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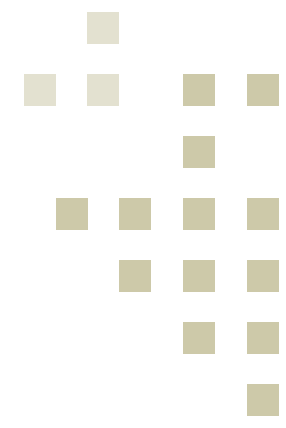
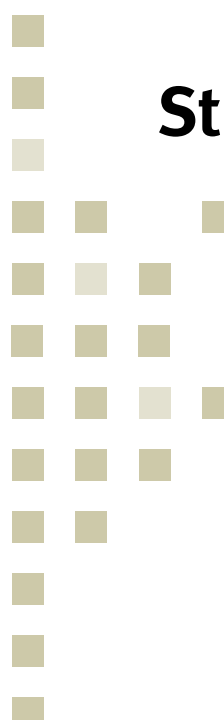
A Match made in Heaven? Strategic Convergence between China and Russia

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A Match made in Heaven? Strategic Convergence between China and Russia

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[Abstract] This paper examines the strategic convergence between Russia and China. Strategic convergence is understood as the overlap of key objectives and interests with regard to long-term developments in world politics, which provides the basis for extensive tactical co-operation between two or more states. The paper focuses on the compatibility of Russia and China in terms of complementary economies, location and political outlook. The match between Russian natural resources and Chinese markets is examined in particular. The paper concludes that a closer relationship between the two countries in many ways would be of mutual advantage, but that it is far from certain that an alliance will develop.

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A Match Made in Heaven?

Strategic Convergence between China and Russia

1. Introduction

Russia is the world's second largest oil producer, after Saudi Arabia,¹ and China the world's second largest energy consumer, after the United States.² While bilateral trade-flows are still small, there is great potential inherent in the relationship. Old hostilities have been put aside after the final settlement in 2004 of a series of disputes along the 3645-km border which had plagued Sino–Russo relations for centuries and caused war in 1969.³ Moreover, Beijing and Moscow have compatible views on separatism, Islamism, terrorism, democratisation and stability. Neo-conservative American commentators such as Peter Brookes of the Heritage Foundation have argued that the Sino–Russian relationship undercuts US global interests ‘on an unprecedented scale.’⁴ This paper explores whether the strategic convergence is sufficiently strong for the two states to set aside their differences, and build a sustainable partnership. The paper aims for as neutral a stance as possible, neither cheering on nor condemning cooperation between China and Russia. In stead it aims to provide a simple assessment of the scope for closer cooperation between the two countries on the basis of strategic convergence.

‘Strategic convergence’ is here defined as the overlap of key objectives and interests with regard to long-term developments in world politics, which provides the basis for extensive tactical co-operation between two or more

¹ Russia had an output of 9.5 million barrels per day in 2005, the most recent year for which figures are available, compared to Saudi Arabia's output of 11.1 million barrels per day. Energy Information Administration, *Top World Oil Producers 2005*. http://www.eia.doe.gov/emeu/cabs/topworldtables1_2.html

² Production and consumption of coal, China's main fuel, is the highest in the world. China passed Japan as the second largest consumer of petroleum in 2003. Energy Information Administration, *China Energy Data, Statistics, and Analysis: Oil Gas, Electricity and Coal*, Washington DC, August 2006, p.2. Throughout this paper, data for China refer to mainland China, excluding Hong Kong and Taiwan, unless otherwise noted.

³ Most of the border had been agreed upon when Jiang Zemin visited Moscow in 1991. Valdimir Paramonov i Aleksey Stokov, *Otnosheniya mezhdru Rossiey i Kitaem: Istoria, sovremennost i budushchee*, CSRC Occasional Paper, 2006, p.5

⁴ Peter Brookes, ‘Sino–Russian Strategic Romance’, *Military.com*, 27 March 2006.

states.⁵ To examine strategic convergence between China and Russia we analyse material as well as ideational factors. By ‘material factors’ we mean physical and economic aspects, with the emphasis on complementary economies, geography and technology. At the level of specific resources, the focus is on oil and gas, but other non-renewable extractables like wood and food are also included. By ‘ideational factors’ we refer to ideology and values with focus on views of separatism, Islamic radicalism, terrorism, democracy and US hegemony. The ideational level of analysis, in particular, benefits from the authors’ ability to access primary sources in both Chinese and Russian. This makes the analysis distinct from several other papers on related topics, many of which are written by scholars who at best know one of the languages.

⁵ Gary Hamel, *Leading the Revolution*, (Cambridge, MA: Harvard Business School Press, 2000) employed the term ‘strategic convergence’ to refer to the limited scope of strategies used by rivals in different circumstances. He argued that strategies converged more than they ought to because strategies which are successful in certain contexts get imitated in other contexts by agents that do not understand the need to design custom strategies for different situations. This is not the sense in which the term is employed here.

2. Complementary economies

China's dependence on Russian oil and gas

The new Sino–Russian relationship is driven by trade and mutual economic interest. China's economy is the fourth largest in the world, with a gross domestic product of USD 2.8 trillion;⁶ in terms of purchasing power parity it is the second largest, with an output of USD 8.6 trillion dollars.⁷ China has pursued a dual transition process, moving simultaneously from a planned economy to a market economy and from a rural, agrarian economy to a more urban, industrial one. In this process it has emerged as the world's second largest consumer of oil products at 7.4 million barrels per day,⁸ a figure projected to at least double to 13.4 million barrels per day by 2025.⁹ Around 40 per cent of growth in world oil demand between 2001 and 2005 came from China.¹⁰

Russia provided 10.1 per cent of China's total oil imports in 2005. This amounted to 257,000 barrels per day, and was up from 29,700 barrels in 2000.¹¹ However, this figure is set to increase steeply, in particular if Russia's oil can provide China with a more secure foundation for its economic transformation than supplies from volatile Middle Eastern and African states. Energy reserves in western Siberia are estimated at up to 200bn barrels, and those in eastern Siberia 50bn barrels. In the Sakhalin region there could be 28bn barrels. For comparative purposes, Iraq is thought to hold 112.5bn barrels.¹² Rising global temperatures will in the future make it easier for Russia to access these resources.¹³

⁶ Total GDP 2005, *World Development Indicators Database*, World Bank, July 2006, p.1. China is likely to overtake Germany as the world's third largest economy by the end of the decade.

