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**Harry Rigby Seminar Series**

**Sino Russian relations under Putin and Xi Jinping**

**Wednesday 19 November 2014**



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## **Harry Rigby Seminar Series**

### **Sino Russian relations under Putin and Xi Jinping**

#### **Summary Brief**

Wednesday 19 November 12:30pm – 2.00 pm

Centre for European Studies, Australian National University

#### **Abstract**

#### **ANUCES Roundtable Summary**

On 19 November 2014 the Australian National University's Centre for European Studies hosted a seminar for an invited audience of public servants and academics on the state of Sino-Russian relations under Putin and Xi Jinping. The roundtable was the third in the Rigby Lecture Series for 2014. The series was established in March 2013 in honour of the late Professor T.H. 'Harry' Rigby. A graduate of the Universities of Melbourne and London, Professor Rigby worked at the ANU from 1958 until his retirement in 1996. By the 1970s he had won a reputation as a leading authority on the Soviet Union, and he was the main force driving the ANU's emergence as a centre of Soviet and Russian studies of global standing. He was among the very few who, in the early 1980s, foresaw fundamental change looming in the Soviet Union, and he remains Australia's foremost scholar of Russia. The speakers at the seminar were Kyle Wilson (Visiting Fellow ANUCES), Dr Stephen Fortescue (Associate Fellow ANUCES) and Rebecca Fabrizi (Senior Research Fellow at the ANU'S China in the World Centre). The following summarises their remarks.

## **A Great Leap Forward? (Kyle Wilson)**

In 1981, at a time of heightened Cold War tensions over Afghanistan in particular, Counsellor Yevgeny Rogov of the Soviet Embassy startled a group of Department of Foreign Affairs staff with the remark (suitably paraphrased): *‘Just you wait: the day will come when we Russians will get back with the Chinese, and then we shall deal with you from both ends.’*

Today we can appreciate Rogov’s prescience. However he could not have foreseen that, for the first time in their histories, Russia would be the junior not the senior partner.

Recent trends show a new degree of propinquity in Sino-Russian relations. Apart from new military collaboration, such as large-scale joint naval manoeuvres, Putin has reversed his long-standing ban on Chinese investment in the strategic sectors of Russia’s economy. Now the Chinese are being wooed as investors; there is the apparent personal glow between Putin and Xi Jinping; and after a decade of negotiations a long-term agreement for the supply of Russian gas to China was signed in May 2014.

The annexure of Crimea and the ‘hybrid war’ to seize *de facto* control over a slab of eastern Ukraine has worsened Russia’s relations with the US and parts of the West and Central Europe. This, in turn, has been a catalyst for the convergence of Chinese and Russian perceptions of their interests. Both Russia and China are militarised, authoritarian states. These closer ties between a declared enemy of the US – Russia, and its main strategic competitor China – clearly affects Australia. But how? What is the precise nature of the Sino-Russian relationship now? No matter what the Chinese and Russians may say, are they now *de facto* in the alliance the former Russian ambassador to Peking, Rogachev, called for in 2005?

The spectrum of views on Sino-Russian relations can be reduced to two schools of thought: the ‘Stratforists’ (derived from ‘Stratfor’ a geopolitical intelligence firm specialising in strategic forecasting) – who argue that things can only get worse (from the viewpoint of the US and its allies); and the Optimists, who posit that closer Sino-Russian ties are no cause for concern for third countries. A more complex reality lies somewhere between the two extremes.

Over the last fifteen years the Sino-Russian relationship has steadily acquired more substance. The ‘strategic partnership’ looks imposing, with its panoply of bilateral machinery, especially the regular dialogue between the two heads of state. Russia’s China lobby has run out of superlatives to capture the partnership’s scope and warmth. The enthusiasm with which their respective histories are being rewritten in order to underpin present domestic policies and

territorial claims is a new attitude the strategic partners share.

However, what the strategic partnership has not done is also important. Sino-Russian meetings of officials and academics refer often to the need to overcome distrust – *nedoverie* – between the two peoples. This is a habitual complaint of the Chinese in particular, who seem to believe that the Russian leadership should be able to overcome this distrust by administrative fiat, censorship and indoctrination. Given that the Sino-Russian border is among the sharpest cultural divide anywhere, the distrust is unsurprising. In his first presidential term Putin laid down a policy of ‘anyone but the Chinese’, a ban on Sino-Russian cooperation in ‘strategic sectors’ of the Russian economy; and a moratorium on the sale of Russia’s more modern weapons systems to China. The Chinese have, presumably, not forgotten.

