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Development of China-Russia Relations (1949–2011)

Limits, Opportunities, and Economic Ties

Abstract: Since 1996, China and Russia have been united in what both call a “strategic partnership.” Although the relationship is currently strong, the future is quite uncertain, because the relationship has never been as solid as it seemed, nor as dangerous. Some scholars strongly doubt the strategic nature of the China-Russia partnership and take a gloomy view of the future of this bilateral relationship, but it would be dangerous to conclude that the Sino-Russian strategic partnership is purely tactical, impulsive, and baseless. This article provides a roughly chronological historical overview of China’s bilateral relations with Russia from 1949 to 2011, discusses the major foreign and domestic elements of China’s current relations with Russia, offers case studies of incidents that illustrate these elements, and indicates the likely trajectory of China’s future bilateral relations with Russia and the kind of foreign development pattern that will unfold.

Sino-Russian relations have rapidly strengthened since the end of the cold war, but it was not until 1996 that China and Russia developed friendly relations, becoming diplomatically united in a so-called strategic partnership. During the Putin administration, Moscow has demonstrated a far more vivid interest in playing a positive role in Northeast Asia. At the same time, contemporary Russian diplomatic strategy is enhancing its geopolitical understanding of international relations, particularly in its eastern dimension. Russia considers oil and natural gas to be the paramount strategic tools of its diplomacy and hopes to exploit new opportunities for its natural

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resources in the Asia-Pacific market in order to maximize its present role as the most important supplier in the region.

Although the relationship between China and Russia is currently strong, the future is quite uncertain, because the relationship has never been as solid as it seemed, nor as dangerous. Some scholars strongly doubt the strategic nature of the China-Russia partnership, and take a gloomy view of the future of this bilateral relationship. Bearing this in mind, it is nevertheless more difficult to conclude that the Sino-Russian strategic partnership is purely tactical, impulsive, and baseless.

This article provides an historical overview of China's bilateral relations with Russia from 1949 to pre2011, discusses major foreign and domestic elements of China's current bilateral relations with Russia, and indicates some likely trajectories of China's future bilateral relations with Russia, focusing especially on energy cooperation.

Two important factors have led to the strategic alliance between China and Russia. First is the improved political and diplomatic environment between the two countries, which recently were able to resolve a number of contentious problems, including border disputes and arms reduction that plagued their relationship over the past few decades. As both countries now tend to cooperate at the international level, and in some cases share similar goals or even the same position on international issues, many scholars and political players view their growing strategic alliance as a threat to regional and world order. Ultimately, the strength of the alliance and its likelihood to pose a significant challenge to the future world order will be defined by its confrontation with the hegemonic role of the United States.

The second factor affecting the mutual relationship is the growing bilateral trade between the two nations, especially in the energy sector, which will be a determinant of future trade. Although many difficulties were encountered in the oil and gas sectors over the last two decades, especially in the construction of pipelines from Russia to China, the future is more promising and encouraging for the development of trade in energy. The recent launching of an oil pipeline from Russia to China via the East Siberia link, and the agreement whereby Russia will supply 70 billion cubic meters (bcm) of gas per year for the next decade are huge projects, which could bring the two states even closer than ever.

Relations with the USSR During the Cold War (1949–90)

From the end of World War II to the collapse of the Soviet Union, Sino-Soviet relations were governed by ideological, military, and economic factors. For China's leadership, the strong desire to achieve self-reliance and independence of action outweighed the benefits Beijing received as Moscow's junior partner.

On October 1, 1949, Mao Zedong proclaimed the Chinese People's Republic in Peking and announced that Communist China would lean to the side of the Soviet Union. Soon afterward, Mao traveled to Moscow to negotiate the 1950 Sino-Soviet Treaty of Friendship, Alliance, and Mutual Assistance. Later he recognized the

independence of Outer Mongolia. In return, the Soviet government promised to restore the Manchurian railways to China when peace was concluded with Japan, but not later than the end of 1952. In the 1950s, Stalin allowed China to take a prominent role in the Asian Communist movement. Until the death of Stalin, there were no noticeable cracks in the Sino-Soviet alliance, and the Soviet Union provided indispensable military cover and technological assistance of many kinds to the new Communist state, even during the Korean War. As relations between China and the United States worsened, Washington began to give greater military support to Taiwan.