⁷ PPP GDP 2005, *World Development Indicators Database*, World Bank, July 2006, p.1. This is only USD 3.8 billion behind the United States.

⁸ 2006 Estimate. Energy Information Administration, *China Energy Data, Statistics, and Analysis: Oil Gas, Electricity and Coal*, Washington DC, August 2006, p.2.

⁹ Wayne Morrison, *China's Economic Conditions*, CRS Brief for Congress, 15 May 2006, p.16. The International Energy Agency projects that China's oil imports will surge from around 2 mb/d in 2003 to more than 10 mb/d in 2030, equal to over 74 per cent of expected domestic demand. See Faith Birol, 'China Presentation', *World Energy Outlook 2004* (Paris: International Energy Agency, 2004), p.23. China's reliance on imported oil was slightly down in 2005, but this trend is unlikely to continue. See *People's Daily*, 'China's Dependence on Imported Oil Down 2.2 Percentage Points in 2005', 13 January 2006.

¹⁰ Morrison, *China's Economic Conditions*, p.16

¹¹ Tian Chunrong, 'Analysis of China's Oil Import and Export in 2005' (2005 nian zhongguo shiyou jinchukou zhuangkuang fenxi), *International Petroleum Economics (Guoji Shiyou Jingji)*, Vol. 14, No.3, 2006, p.4.

¹² See Lyle Goldstein and Vitaly Kozyrev, 'China, Japan and the Scramble for Siberia', *Survival*, Vol.48, No.1, Spring 2006, p.176.

¹³ 'Comrade Climate Change: Rising Global Temperatures is Good for Russia', *Economist.com*, 18 December 2006.

Geography in the form of the shared Sino–Russian border has a crucial impact on the potential for trade between the two countries. For China, the strategic importance of access to Russian raw materials is great, because other assets are largely dependent on open waterways, in particular the straights of Hormuz and Malacca. These could be cut off in the event of a crisis over Taiwan or other major confrontation with the USA. Moreover, conflicts not directly related to China and beyond its control could result in supply disruption, for example a confrontation between Iran and the USA. Iran currently supplies 11.2 per cent of China’s total imports and the Middle East as a whole supplies 47.2 per cent of total oil imports.¹⁴ China sources 30.3 per cent of its total petroleum imports from Africa.¹⁵ A crisis in these regions would have severe consequences for Beijing. By contrast, Russian supplies can arrive in China through their shared border or the Pacific, and therefore carry a different risk profile.

Russian raw materials to avoid confrontation with the West

Chinese imports of raw materials from conflict-ridden countries in Africa, the Middle East, Latin America and Asia lead to accusations from Washington that China is propping up unsavoury regimes and failing to act as responsible member of the international community. This argument carries some weight, given that approximately 60 per cent of Sudan’s oil output is sold to China,¹⁶ and 5.2 per cent of China’s imported oil comes from Sudan.¹⁷ China has consistently refused to allow the passing of a Security Council resolution which would mandate UN forces to the Darfur region. Considerable concern arose in Washington after Venezuela, the world’s fifth largest oil exporter, led by left-wing president Hugo Chavez, offered Chinese firms operating rights to mature oil fields.¹⁸ China also has established a strong presence in Myanmar and in Robert Mugabe’s Zimbabwe.

While such developments are often interpreted as part of a strategy to support what Washington considers ‘rogue states,’ they are not so much an ideologically motivated challenge to the United States as a reflection of China’s rising demand for imported raw materials, and a series of pragmatic decisions to channel Chinese investment to states where there is little competition from American and European corporations. China seeks to expand

http://www.economist.com/daily/columns/greenview/displaystory.cfm?story_id=8443195&fsrc=nw1

- 14 Tian Chunrong, ‘Analysis of China’s Oil Import and Export in 2005’ (2005 nian zhongguo shiyou jinchukou zhuangkuang fenxi), *International Petroleum Economics (Guoji Shiyou Jingji)*, Vol. 14, No.3, 2006, p.4.
- 15 The leading suppliers are Angola (13.7 per cent), Sudan (5.2 per cent), Congo (4.4 per cent) and Equatorial Guinea (3.0 per cent). (Tian Chunrong 2006, above.)
- 16 Drew Thompson, ‘Disaccord on Sudan Could Poison China–US Ties’, *International Herald Tribune*, 18 November 2004.
- 17 Tian Chunrong 2006 (see note 14 above).
- 18 Mary Hennock, ‘China’s Global Hunt for Oil’, *BBC News*, March 9, 2005. www.news.bbc.co.uk/2/low/business/4191683.stm

control over supplies of petroleum, minerals and other raw materials through equity investments primarily for reasons of state and economic security.

This strategy has in a sense been encouraged by Washington, because it has sought to block Chinese bids for less controversial assets, such as CNOOC's USD 18.5bn attempted takeover of Unocal,¹⁹ on the grounds that China should not be allowed to take over 'American' resources. In fact, Unocal's assets are not, strictly speaking, American: most of them are located in Asia, an important reason why Unocal was attractive to China. In a context where Beijing is criticised for collaborating with African and Middle Eastern states with little Western presence, while it struggles to gain access to raw materials in more stable areas, China has strong incentives to increase imports from Russia, even though the current political climate in Russia makes it unlikely that China will be allowed to make large equity investments. On the other hand, in June 2006 Sinopec was able to acquire a 97 per cent stake in Udmurtneft, a medium-sized unit of BP's Russia vehicle TNK-BP, for \$3.5 billion.²⁰

Chinese-Russian-Japanese energy cooperation: Three's a crowd

Whether Moscow favours Beijing or Tokyo in the construction of energy transport infrastructure in Siberia will have important implications for the balance of power in East Asia. If China wins, this will both support China's claim to regional pre-eminence and promote the Russia-China axis; if Japan were to succeed, a more multi-polar structure would emerge in East Asia. The Kremlin's hesitation on the matter is one indication of the geopolitical implications of the choice.