Tsarist and Soviet Russia’s ‘aggression’ against China is now an article of faith for Chinese writers. Chinese popular histories now refer to ‘*the repeated massacres and plundering of the indigenous peoples of Heilongjiang by Russian aggressors in the 17<sup>th</sup> century*’ and the ‘*wide-scale armed aggression of tsarist Russia in the Heilongjiang and Ussuri Basins*’. This includes ‘*the seizure of more than a million square kilometres of Eastern China*’. Perhaps the most neuralgic theme for contemporary Chinese historians is Mongolia’s independence, presented as the result of intrigue by tsarist Russia.

Even so, relations are soundly based in shared views, from the role of the state to the need to remake the international order. Both blame ‘the West’ for what they perceive as humiliations. Noteworthy is their collaboration in the United Nations Security Council. The pattern of joint actions and statements over the last decade or so suggests an agreement, possibly tacit, that each will respect the other’s proclaimed spheres of interest (with Central Asia, where their interests collide, in a separate basket). Neither side has any illusions of genuine warmth in their relations so they tend to deal with each other pragmatically. Even the apparent rapprochement, noted above, is pragmatic rather than real.

### **The Present**

The Chinese knew of Putin’s ban on them as investors in Russia’s energy sector, and may also have known that Putin had expressed distrust of Hu Jintao. But, as explained below, things are quite different with Xi Jinping. He has implied his respect for Putin as a ‘strong man’, and during his first visit to Moscow Putin discarded his veto on Chinese equity in Russian energy and minerals projects.

Suddenly however, Putin decided that he must urgently have an agreement to supply gas to the



Chinese. After years of negotiation that repeatedly broke down over the question of price; after a policy of excluding the Chinese from the sector in which they had the most interest; after vetoing arms and technology-transfer deals; after the biggest commercial, non-state-to-state energy deal in Russian history – the joint venture between Rosneft and ExxonMobil – was halted by the imposition of sanctions in response to Russia's seizure of Crimea and promotion of a proxy war to destabilise Ukraine; after all this, the Chinese must, presumably, have asked themselves: 'why now?'

A reasonable answer must surely have been that Putin had nowhere else to go. This highlights Russia's status as the junior partner. According to a reliable report, Xi Jinping personally intervened to soften the Chinese negotiating position concerning the supply of gas (but not on price). This concession was presumably a long-term investment in his relations with Putin.

Putin's 'Pivot to the East' is a long-term strategy to re-orient the focus of Russia's economy from Europe to Siberia and Asia. This grand strategy is closely entwined with the newly ardent courtship of China. Obviously its success in the longer term will in large part depend on China's cooperation.

### **Colliding Visions: a Eurasian Union and a Silk Road Economic Belt**

In contemplating the outlook for Sino-Russian ties we must refer to 'Eurasianism', the ideology that Putin and his advisors have composed to underpin his rule – now in effect a presidency for life. In essence this posits that Russia's destiny is to be a great power on a par with the US and China. It further posits that, unlike the US, but like China, Russia is a unique *civilisation* (as opposed to a culture, a category reserved for lesser peoples). This civilisation stretches from the Baltic to the Pacific and 'from Lisbon to Vladivostok'. It is argued that it should be organised politically as a 'Eurasian Union'. As John Dunlop has suggested, Soviet Russia's brand of Marxist historical determinism has been transformed into a national geopolitical determinism that legitimises the rule of a group of Soviet intelligence officers. But how will the Chinese perceive the goals of Eurasianism? Putin's grand vision of a Eurasian Union may sit uneasily with their plans for Central Asia. In this context, the way in which China pursues its new 'Silk Road Economic Belt' will be decisive.

Barring the unforeseeable, Putin is likely to be in power for another decade, till 2024, when he will be 72. Xi Jinping too seems likely to remain in power for another decade at least. So, given this stability of cadres, and the widening confluence of interests, policy continuity on both sides seems likely.

Putin has made it plain that the Russian economy will be partially re-militarised. That is, notwithstanding the recent economic setbacks, the Defence Industrial Complex will attract more investment to make it, as in Soviet times, a source of new technology and so a stimulus to other sectors of the economy. Most specialists agree that spending on the military has increased by about 40 per cent in real terms over the last two years. So might we see an even stronger military alliance? One involving more frequent and bigger joint exercises; more information sharing; a joint-staff college; more efforts to achieve compatibility and inter-operability; and especially, more technology transfers?