Not long after Stalin's death (1953), some divergence in Soviet and Chinese policies became apparent, especially in foreign affairs, and disagreements began to emerge over questions of ideology, security, and economic development. China tried to win friends in Asia by proclaiming the Five Principles of Peaceful Coexistence in 1954, and this soon brought it into rivalry with the Soviet Union. On September 16, 1959, Khrushchev had an historic Camp David meeting with President Dwight Eisenhower, thus presenting to the Chinese the classic example of collusion with their worst enemy, the United States. From then on, Chinese leaders became more and more hostile toward Moscow.

Relative to China's disaffection with Khrushchev, Mao planned to free his country from Soviet tutelage and convert it at high speed into a great industrial power, launching the Commune movement and the Great Leap Forward from 1958 to 1960. This, in turn, challenged the patience of the leaders of the Soviet Union. Moscow viewed developments in China with barely concealed dismay and withdrew all Soviet advisers from China in 1960, marking the end of the Sino-Soviet alliance.

In 1962, the border crisis in Xinjiang again exacerbated Sino-Soviet relations. The Soviet Union began to build up its armed forces on the borders with China, and frontier incidents multiplied, such as the conflict over Zhenbao (or Damanskiy) Island and the Tielieketi Incident in 1969.

The ideological cleavage between China and the Soviet Union on the core principles of Communism began with the Soviet Twentieth Party Congress in April 1956. Khrushchev's denunciation of Stalin and announcement that the Soviet Union would no longer try to enforce its will on other Communist parties set the stage for much more liberal measures in domestic as well as foreign affairs, such as the Partial Nuclear Test Ban Treaty with the United States in 1963. None of these was acceptable to Mao's theory of contradictions, his adherence to the old Leninist line on revolution, and his certainty of war between the socialist and capitalist states. By the spring of 1964, the ideological dispute was full-blown and two completely different interpretations of Marxism-Leninism were being offered to the world, one by the Soviet Union and the other by China. Under the impact of this, the world Communist movement began to break up, culminating in Khrushchev's downfall from power in 1964.

Under Brezhnev, Khrushchev's successor, Soviet ruling circles presented a picture of unity and tight secrecy about policy debates. This was in stark contrast to the

ever-continuing arguments and maneuvers for power in China, where Mao's Great Cultural Revolution commenced in 1965 and led China into chaos. This further aggravated the ideological dispute between China and the Soviet Union. China was especially alarmed by the Brezhnev doctrine of proletarian internationalism—the right of one socialist country (i.e., the Soviet Union) to intervene in other socialist countries, announced on November 13, 1968 after the Soviet invasion of Czechoslovakia (Zagoria 1962).

In the 1970s, the United States/Soviet Union/China strategic triangle and the world balance of power became the focal point in the analysis of Sino-Soviet relations. Beijing began a radical realignment of its foreign policy designed to obtain world recognition as a great power and obtain Western technological, diplomatic, and financial support to counter the powerful threat it perceived from Moscow.¹ In July 1971, U.S. Secretary of State Henry Kissinger secretly flew to Beijing, and President Richard Nixon's visit to China took place soon after in 1972. The new rapprochement with the United States demonstrated that China was no longer an isolated revolutionary state or a Soviet semi-satellite, but was emerging onto the stage of world politics as an important actor. Sino-Soviet relations continued to deteriorate sharply, and the two sides played out their conflict on the global diplomatic stage. In the second half of the 1970s, official Chinese statements called for resistance to the hegemony of both superpowers, but especially the Soviet Union. In the late 1970s, the Soviet military buildup in East Asia and Soviet treaties with Vietnam and Afghanistan heightened China's awareness of the threat of Soviet encirclement. Relations between the United States and the Soviet Union moved into a new phase of hostility, intensifying the arms race between the two.

By 1978, Deng Xiaoping had emerged as the supreme leader of China. He abandoned most of Maoism, going all out for modernization. In 1980, the Beijing government joined the World Bank, and China drew closer not only to the United States but to the whole global capitalist system. The price for this was the Communist centrally planned economic system and greater U.S. influence over Beijing's foreign policy. That is the main reason why so little progress was made in direct Sino-Soviet relations until 1982.

Soviet leadership changes between 1982 and 1985 provided openings for renewed diplomacy with China. On March 24, 1982, Brezhnev made a major speech at Tashkent in Soviet Central Asia, in which he called for an end to the twenty-year hostility with Beijing and stated that the Soviet Union recognized China as a socialist state, recognized its claim to Taiwan, and had no territorial demands on China. Beijing responded by indicating possible interest if the Soviet border troops were in fact reduced (Quested 1984).