In 2004 Japan seemed to emerge as the core partner for Russia in the construction of Siberian energy infrastructure, after Beijing had earlier appeared to be Moscow's favourite. Tokyo was willing to guarantee financing for the project, possibly in the range of USD 15bn. The pipeline to Nakhodka, on Russia's Pacific coast, would be the longest in the world: at around 4,180km,

¹⁹ Paul Blustein, 'Many Oil Experts Unconcerned Over China Unocal Bid', *Washington Post*, 1 July 2005, p. D01

²⁰ Energy Information Administration, *China Energy Data, Statistics, and Analysis: Oil Gas, Electricity and Coal*, Washington DC, August 2006, p.5

it would be three times the length of the Trans-Alaska Pipeline.²¹ The pipeline terminus would be just one day away by tanker from Japan.

Putin had reasons to favour the Nakhodka pipeline, because Japan's deal promised greater net investment in Russia and because a pipeline to the Pacific would make Russia less dependent on China as a customer for its sales. Russia is concerned about monopsony, a situation in which there is only one buyer but many potential sellers – a concern further reinforced after the construction of a pipeline from Kazakhstan to Xinjiang in Western China was finished in 2006.

However, the core reason why China fell out of favour in 2004 was the role that Yukos had played in exporting oil to China. Putin was displeased by Mikhail Khodorkovsky's political ambitions and his plans for privately controlled export routes for Russian petroleum products. Both in the in Murmansk and the Far East, Yukos seemed poised to play an influential role. The Yukos affair is an indication that internal dynamics in Russia can be extremely important to foreign policy outcomes. While the episode was unfortunate from Beijing's point of view, China has been careful not to criticise what it regards as an internal affair of Moscow.²²

The pipeline to Nakhodka is yet to be built, and at present there is no final decision as to whether it will be. However, Russia appears to have decided to build a pipeline to Skovorodino only 70km from the Chinese border, scheduled for completion in the second half of 2008.²³ This is set to include a spur to Daqing, and carry as much as 600,000 barrels a day.²⁴ The construction of the pipeline to Skovorodino strengthens China–Russia relations, while simultaneously giving the Kremlin the option of extending the pipeline to Nakhodka. This allows Russia to maintain leverage over China and Japan.

The territorial dispute over the Kurile Islands north of Hokkaido continues to plague relations between Japan and Russia, which have yet to sign a peace treaty to end the Second World War. If there is no agreement on the issue, the pipeline to Nakhodka may not move beyond the planning board. The shooting dead of a Japanese crab fisherman in Russian-controlled waters near Japan's northern island of Hokkaido in August 2006 is one example of

²¹ Lyle Goldstein and Vitaly Kozyrev, 'China, Japan and the Scramble for Siberia', *Survival*, Vol.48, No.1, Spring 2006, p.170.

²² As central tenet of China's foreign policy is that it shall not intervene in the domestic affairs of other states, it is hardly imaginable that Chinese politicians would comment openly on the Yukos affair. However, Chinese scholars have expressed opinions – see for example You Fang, 'Yukos: Swept Away' ('Youkesi: liushui luohua chun quye'), *China Oil and Petrochemical Fortnightly (Zhongguo shiyou shihua banyuekan)*, No.16, 15 August, 2006, pp.24–25; Feng Yujun, 'Firm Strategy for Right of Control of Natural Resources: Analysis of Russia's 'Yukos Incident'' ('Laolao zhangwo zhanlue ziyuan kongzhiquan: Eluosi 'Youkesi shijian' pouxi', *International Trade (Guoji maoyi)*, No.9, 2004, pp. 32–33; Qu Wenyi, 'What the Yukos Incident Says About the Putin's Government Economic Policies Towards Oligarchs' ('Cong Youkesi shijian kan Pujing zhengfu dui guatou jingji de zhili'), *World Economics (Shijie jingji)*, No.3, 2004, pp.34–37.

²³ *Transneft*, 'CNPC are satisfied with starting of ESPO pipeline construction from Skovorodino' 30 May 2006, <http://www.transneft.ru/press/Default.asp?LANG=EN&ATYPE=8&PG=7&ID=11039>.

²⁴ Energy Information Administration, *China Energy Data, Statistics, and Analysis: Oil Gas, Electricity and Coal*, Washington DC, August 2006, p.5.

the scope for worsening of this conflict.²⁵ If Tokyo is unable to settle its territorial dispute with Russia, and Beijing–Moscow relations remain good, Moscow may conclude that it has more to gain by constructing an additional pipeline to China. China, after all, is a market enjoying strong growth, and is unlikely to jeopardise future energy security by demanding renegotiation of price agreements once the pipeline has been built.

Natural gas co-operation in the massive Kovykta field, and perhaps Sakhalin, are likely elements in future Chinese–Russian energy co-operation. In April 2006 President Putin and Hu Jintao reportedly agreed on the construction of a pipeline from Kovykta to China and possibly South Korea, at an estimated cost of USD 12bn.²⁶ However, no formal decision on the project has been announced. Meanwhile there have been significant increases in rail shipments of oil to China and a commitment to increase these further. Heilongjiang has been importing electricity from Russian hydroelectric power stations since 2004, and plans to import 18 billion kilowatt hours by 2010.²⁷ Sales to China decrease Russia's dependence on the European market and partially strengthen the Russian argument that it can turn to others if Brussels does not accept Moscow's conditions. China's energy consumption is predicted to surge from 1,675 TWh in 2002 to 5,573 TWh in 2030.²⁸

Other extractable commodities

The natural resources that Russia has and that China needs, extend far beyond the energy sector. China is already the world's largest consumer of steel, cement and copper;²⁹ and while Russia and Central Asia currently account for only about 6 per cent of China's total supply of raw material imports, this is likely to change.³⁰ As the factbox below shows, Russia has a strong position in the global supply of many strategic non-ferrous metals necessary for the type of industrial production at the core of China's strategy for continued economic growth.

²⁵ David Pilling, 'Japan–Russia Territorial Dispute Escalates', *Financial Times*, 16 August 2006.

²⁶ Energy Information Administration, *China Energy Data, Statistics, and Analysis: Oil Gas, Electricity and Coal*, Washington DC, August 2006, pp.9–10.

²⁷ 'China Imports Electricity from Russia', *People's Daily*, 5 May 2004; Yang Li, 'Electricity Trade Flourishes', *Xinhua*, 23 March 2006.

²⁸ Faith Birol, 'China Presentation' *World Energy Outlook 2004* (Paris: International Energy Agency, 2004), p.24.