The position Russia adopts on the South China Sea will be a key indicator of a more general commitment to the principle of guaranteed mutual support on interests defined by either side as 'core' (i.e. mutual recognition of and respect for their claimed spheres of interest).

It seems probable that the Shanghai Cooperation Organisation will become more important as a mechanism for managing change in Central Asia, especially in a potential crisis over succession in Kazakhstan. According to Fyodor Lukyanov, Russia wants India to join the group as a counterweight to China. Would China acquiesce? That's another 'known unknown'. However given the potential causes for tension, especially in Central Asia, we are likely to see more of the same, that is, continued close diplomatic coordination and the management of frictions – what one might call a Eurasian Axis. (Kyle Wilson)

### **Russia's economic relationship with China: potential and problems (*Stephen Fortescue*)**

Several years ago at a meeting of the Sino-Russian economic cooperation commission there were bad-tempered exchanges over the 'raw material appendage' issue. The Chinese claimed that the projects they put forward were being blocked. The Russians responded that they had no intention of approving projects that entailed the simple export of Russian raw materials, without value being added on Russian territory. As noted above, Putin had an informal but well-documented ban on Chinese investment in strategic resources; and opinion polls showed a negative attitude to Chinese investment in Russia.

This has changed. The ban has gone. In effect the 'raw material appendage' issue has been disregarded, although not forgotten. The Russians still insist that Chinese investment must ensure that value is added to Russian mineral exports before they cross the border, so steel mills, copper smelters etc. are still written into resource project licence conditions (for instance for the

Udokan project); the Russians appear not to insist on even that when it comes to oil and gas. However, there is no reason to believe the Chinese position has changed, so we can accept that the Russian lingering commitment to value added (beyond enrichment to make the product marketable) is *pro forma*. Meanwhile, public opinion appears to have shifted to a more positive attitude.

### **The potential of a resource export strategy (with Chinese investment)**

There has been a steady but slow increase in the Asian/Chinese market share of Russian exports over recent years. There is hardly a project at the moment without talk of Chinese investment. This applies to oil and gas projects, the Petropavlovsk iron ore mine, Zashulinskoe and other coal deposits. But big question marks remain. At the moment there is much more talk than action. If the Chinese go ahead and invest, will they be wise investments? Does Russia have a competitive advantage over other commodity exporters to China? It might appear to have a locational advantage, but when Russian long rail hauls are compared to sea-borne deliveries by its competitors, the advantage is less than it appears. There are also serious questions concerning quality and quantity, particularly when very high capital expenditure on transport and other infrastructure is taken into account. A further question: will these projects make up for revenue losses (through depletion and politics) from sales in the West? Russian exports to the East are not simply a bonus on top of existing revenues from Western markets; to a major extent they have to replace them.

Does any of this represent competition for Australia?

The areas where Russia could represent competition for Australia are LNG and coal. There are plans for expanded LNG capacity on Sakhalin and the Yamal project is moving towards completion. But there is on-going debate about these projects: is there enough gas after domestic and pipeline exports are catered for? Which Russian producers should be allowed access? Where will the capital investment come from? Current Russian coal production is located in the Kuzbass (south-west Siberia). Investments are being made in expanding the BAM-TransSib rail networks to increase eastward export capacity. But distances are still considerable and the Kuzbass is a mature coal-bearing region. There are commitments to new projects in East Siberia and the Russian Far East, but there are question marks regarding quantity and quality, as well as sources of capital funding.



An additional question: is China the only game? There is still a lot of stress on the commercial interest of Japan and South Korea in both resource and goods and services projects. But there are few signs of action. Commercially the strategy on betting solely on the Chinese is a big risk, because so many of the competitive advantages that Russia appears to have at first glance (and perhaps the political leadership believes really exist) are weaker than they appear because of geography, geology, topography, and the lack of infrastructure. To these we must add a lack of capital. To a considerable extent Russia has no choice but to take the risk, although it seems to have made it into a more urgent, perhaps irrevocable choice than was needed. (Stephen Fortescue)

### **Putin's Russia: The View from Beijing (*Rebecca Fabrizio*)**

What is the basis for the relationship between Xi's China and Putin's Russia? There certainly seems to be a bond of sorts between the two leaders. Xi famously chose Moscow for his first trip abroad, and has since probably spent more time with Putin than with any other leader. Their statements suggest they share the same view of the events of 89-91 in the USSR. Putin presumably shares Xi's sentiment that:

*'Finally, Gorbachev announced the disbandment of the Soviet Communist Party in a blithe statement. A big Party was gone just like that. Proportionally, the Soviet Communist Party had more members than we do, but nobody was man enough to stand up and resist'.*

There is revanchism in both men's policy vision for their countries. Putin's success in securing Crimea may not have been unwelcome to China, constantly fretting over how to re-gather its own lost territories, not least Taiwan. The Chinese press suggests that in a struggle between Russia and 'the West' Chinese public opinion would like Russia to win. For its part, Russia cares about China as the incipient global superpower.

