount
1992	26 Su-27 fighters delivered	\$1 billion
1994	Agreement for 4 diesel-powered Kilo-class submarines	\$1 billion
1994	Agreement for 6 S-300 air defense systems with at least 100 missiles	Unknown
1995-6	48 Su-27s (36 one-seat Su-27SK & 12 two-seat Su-27UB)	\$1.7 billion
1996	License to produce 200 Su-27SK planes; first two China-built jets took their maiden flights at the end of 1998	\$2.5 billion
1997	Agreement to buy 2 Socermenny-class guided missile destroyers armed with supersonic anti-ship ZM-80E Moskit cruise missiles. To be delivered in 2000	\$800 million
1999	Agreement for purchase of 50 Su-30MK, with a consent for future licensed production of the plane by China	\$ 2 billion

Since the mid-1990s, particularly during the 1995-96 Taiwan Strait crisis and after NATO quickened the pace of eastward expansion in 1997, some breakthroughs were made in the areas of Russian military technology transfers to China. But the real turning point, both psychologically and technically, came in the aftermath of the Kosovo crisis when General Zhang Wannian visited Russia at the invitation of Russian Defense Minister Igor Sergejev. This was in contrast to the previous two Russia visits by General Liu Huaqing, Vice Chairman of the Central Military Commission, in 1995 and 1997 that were made at the invitation of the Russian government. Since June, negotiations for arms deals and technology transfers seem to have sped up significantly.

The latest round of negotiations for Russian arms sales to China accelerated during the third quarter of the year. By late August, the two sides essentially hammered out details for a series of transactions including the purchase of at least 50 Sukhoi-30MK jet fighters for some \$2 billion. The 7th regular session in Beijing for the Russian-Chinese Commission for Military-Technical Cooperation focused on forms of payment for the weapons and military equipment Russia supplied to China. One major issue for this session was how to diminish the share of barter exchanges. Towards the end of the talks, Russian Vice Prime Minister Ilya Klebanov joined to finalize the deals, together with Rosvooruzhenie General Director Alexei Ogaryov and General Director of the Russian Space Agency Yuri Koptev. In addition to working on the Su-30 sales, the Russians offered “several new, very serious suggestions” to the Chinese. Klebanov, who met almost all top Chinese civilian and military leaders, described his visit as ‘the most effective meeting [of the commission].’

President Jiang also echoed by saying that the Klebanov's visit "helped stimulate bilateral cooperations" to "a new level." According to Hong Kong sources, the two sides even reached a tentative agreement for a \$1 billion sale to China of two Russian "Typhoon-class" nuclear-powered submarines whose SSN-20 ballistic missiles (5,100 miles of maximum range) could be capable of deterring the U.S. from intervening in any future Taiwan Strait crisis. Both Moscow and Beijing denied the Typhoon deal. A more moderate possibility could be the sale of two Russian Akula-class nuclear-powered submarines that were designed to deal with U.S. carrier groups. It was clear that Klebanov's talks in China apparently went well beyond the sale of Su-30s.

During Russian Vice Prime Minister Ilya Klebanov's August visit to Beijing for the 50 Su-30MKs, a general consent in principle was also reached for the future manufacturing of the Su-30MKs in China under a Russian license. While Moscow and Beijing were working on the Su-30s, official Chinese press carried favorable reviews on the Su-37s, Russia's fifth and newest generation of jetfighters capable of matching the U.S. F-22s. It was reported that the purchase of this latest multi-mission fifth-generation fighter plane was also on the agenda between Klebanov and his Chinese counterparts.

Trade Relations

For years, bilateral trade remained an area of subperformance for both countries. Statistics released in July for the first five months of this year, however, showed some signs of recovery (0.7 percent increase over the same period in 1998) from the progressive decline of bilateral trade in the past two years, as described in table 2.

Table 2
Russian-Chinese Total Trade: 1996-98

<i>Year</i>	<i>Volume (in billion U.S.\$)</i>	<i>-/+%</i>
1995	5.46	
1996	6.77	+23.9%
1997	6.12	- 10.6%
1998	5.5	- 10.1%

The initial recovery of bilateral trade was basically attributed to a sharp (34 percent) increase in Russian exports to China (for a total of \$1.82 billion). Meanwhile, imports from China dropped by half, to a total amount of \$430 million.

The stability of China's currency, its relaxed import policy, and its more positive fiscal policy so far have all inspired the domestic need for raw materials and machinery. Russia's nascent economic recovery (despite, ironically, its financial chaos), the increase of its foreign reserves, and the abolition on March 1 of its three percent additional tax on imports also led to the trade rebound.