²⁹ Wayne Morrison, *China's Economic Conditions*, CRS Brief for Congress, 15 May 2006, p.16.

³⁰ Lyle Goldstein and Vitaly Kozyrev, 'China, Japan and the Scramble for Siberia', *Survival*, Vol.48, No.1, Spring 2006, p.167.

Factbox on Russian natural resources**ALUMINIUM**

Russia's biggest aluminium producer Rusal will buy up its closest rival Sual to create the world's number one aluminium firm, with output of 4 million tonnes per year.

NICKEL

Russia's Norilsk Nickel is the world's major producer of nickel, a vital ingredient in the production of stainless steel. Output was 243,000 tonnes in 2005. Compatriot miner Ufaley produced 10,701 tonnes of nickel.

TITANIUM

VSMPO-Avisma is the world's biggest supplier of titanium. It supplies 40-45 per cent of the titanium products used by Boeing and has won 60-70 per cent of titanium supply contracts for Airbus between 2008 and 2013.

PALLADIUM

Russia's Norilsk Nickel is the world's number one palladium producer, with 3.1 million ounces in 2005.

PLATINUM

Russia produced an estimated 27,000 kg of platinum in 2005, putting it in second place behind South Africa.

VANADIUM

In 2005, Russia produced an estimated 9,000 tonnes of the hardening alloy vanadium, used in oil pipes, making it number four in the world, after South Africa, the United States and China. The Russian steel producer Evraz has since announced plans to buy a majority stake in the US producer Stratcor, and 24.9 per cent of South Africa's Highveld Steel and Vanadium, which would make it world number one.

MAGNESIUM

Russia is the world's third largest supplier of magnesium, after China and Canada. VSMPO Avisma produced 19,000 tonnes of magnesium in 2005 and Solikamsk 17,600 tonnes.

COBALT

Russia is the world's fifth largest producer of cobalt, widely used in aircraft engines and batteries. Norilsk Nickel accounts for most of this, where cobalt occurs as a by-product of nickel mining. Total mine production was 5,000 tonnes in 2005.

GOLD

Russia is the world's fifth largest gold producer. Polyus Gold, a spin-off from Norilsk Nickel, is Russia's biggest gold miner. Its output in 2005 was 1.076 million ounces in 2005.

COPPER

Russia is the world's sixth-largest copper producer, with total mine production 675,000 tonnes in 2005. Both Norilsk Nickel and UMMC, controlled by Makhmudov, produce copper.

COAL

Russia has the world's second biggest coal reserves, after the United States. It holds 17.3 per cent of the world's proven coal reserves.

(Data from Reuters, BP Statistical Review 2006, US Energy Information Administration, Norilsk Nickel company website, United States Geological Survey Mineral Commodity Summaries 2006.

<http://cn.today.reuters.com/stocks/FinanceArticle.aspx?view=CN&symbol=HK1q.L&storyid=155589+30-Aug-2006+RTRS>. Posted 30 Aug. 2006, downloaded 21 Nov. 2006.)

Food

Another area where China and Russia may come to work together more closely is agriculture. Arable land covers approximately 13 per cent or 122 million hectares of China's territory, which amounts to only 0.27 hectares per capita. This is less than 40 per cent of the world average, and half the level in India.³¹ As China industrialises and urbanises, while also seeking to convert lower-quality arable lands into grasslands or forest to prevent desertification, arable land is becoming increasingly scarce. Between 1996 and 2005, China lost approximately 8 million hectares or 6.6 per cent of its arable land.³² Between 1999 and 2003 grain production dropped continuously; although the situation has since improved somewhat, China faces a shortfall of nearly 20 million tons by 2010.³³ Adding to the difficult situation, one-sixth of China's total arable lands are polluted by heavy metals.³⁴

Self-sufficiency is a strategic priority for Beijing, and the government has tightened control over land conversion for construction purposes. However, there is little that can be done without undermining the economic growth that is the source of political legitimacy for the Communist Party. Beijing, therefore, appears to acknowledge that it will have to import food, and in this context Russia is a natural partner. Guo Binqi, for example, suggests that 'Russia in the near future could become China's granary.'³⁵ While Russia's cultivated land currently comprises only 7.17 per cent of its territory,³⁶ 55 per cent of the world's black earth (*chernozem*) is located in Russia and there is clearly much more which could be put to agricultural use.³⁷ Thus Russia has the potential for a massive increase in grain production through the application of modern technology and improved organisation of its agricultural sector. Unlike most other countries, Russia's agricultural sector may stand to benefit from global warming.³⁸

³¹ Yingling Liu, 'Shrinking Arable Lands Jeopardizing China's Food Security', *Worldwatch Institute*, 18 April 2006. <http://www.worldwatch.org/node/3912>

³² Beijing News (Xinjingbao), Ministry of Land and Resources Reports China Lost 122 Million Hectares of Arable Land Over the Last Ten Years (Guotu ziyuanbu baogao xianshi, zhongguo shi nian gengdi jianshao 1.2 yi mu], Xinhuanet, 16 March 2006 http://news.xinhuanet.com/house/2006-03/16/content_4308627.htm

³³ *China Agricultural Net (Zhongguo nongye wang)*, 'The Eleventh Five Year Plan: How to Fill Grain Shortfall of 20 Million Tons' ('Shiyiwu' qijian: ruhe tianbu 1000 yi jin liangshi quekou), 29 March 2006 <http://www.zgny.com.cn/ConsHtml/5/9/4/94082.html>

³⁴ *China Agricultural Net (Zhongguo nongye wang)* (see note 33 above)

³⁵ Guo Bin Qi, 'The Prospects for China–Russia Agricultural Co-operation are Broad', (*Zhong e nongye hezuo qianjing guangkuo*), *Siberian Studies (Xiboliya yanjiu)*, Vol.30, No.3, June 2003, p.25.

³⁶ 'Russia', *CIA World Fact Book 2006* (Washington DC, 2006). <https://www.cia.gov/cia/publications/factbook/geos/rs.html>

³⁷ 'Rossiya prokormit milliard zelman', *Rossiia vybiraet*, No.23, Vol.105, 14 June 2001.

³⁸ Natalia Reznik, 'Globalnoye poteplenie v Rossii: Bolshe zasukhi i kartoshki', *Izvestiya*, 11 September 2004., p.1.