The Soviet position on Sino-Soviet relations showed greater flexibility in 1986 with Secretary General Mikhail S. Gorbachev's July speech at Vladivostok. Several of Gorbachev's proposals for the Asia-Pacific region were directed at China. These included partial troop withdrawals from Afghanistan and Mongolia, the renewal of a concession pertaining to the border dispute, proposals for agreement on a border

railroad, cooperation on outer space, and joint hydropower development. In the late 1980s, it seemed unlikely that China and the Soviet Union would resume a formal alliance, but Sino-Soviet relations had improved remarkably when compared with the previous two decades.

Relations with Russia After the Cold War (1991–2010)

Since the independence of the Russian Federation in 1991, China and Russia have improved their relationship in the economic, political, and social spheres. Their bilateral approaches, especially in the economic and security fields, began to concern other international players and affected a range of international issues. In this respect, it is useful to observe the changing political economy of Russia toward China in the past two decades and to explore the implications of this strategic coalition for both sides. As will be seen, the increasing contacts between China and Russia have encouraged the potential emergence of a security alliance.

Russian policy toward China in the past two decades, under Boris Yeltsin, Vladimir Putin, and Dmitri Medvedev, has been driven mainly by pragmatic considerations and gradual rapprochement. The first major step in this rapprochement took place at the 1996 summit meeting between Boris Yeltsin and Jiang Zemin. The two leaders agreed “to develop an equal and trustworthy strategic partnership oriented toward the 21st century” and aimed at strengthening the political and economic ties between the two states (Li 2000). However, it is worthwhile to examine, first, the historical background of Russia’s integration into the Asia-Pacific region. The integration had two phases. The first stage, from 1992 to 2005, was characterized by minimal integration into the region, whereas the period from 2005 until nowadays has shown signs of a deepening relationship.

The first post-Communist Russian government, headed by Boris Yeltsin and Prime Minister Yegor Gaidar at the end of 1991, was strongly pro-Western and did not show much interest in Asian issues. Russian reformers saw Western liberal democracy as a paradigm for economic and political reform, and Russia relied on Western aid and investment that could help its economy. At the same time, Russia sought China’s support for its membership in APEC (Asia-Pacific Economic Cooperation), the multilateral regime in the Asia-Pacific. The visit of Chinese supreme leader Jiang Zemin to Moscow in 1994 confirmed China’s support for Russian participation in Asia-Pacific security and economic cooperation, and this was formalized in a joint communiqué signed in June 1995. Meanwhile, Russia’s early disappointment with the West led its foreign policy to become more Eurasian-oriented, a tendency that accelerated when Yevgenii Primakov became foreign minister in January 1996. Russia does not see a Eurasian foreign policy as anti-Western, but rather as a balanced correction to the overly Western orientation most closely associated with Andrei Kozyrev, who served as foreign minister in 1991–92 (Kuchins 1997).

In 2000, during his visit to China, Putin emphasized the strengthening of rela-

tions, declaring that Russia is both a European and an Asiatic state. The Russian-Chinese Treaty of Good Neighborliness and Friendly Cooperation, signed in July 2001 by Jiang Zemin and Vladimir Putin, served as a basis for peaceful relations, economic cooperation, and diplomatic and geopolitical reliance. The treaty incorporated the mutual sharing of military technology and know-how, and this has led to increasing military cooperation between the two countries (Ministry of Foreign Affairs 2001). Chinese scholars saw the improved relationship between China and Russia as a good example of harmonious coexistence and win-win cooperation between countries. The partnership involved many issues, among them the border dispute, military cooperation, regional trade, and fostering Sino-Russian friendship among the citizens of the two states.

In 2006, China and Russia celebrated a decade of partnership based on the principles of mutual respect for sovereignty, mutual benefits as equals, and peaceful coexistence. As Hu Jintao told President Putin during his March 2006 visit to Beijing, one of the most important achievements of the Sino-Russian partnership, in his view, was that the two countries agreed “they will be friends for generations to come and will never be enemies” (Bellacqua 2010).

In 2006 and 2007, as proof of their strengthening friendship, the Year of China and Year of Russia were celebrated in both countries. The Year of Russia in China (March 21–November 9, 2006) was meant to build grassroots constituencies for better Sino-Russian relations and to demonstrate the strength of the Sino-Russian partnership. The celebration of the Year of China in Russia in 2007 was aimed at strengthening relationships at the local level and bilateral ties at all levels of state and society. Among the goals was the coordination of the local development strategies of the adjacent provinces of Heilongjiang in China and Primorye in Russia, expanding mutual investments, setting up cultural centers, cooperating on energy and environmental issues, and issuing of visas. The Chinese premier, Wen Jiabao, said at the closing ceremony in Moscow on November 6, 2007, that the national years had enhanced Sino-Russian friendship and boosted their mutual beneficial cooperation in various fields (China.org.cn 2007).