China and Russia characterise their relationship as a strategic partnership, but this is diplomatic speak with no inherent meaning. The European Union has strategic partnerships with Russia and with China, but all these relationships are radically different. What matters is a confluence of geostrategic interests, where the advantages of working together outweigh the rivalries.

China is the apparent winner so far in the stand-off between Russia and Europe, with Russia unable to press many of its own demands. China's foreign policy under Xi is characterised by the search for alternatives to avoid dependence and reduce vulnerability. Eager to reduce its dependence on South China Sea shipping lanes, China is working to secure overland energy supplies, as well as alternative shipping routes through the Arctic and the Americas. The well-

publicised gas deals with Russia are part of this.

However, we should not overstate how much this is worth to either side. China has relatively little LNG in its energy mix, and the quantities of gas projected to come from Siberian gas fields by 2020, even if all goes according to plan, are unlikely to top 2 per cent of China's overall gas needs. With the pressure from China on price, Russia has little incentive to try to displace European customers with Chinese demand, so there are clear limits to the structural affinity between the two in the energy sector.

China has other ways to exploit the new balance of power, including increasing arms imports from its biggest supplier. China is an important defence market for Russia, but concerns about intellectual property protection put a stop to sales of fighter jets for more than a decade.

However, reports over the last year suggest that a deal on Su-35 jets and S400 SAMs is likely.

Presenting a united front brings benefits to both sides. Russia and China oppose the US-led approach to global governance, seeing in it a potential threat to their own regimes. They have tended to vote together in the UN Security Council. The Libya no-fly zone resolution, to which both acquiesced, revived their wariness about external intervention, and the propensity of other UNSC members to push the boundaries of such Resolutions. Russia and China joined in a triple veto of Syria resolutions in 2010/11. They have worked together on a cyber-security strategy and share an interest in pushing back against US norms in cyber-space.

However, as noted in the other contributions to this seminar, beneath the veneer of shared interests the two countries diverge sharply, and have as many concerns about each other as they do about the rest of the world. Their views about their own place in the world differ widely, as do their policies towards the US – still indispensable to China, but considered an enemy by Russia. Moreover, the China threat is as real for Russia as it is for the rest of China's neighbours, and the warm relations between the top leaders have not permeated to an open and trusting relationship at the lower levels. Some Chinese officials privately describe their Russian counterparts as 'impossible' to deal with. Russia fears what China's strategic goals might be; is aware of the vulnerability of the long land border; and resents Chinese influence in Central Asia.

China's strategic goals are indeed unclear, but we can in some respects characterise China as a builder and lender with constructive influence internationally. In this it is quite unlike Russia. China also dwarfs Russia by nearly all measures. Its foreign exchange reserves are twice the value of Russia's entire GDP. This means that trade and investment volumes between Central Asian countries – traditional Russian partners – and China are vastly higher than Russia can ever

aspire to. This is reflected in strong differences over the role of the Shanghai Cooperation Organisation, which China uses for economic purposes, while Russia is pushing the group to take on a security role. As noted above, Russia would like India to join the group to counterbalance Chinese influence. These fundamental differences mean that any 'strategic alliance' between Russia and China could evaporate as soon as their interests no longer converge.

We might still have concerns, not so much about the relationship between China and Russia itself, but about systemic problems that it highlights, and of course about the future for Russia and Ukraine. Ukraine's situation has highlighted divisions in Europe, which may reduce Europe's ability to pursue goals in other relationships, not just with Russia. We have also seen how much more difficult it is to go after the world's 9<sup>th</sup> biggest economy than to isolate the Democratic People's Republic of Korea (DPRK) or Iran, reducing the credibility of our institutions. The presence of China is an important part of this as China is a place to turn for those who are seeking alternatives. As the share of the global economy of Europe and the US decreases and the institutions they dominate become less attractive, China does not need to ally with Russia to become more influential. Ad hoc institutions such as the BRICS (Brazil, Russia, India, China and South Africa leaders' meetings) or the Asian Infrastructure Investment Bank are likely to proliferate. So the lesson is that we need to think creatively about policies to work constructively with Xi Jinping's China in pursuit of our global political and economic goals.

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