China's growth not an economic threat to Russia

China's growing competitiveness does not represent any great threat to Russia compared with the USA and the EU. Manufacturing in the Russian Federation is weak and unlikely to recover, particularly given Russia's new wealth from natural resources and the lingering risk of Dutch disease. Instead China's cheap consumer goods present an opportunity to Russian consumers. There has been a notable shift in China's revealed comparative advantages, a measure used as a proxy of a country's international competitiveness,³⁹ and China has emerged as an important exporter of technology-based products. China produces two-thirds of all photocopiers, microwave ovens, DVD players; over half of all digital cameras and around two-fifths of personal computers⁴⁰ – all of which a rapidly expanding Russian middle class wants. Simultaneously China's competitiveness in labour-intensive products such as textiles, clothing and leather has grown.

Low-quality apparel and footwear play a large role in China's exports to Russia, but China's export of machinery and electronics is growing. In the first 11 months of 2005, export of machinery and electronics to Russia grew 70 per cent, and made up 24 per cent of China's total exports to Russia.⁴¹ Export of high-tech products to Russia grew 58 per cent in the same period and accounted for 7 per cent of China's total exports to Russia. Because of income from its exports of raw materials, Russia had a current account surplus of almost USD 85bn in 2005⁴², set to be even greater in 2006. For this reason Russia worries less about China's exporting power or the undervalued renminbi than do many other states. This means that a point of tension that characterises Sino-US and Sino-EU relations is not present in the Sino-Russian relationship. China and Russia have acknowledged each other as market economies and China was amongst the first to conclude WTO negotiations with Russia in (October 2004), indicating China's emphasis on building close trade relations with Russia.⁴³

Russia is the world's fourteenth largest economy, with an output of USD 760bn, while in terms of purchasing power parity it is the world's tenth largest economy.⁴⁴ It is the world's seventh most populous state, with 143 mil-

³⁹ European Commission, *European Competitiveness Report 2004*, SEC(2004)1397, pp. 248–249.

Revealed comparative advantage is a measure of relative export performance by country and industry defined as a country's share of world share of world exports of a good divided by its share of total world exports.

⁴⁰ Pam Woodall, 'The Dragon and the Eagle', *Economist*, 30 September 2004.

⁴¹ 'Backgrounder: Current Sino-Russian economic, trade cooperation', *People's Daily*, 22 March 2006.

⁴² 'Russia', *CIA World Fact Book 2006* (Washington, DC, 2006).
<https://www.cia.gov/cia/publications/factbook/geos/rs.html>

⁴³ Ministry of Foreign Affairs of the People's Republic of China, *China and Russia Sign the Market Access Agreement on Russia's Accession to the World Trade Organization between the People's Republic of China and the Russian Federation*, 14 October 2004.
<http://www.fmprc.gov.cn/ce/ceee/eng/dtxw/t166041.htm>

⁴⁴ PPP GDP 2005, *World Development Indicators Database*, World Bank, July 2006, p.1. In PPP terms Russia's economy amounts to USD 1.6 trillion.

lion people.⁴⁵ Figures from Chinese customs show that total trade volume between China and Russia in 2005 reached USD 29.1 billion, up 37.1 per cent year on year, and 14 percentage points higher than the growth rate of China's total foreign trade. China is Russia's fourth largest trade partner, but Russia is only China's ninth largest export market, accounting for 1.5 per cent of China's export markets.⁴⁶ These figures make it reasonable to project that while Russia will be of growing importance to China as an export market, its significance will remain small. It is a source of raw materials and as a partner in *Machtpolitik* that Russia is important to China.

⁴⁵ Population 2005, *World Development Indicators Database*, World Bank, July 2006, p.1

⁴⁶ 'Top Ten Export Markets', Ministry of Commerce of the People's Republic of China, 3 August 2006

3. Military convergence

The USA is the silent party at the table in all China–Russia meetings, not in terms of pressure, but in terms of mutual interest on the part of China and Russia in constraining American hegemonic behaviour. Beijing’s current starting point is ‘one superpower, many powers’. Russia seems grudgingly to accept US primacy, but Putin has on numerous occasions made clear that Moscow would like to see a multi-polar world.⁴⁷ Beijing’s current foreign policy discourse is centred on the ‘peaceful rise’ thesis, now re-baptised the ‘peaceful development’ thesis so as not to frighten anyone, but the underlying perspectives are in many respects similar.

Because both Russia and China are heavily armed, including nuclear arsenals, there is a balance of power.⁴⁸ The chance that one state could seek to invade the other is low (although many Russian actors do fear Chinese demographic and/or territorial expansionism in Siberia – see below). Moreover, both Russia and China are without significant allies. Moscow and Beijing might have hoped that the Iraq War would change the Western alliance structures fundamentally, but this has not been the outcome.

China and Russia have expanded military co-operation. They have been collaborating on foreign and military intelligence since the early 1990s, and in 2005 they conducted their first joint war games. The exercise included 10,000 military, intelligence and internal security forces. Given China’s reluctance to enter military alliances, it was a significant gesture to allow the games to be staged on Chinese soil.⁴⁹ Russia and China have strong incentives to expand their military co-operation in a context where US military spending amounts to 47 per cent of world total.⁵⁰

Russian arms to China

Russia has been China’s main source of arms since the end of the Cold War, and has accounted for 90 per cent of the estimated 165bn renminbi in arms sales to China from the states of the former Soviet Union since 1991, accord-

⁴⁷ Aleksandr Shumilin, ‘Mnogopolyarnyy egoizm’, *Ekspert*, 25 December 2000; Evgeniy Revenko ‘Rossiya, Kitay, Indiya: Novaya os mnogopolyarnogo mira’, *Vesti Nedeli*, 8 December 2002. <http://www.vesti7.ru/news?id=1645>.

⁴⁸ China’s nuclear arsenal is far inferior to those of Russia and in particular the USA, but it is significant enough to be a deterrent in relation to Russia. Pentagon, *Military Power of the People’s Republic of China* (Washington DC: Pentagon 2006), p.26; cf. *Economist*, 10 June 2006, p. 60; Vyacheslav Baskakov, ‘Raketno-yadernyy arsenal Pekina’, *Nezavisimoe voennoye obozrenie*, 12 July 2002; I.A. Andryushin et al., *Yadernoye razoruzheniye, nerasprostraneniye i natsionalaya bezopasnost*, Moscow: Institute strategicheskoy stabilnosti, 2002; Yuriy Gavrilov, ‘Yadernyy arsenal obnovyat polnostyu’, *Rossiyskaya Gazeta*, 14 April 2006).