Border trade, too, witnessed a major comeback for the first half of 1999 with a 45 percent increase (to \$620 million) over the same period of the previous year. Traditionally, cross-border barter trade constituted a third of the bilateral trade. It started to decline in 1996 after the 1994 conversion from barter to hard currency trade. Russia's domestic instability and economic hardship also caused the steep drop of border trade. By 1998, border trade was merely \$900 million. The revival of border trade in the first half of 1999 was somewhat caused by the partial return to barter trade, which minimizes risks linked to cash trade as a result of the Russian financial and economic crisis.

Chronology of China-Russia Relations

July - September 1999

July 2, 1999: A regular, 10-day session of the working group for border talks between the so-called "Shanghai Five" of Russia, Kazakhstan, Kyrgyzstan, Tajikistan, and China end in Beijing. The five agree to set up a "permanent mechanism for high-level meetings" to deal with issues of cross-border crime, illegal drug trafficking and transport, and economic issues.

July 3, 1999: An agreement is signed to open up a free trade zone along Sino-Russian border towns of Xuifenhe and Pogranichny. Citizens of the two countries will be free to visit either part of the zone without a visa.

July 7, 1999: Russian trade officials led by Stanislav Smirnov visit Taiwan and agree to establish air transportation links between Taiwan and Russia.

July 9, 1999: Taiwan President Lee Teng-hui announces that negotiations with Beijing should be conducted as "special state to state" relations. Lee's statement throws cross-Strait relations and Sino-American relations into another crisis.

July 20, 1999: Foreign Minister Igor Ivanov tells his Chinese counterpart by telephone that Russia recognizes just one China, the PRC, Taiwan being an inalienable part of China.

Aug 17, 1999: A group of Russian experts arrives in China to work out details for China to buy 50 Su-30MKK fighter planes, paving the way for the Russian-Chinese commission on arms supplies regular meeting to finalize the deal in late August.

Aug 21-23, 1999: Russian Foreign Ministry's security and disarmament department chief Grigory Berdennikov is in China for regular talks on issues of non-proliferation of nuclear weapons and missile technologies. He also briefs the Chinese side on Russian-U.S. consultations (August 17-19 in Moscow) on the ABM and START-3 treaties and coordinating policies toward the Theater Missile Defense project of Washington and Tokyo.

Aug 24-26, 1999: Presidents Yeltsin and Jiang Zemin meet in a five-nation summit in Kyrgystan as a part of the fourth working summit meeting on border stability of the Shanghai-Five since 1996. Regional security and economic cooperation are the main issues for the working summit.

Aug 24-28, 1999: Russian Vice Prime Minister Ilya Klebanov, who supervises military-industrial complexes, visits Beijing to finalize the details for China's purchase of 50 Su-30 jets.

Sept 3, 1999: The tenth anniversary of the Russian Branch of the Western Returned Students Association is celebrated in Beijing. Russian Ambassador to China Igor Rogachev attends the meeting. The WRSA was founded in 1989 and now has more than 3,000 members, most of whom are scholars who had studied or worked in the former Soviet Union. After returning to China, they quickly became key figures in their fields.

Sept 7, 1999: Russian Prime Minister Vladimir Putin signs an ordinance telling the Fuel and Energy, Trade, Foreign, and Natural Resources ministries and the State Customs Committee to step up supplies of Russian crude oil and products to China in line with the February 25, 1999 agreement between the Russian Yukos oil company and the Chinese National Oil and Gas Corporation.

Sept 9, 1999: Officers from China's Heilongjiang military district and Russia's Maritime territorial border guard department sign a protocol on further cooperation between Russian and Chinese border guards on issues of security, fishing, immigration, and cultural exchanges.

Sept 9, 1999: Russian Prime Minister Vladimir Putin and Chinese President Jiang Zemin hold talks in New Zealand during the APEC meeting.

Sept 23, 1999: Russian Foreign Minister Igor Ivanov and Chinese Foreign Minister Tang Jiaxuan meet in New York, where Ivanov briefs Tang on the domestic situation in Russia. Tang Jiaxuan makes comments in support of Russian measures in the fight against terrorism.

Sept 30, 1999: President Yeltsin calls Chinese President Jiang Zemin to congratulate him on the "twin-anniversaries" of the founding of the PRC and the establishment of Sino-Russian (Soviet) diplomatic relations. Their conversation indicates that Yeltsin's upcoming visit to China will be in November.