⁴⁹ ‘Russia and China: When Dragons Dance with Bears’, *Economist*, 30 November 2006.

⁵⁰ Stockholm International Peace Research Institute, *SIPRI Yearbook 2005: Armaments, Disarmaments and International Security* (Oxford: Oxford University Press, 2005), Chapter 8. China’s military expenditure is estimated at USD 65bn for 2004; Russia is estimated to have spent USD 50bn. The USA spent a whopping USD 466bn. ‘World Wide Military Expenditures’, *Globalsecurity.org*, 15 October 2005. <http://www.globalsecurity.org/military/world/spending.htm>

ing to a Pentagon report from 2004.⁵¹ Moscow has sold Beijing advanced submarines, fighters, destroyers and missiles as well as strategic aircraft for troop movement, air-to-air refuelling and AWACS-type duties. As that the EU is unlikely to lift its 1989 arms embargo on China in the near future, and the USA is determined not to, Russia seems set to continue as China's main source of arms.

Economic exigencies made Russian weapons sales to China a necessity in the 1990s.⁵² With Russia's current record trade and budget surpluses this is less the case today.⁵³ Nonetheless, the sale of sensitive technology from Russia to China still has considerable potential. Contracts worth billions of euros will be available as China pushes to expand its nuclear energy capacity. China plans to quadruple its nuclear output to 16 billion kilowatt-hours by 2010, and double that figure again by 2015.⁵⁴ The Chinese reportedly use Russian spacesuits, and Russia provided technical assistance to China in the development of the Shenzhou spacecraft, thus helping China become the third state to send a human being into space.⁵⁵

The simultaneous demise of the Soviet Union and the rise of China fundamentally changed the dynamics in China–US relations. Washington stopped viewing China as an ally against Moscow, and began to see it as a potential rival. The USA is wary of the communist government in Beijing,

⁵¹ Cited in Guy Dinmore and Demetri Sevastopulo, 'Asian Neighbours Look Beyond Symbolism', *Financial Times*, 9 February 2005.

⁵² Rajan Menon, 'The Strategic Convergence Between Russia and China', *Survival*, Vol.39, No.2, 1997, p.111.

⁵³ High energy prices have allowed Russia to build the third largest currency reserves in the world at USD 263bn. China has the largest USD 941bn as of June 2006. 'Foreign Exchange Reserves', *Wikipedia*, http://en.wikipedia.org/wiki/Foreign_exchange_reserves

⁵⁴ Howard French, 'China Promotes another Boom: Nuclear Power', *New York Times*, 15 January 2005.

⁵⁵ Marcia S. Smith, *China's Space Program: An Overview CRS Report for Congress*, 18 October 2005.

and many senior actors in the US political landscape, especially among the Democrats, are increasingly sceptical of authoritarian trends in Putin's Russia. Putin initially built his political image on waging war on the Chechen separatists, has reasserted Moscow's right to appoint regional governors and effectively re-nationalised much of the petroleum industry. Beijing, on the other hand, is more comfortable with a relatively stable authoritarian Russia than the chaos of the 1990s, and feels vindicated in its decision to put down the rebellion at Tiananmen Square in 1989.⁵⁶ The consolidation of what Putin calls the 'power vertical', i.e. centralisation, has made Moscow a more reliable partner for Beijing.⁵⁷

⁵⁶ Given China's policy of non-interference in the domestic affairs of other states we have been unable to find official comment to this effect. However, discussions with leading academics at Tsinghua University and Peking University strongly suggest that this is the case.

⁵⁷ Aleksey Tarasov, 'Na vertikali vlasti rastut vetki nefi', *Novaya Gazeta*, 3 July 2006; Elena Borisova, 'Vertikal vlasti: Vid snizu', *Ekspert*, No.11, 21 March 2005; Kseniya Fokina, Andrey Lavrov and Aleksandr Sargin, 'Vertikal vlasti opyat ukrepyayut', *Gazeta*, No.162, 8 September 2006; Maksim Shishkin, 'Vertikal vlasti izmerili v lyudyakh', *Kommersant*, 12 April 2006.

4. Outlook

Views of separatism and radical Islam

While Chinese Islamic radicals have not gone as far as some of their Russian counterparts, Beijing and Moscow have a shared fear of restive minorities and independent politicised Islam. Given Beijing's policy of non-interference in the domestic affairs of other states, it has not at any point criticised Moscow for its war in Chechnya, and the war is highly unlikely to surface as source of bilateral tension. China faces Islamic fundamentalism among Uighurs in Xinjiang and Moscow does not feel uncomfortable with China's harsh treatment of these and other minorities, notably the Tibetans. The Taiwan issue is not a factor in China–Russia relations, unlike the case with China–US or China–EU relations. China and Russia will not criticise each other for their records on representative democracy, individual freedom or human rights.

The debate on Kosovo relates to two of the main discourses in both Russian and Chinese foreign policy: scepticism towards intervention in the affairs of other states, and the rejection of separatism.⁵⁸ For Russia, negativity towards Kosovar independence is further fuelled by an underlying identification with Orthodox Christian, post-communist Serbia. Although China lacks the Orthodox Christian connection, the anti-interventionist and anti-separatist doctrines are strong enough to place the China solidly on the Russian side of the important debate in contemporary diplomacy and international relations about whether independence is permissible for Kosovo.

The significant internal contradictions in Russia's position on separatism, underlined by its simultaneous crackdown on Chechnyan separatists and support for separatists in Abkhazia, South Ossetia and Trans-Dniestria,⁵⁹ need not worry us unduly here. Although it partially undermines Russian credibility on separatism issues in relation to the West, it does not seem to pose a problem for the Chinese, and the leaders of the two countries are happy to talk almost identically about separatism.

Shared geo-strategic interests

China and Russia have displayed co-ordinated reluctance to back the West in sanctions towards Iran. This illustrates how Moscow and Beijing can realise

⁵⁸ Viktor Kaspruk, 'Nezavisimost Kosovo ili pretsedentnoye resheniye dlya evropeiskikh natsiy?', *Zerkalo nedeli*, 25 February 2006, <http://www.zerkalo-nedeli.com/nn/show/586/52712/>; Armen Khanbalyan, 'Dokozatelstvo ot protivnogo', *Moskovskie Novosti*, 22 September 2006, <http://www.mn.ru/issue.php?2006-36-12>; Petr Iskenderov, 'Evrope iz-za Kosovo grozit novaya perekroyka granits', *Vremya Novostey*, 9 September 2006, <http://www.vremya.ru/2006/206/5/165170.html>; Oleg Ortyukov, 'Nezavisimost: Chto mozno odnim, togo nelzya drugim?', *Pravda*, 23 February 2006, <http://www.pravda.ru/world/former-ussr/23-02-2006/77335-independence-0>

⁵⁹ Stockholm International Peace Research Institute, *SIPRI Yearbook 2004: Armaments, Disarmaments and International Security* (Oxford: Oxford University Press, 2004), p.61.

their national interests more effectively by co-operating in international forums in a way whereby neither is singled out as an obstacle to Western interests. China has billions invested in Iran's oil and gas fields and Iran is the source of 11.2 per cent of China's petroleum imports.⁶⁰ Russia also has several billion dollars of invested in the country and wants to make more by reprocessing Iranian reactor fuel. Both sell advanced weapons to Iran. At the same time, China has vital security interests in the Middle East and Africa – with Iran, Syria and Sudan, among others. Russia also has strong historical ties to several Arab states not favoured by Washington, which allows for collaboration in areas where few other weighty allies can be found.

China and Russia have played an active role in the Six-Party Talks on the DPRK's nuclear programme, but both have been reluctant to exert the pressure that Washington would like to see. North Korean nuclear weapons are not primarily pointed towards China or Russia, and Beijing and Moscow may benefit from the problems that North Korean nuclear weapons cause to the US–South Korean alliance and in relations between South Korea and Japan.

In the aftermath of 9/11, the USA established a network of jumping-off bases across Central Asia. The ostensible rationale has been the fight against terrorism and support for operations in Afghanistan. However, and particularly when coupled with Washington's rapprochement and strengthened military co-operation with India, these developments are often interpreted as being motivated by containment of China and especially Russia. China's Foreign Minister Li Zhaoxing, for example, has stated that China 'would like the Americans unequivocally to make clear that they have no intention of maintaining a long-term military presence in Central Asia'.⁶¹ Moscow's and Beijing's calls to have the bases closed have succeeded in Uzbekistan, but fallen short in Kyrgyzstan. The US presence has a direct impact on the political processes of the states in the region, and Beijing and Moscow consider this a potential threat to their security. As long as Washington maintains a presence in Central Asia, Beijing and Moscow are likely to find that they have more to gain by uniting in seeking restraint on US power than by seeking mutual confrontation.

⁶⁰ Tian Chunrong, 'Analysis of China's Oil Import and Export in 2005' (2005 nian zhongguo shiyou jinchukou zhuangkuang fenxi), *International Petroleum Economics (Guoji Shiyou Jingji)*, Vol. 14, No.3, 2006, p.4.

⁶¹ Foreign Minister Li Zhaoxing in interview with 'Der Spiegel', 2 December 2003. Translated directly from the original Chinese version posted on the website of the Ministry of Foreign Affairs of the People's Republic of China.
<http://www.fmprc.gov.cn/chn/wjdt/wshd/t54781.htm>

5. Conclusion: The Strategic Potential

A realist perspective can be employed to understand China–Russia strategic convergence. According to both classical and neo-realist theory, a unipolar order is inherently unstable, and the emergence of a sole dominant power will lead other powers jointly to oppose the hegemon. Hans Morgenthau wrote that states are domination-seeking, but that the balance of power leads to the restoration of equilibrium.⁶² Kenneth Waltz argued that the instinct for survival in international anarchy ‘stimulates states to behave in ways that tend toward the creation of balances of power.’⁶³ Realists essentially presume that negative feedback is the rule in international politics, and that deviation from equilibrium automatically sets in motion countervailing forces to re-establish it. Waltz, writing about the USA in the 1990s, argued that ‘[u]nbalanced power, whoever wields it, is a potential danger to others.’⁶⁴

For leaders in Beijing and Moscow, this appears to be true as they have watched Washington’s invasion of Iraq and its unrelenting support for Israeli policies. In the period following the collapse of the Soviet Union, Russia has generally remained relatively close to the USA, a behaviour which might be described as bandwagoning. Moscow, however, is increasingly disappointed with the results of its attempts to stay close to the West. At the same time, Western governments increasingly appear to conclude that Russia is unlikely to become democratic in the near future, and categorise its regime as having more in common with that of China than with for example the Polish case.⁶⁵

In this paper we have examined the key factors that bring Russia and China together. The two states have complementary economies, shared concerns about US power, fear of more Orange/Rose/Tulip revolutions, and common interests in the Middle East and Africa. There are, however, several significant obstacles to closer co-operation between Russia and China. The most significant weakness in the relationship lies in Russia’s concern over China’s dominance, particularly in connection with Siberia, which it is feared could fall victim to Chinese expansion – Manchuria in reverse.⁶⁶ The population of the Russian Far East has tumbled even faster than that in the rest of Russia, from 8 million inhabitants in 1991 to about 6.5 million in 2006, or slightly more than one person per square kilometre.⁶⁷ The Russian

⁶² Hans Morgenthau, *Politics among Nations: The Struggle for Power and Peace* (New York: Knopf, [1948] 1973).

⁶³ Kenneth Waltz *Theory of International Politics* (London: Addison-Wesley, 1979), p.118.

⁶⁴ Kenneth Waltz, ‘Evaluating Theories’, *American Political Science Review*, Vol.91, No.4, December 1997, p.915.

⁶⁵ Dmitri Trenin, ‘Russia Leaves the West’, *Foreign Affairs*, Vol.85, No.4, July–August 2006.

⁶⁶ The weakness of the Chinese empire in the eighteenth and nineteenth centuries allowed Russia and Japan to use unequal treaties to impose control over what are now the Russian Far East and China’s North-eastern provinces, previously known as Manchuria.

⁶⁷ ‘Russia and China: When Dragons Dance with Bears’, *Economist*, 30 November 2006; ‘Russian Far East’, *Columbia Electronic Encyclopedia*, Sixth Edition. (Columbia University Press, 2003).

government is considering a range of re-population programmes to avoid the forecasted drop to 4.5 million people by 2015.⁶⁸ By contrast, the three bordering Chinese provinces contain more than 107 million inhabitants.⁶⁹ Russia is wary of Chinese migration and economic dominance in Siberia, which was illustrated when China was awarded shares worth just USD 500 million in Rosneft's IPO in 2006, having reportedly sought USD 3bn. This was less than BP (USD 1bn) and Petronas (USD 1.1bn) were awarded.⁷⁰ In 1997 Menon pointed to difficulties in Sino–Russo relations due to the reluctance of regional elites to work with the Chinese.⁷¹ This issue has been partly solved as Moscow has reasserted power over its regions, but the underlying fear of the 'yellow peril' lingers.⁷²

China and Russia are unfinished international actors: Russia because it is still in the process of redefining its post-Cold War identity and reasserting state control; and China because it is industrialising, urbanising, growing rapidly and opening to the outside world. Russia is taking important lessons from China about the assertion of state control in strategic sectors of the economy, which in turn signals compatibility of methods and shared world-views.

Institutionalisation of the Beijing–Moscow relationship remains low, but a pattern of regular consultation between top leaders has evolved. Russia and China also meet annually for bilateral military and technical co-operation talks, and have continued to develop the Shanghai Co-operation Organisation founded in 2001. China–Russia strategic convergence is a discernible trend which will gain further momentum. However, strategic convergence should not be confused with an alliance, and China and Russia are not perfect strategic partners. Developments inside China and Russia are crucial to how the relationship develops. Key questions are whether political stability will prevail and whether rapid growth can be sustained.

Trenin argues that a Sino–Russian alliance could occur only as a result of 'exceptionally short-sighted and foolish policies on Washington's part.'⁷³ China and Russia are not pro-Western, but neither are they definitively anti-Western. Western policymakers who are worried about the implications of Sino–Russian strategic convergence would do well to pursue a policy of engaging both Moscow and Beijing, and put pressure on Tokyo to resolve the dispute over the Kurile Islands.

Paradoxically, if an alliance, or something resembling an alliance, were to be formed this could lead to a breakdown of the relationship in the me-

⁶⁸ 'Russian Far East.' *Wikipedia*, 2005. www.en.wikipedia.org/wiki/Russian_Far_East

⁶⁹ 'Russia and China: When Dragons Dance with Bears', *Economist*, 30 November 2006.

⁷⁰ Joanna Chung, 'Chinese Lose Out in Rosneft Allocation', *Financial Times*, 15 July 2006.

⁷¹ Rajan Menon, 'The Strategic Convergence Between Russia and China', *Survival*, Vol.39, No.2, 1997, p.104. In 2005, border trade between the two countries reached USD 5.57 billion dollars, growing 32.7 per cent and accounting for 19.1 per cent of the total trade. 'Backgrounder: Current Sino–Russian Economic, Trade Cooperation', *People's Daily*, 22 March 2006.

⁷² A. Lukin, 'Evolyutsiya obraza Kitaya v Rossi i rossiysko-kitayskiye otnosheniya', *Neprikosnovennyi zapas*, No 3, 2003, pp.35–41.

⁷³ Dmitri Trenin, 'Russia Leaves the West', *Foreign Affairs*, Vol.85, No.4, July–August 2006.

dium to long term. China and Russia both command sufficient resources and sophistication to be significant global powers in their own right, and they certainly consider themselves as such. China was unwilling to subordinate itself to Russia for more than a brief period after the Communists came to power in 1949, and Russia would refuse to subordinate itself to China.

The most likely scenario is Sino–Russo strategic convergence based on a relationship of mutual self-interest. The evidence presented in this paper indicates that trade and investment between China and Russia are set to continue to grow rapidly, particularly in the energy sector, further enhancing the significance of the relationship. While Beijing and Moscow have common interests in placing restraints on the power of the United States, the creation of a full-fledged anti-Western alliance is unlikely to prove viable in the short term. Russia and especially China are both dependent on open access to Western markets to sustain growth.

The realist prediction that unbalanced power is inherently unstable, and the emergence of a sole dominant power will lead other powers jointly to oppose the hegemon, cannot be confirmed. However, if Beijing and Moscow find that the US hegemon does not allow them the space they need as they re-emerge as world powers, they will have strong incentives to deepen their mutual strategic ties. If Washington were genuinely committed to allowing the concurrent rise of China and Russia as world powers, despite their inherent challenge to Washington's own power, China and Russia would have limited incentives to co-operate, and mutual fear would be the overriding feature in the relationship. Both would seek to work closely with Japan, as a counterweight to the other's power. However, the USA has been unable to provide China and Russia with the reassurance they would like, and they may be in the process of turning to each other for collaboration.

The development of China–Russia strategic convergence does not necessarily mean that China and Russia are turning their backs on the West, but does it represent a challenge to US hegemony and could change the world order. The year 2008 will be decisive, with presidential elections in both Russia and USA in which neither of the incumbents can legally participate. The same year, the pipeline from Russia to China is set for completion. One scenario is that the US–Russia relationship could deteriorate rapidly in the wake of the Russian presidential election if a member of the Petersburg ruling circle is anointed new president, the result is legitimised in a national election, and Washington subsequently deems the election to have been neither free nor fair.⁷⁴ The resulting tension between Russia and the USA could drive Russia into the embrace of China. Alternatively, fresh presidential faces on both sides of the Atlantic could spell renewed co-operation between Russia and the USA, lessening the significance of the Russia–China axis. The Beijing Olympics will also take place in 2008, and are set to be China's coming-out party. Zhongnanhai will do everything it can to avoid confrontation with the West, but at the same time it welcomes close ties with Russia.

To prevent the international system from recidivism into destabilising great-power rivalry, the USA and Europe must seek to manage a precarious

⁷⁴ Dmitri Trenin, 'Russia Leaves the West', *Foreign Affairs*, Vol.85, No.4, July–August 2006, p.96.

and multifaceted balance: on the one hand, pushing Russia and China to reform, whilst acknowledging that pushing too hard could lead to alienation, and allowing Russia and China to rise whilst managing and integrating their power.