In July 2008, Medvedev approved a New Foreign Policy Concept which underscored the importance of the Asia-Pacific region in Russian policy, especially with its emphasis on China. This was emphasized by the fact that his first foreign visit was to China and Kazakhstan. Throughout his presidency Medvedev and Hu Jintao continued the pattern of regular meetings (several times a year), established during the presidency of Vladimir Putin, to exchange views on pressing international and bilateral issues.

During Medvedev’s visit to China in 2008, he and President Hu Jintao said in a joint statement: “Both sides believe that creating a global missile defense system [does] not help support strategic balance and stability” (Blomfield 2008). They signed a joint declaration that reaffirmed the commitment of both countries to civilization and cultural diversity within the world community, and to the formation of a multipolar world. President Hu unveiled a four-point proposal for better rela-

tions and the institutionalization of Sino-Russian interaction at all levels, including economic development, between China's Dongbei (the three northeastern provinces once known as Manchuria) and the Russian Far East. This institutionalized what had already been initiated by the Year of Russia and Year of China programs, and stabilized the energy dialogue.

The year 2009 marked an important turning point in Chinese-Russian relations. The celebration of the sixtieth anniversary of the founding of the People's Republic threw China and Russia into a new phase of cooperation. In celebrating the anniversary, both governments emphasized the importance of nongovernmental institutions and mutual understanding as means of drawing their nations together.

In 2010, China overtook Germany to become Russia's largest trading partner. China's rapid growth has made it the world largest energy consumer. Russia, on the other hand, is one of the world's largest energy producers and therefore in a position to fuel China's economy. In January 2011, an oil pipeline linking Daqing in China's Heilongjiang province and Skovorodino, a Russian city, officially began operation. It was expected to transport 15 million tons of crude oil per year, with a 30-million tons per year benchmark set for the immediate future. Bilateral ties have been strong for quite a while, and will likely only get stronger.

Limits of Strategic Partnership

The increasing intensity of the relationship between China and Russia during the last decade has had a significant impact on the political and economic systems of both countries, especially with the emergence of a "strategic alliance." This alliance has had a significant impact in the international arena with regard to the other great powers and will continue to have serious impact.

Since the end of the cold war, many analysts have expected the cooperation of China and Russia to counter U.S. hegemonic superiority. The similarity in the positions of both states is obvious in many cases. The two governments frequently have called for a multipolar world in which Russia and China would occupy key positions along with Europe, the United States, and perhaps Japan. Both states stand on the same side on such international issues as opposing NATO's intervention in Kosovo and U.S. plans to develop a ballistic missile defense. Moreover, each country supports the other's domestic policies—Russia does not criticize China's human right violations in internal affairs and in Tibet, and China expresses understanding for Russia's involvement in Chechnya. Their statements on these matters reflect their commitment to national sovereignty and China's noninterference policy. China and Russia often collaborate in the United Nations Security Council, emphasizing its importance, and veto issues concerning military invasions (as in the 2003 Iraq invasion). China, Russia and other governments of the Shanghai Five publicly affirmed at their July 2000 summit that "they will unswervingly promote the strengthening of the United Nation's role as the only universal mechanism for safeguarding international peace and stability" and that they "oppose the use of

force or threat of force in international relations without the UN Security Council's prior approval" (Weitz 2003).

Border demilitarization on both sides began in November 1989 and soon split into two negotiations, one for reducing military forces on the Russian-Chinese border, and the other for creating confidence and security-building measures along the border region. China and Russia pledged that they would not target strategic nuclear missiles against each other or be the first to use nuclear weapons against each other. The border disputes and demilitarization of the common border of 4,300 km, dating back to the 1990s, was highlighted and finally resolved in 2008, when Yinlong Island (Tarabarov Island) and half of Heixiazi Island (Bolshoi Ussuriysky Island) were returned to Russia. That same year, Foreign Minister Yang Jiechi and his Russian counterpart, Sergey Lavrov, signed the agreement that finally ended the long-standing dispute about demarcation of the common border, which had engendered armed border clashes in the late 1960 into the 1970s. Lavrov said, "Now the two sides have created the legal condition needed to make a Sino-Russia border a link of stability and cooperation" (*China Daily* 2008).

Despite their collaboration on many international issues, the two states still face substantial obstacles to making a stronger coalition. They have agreed to counter U.S. influence and hegemony in the world, especially in Central Asia, but have not taken the substantive steps required to achieve this goal. For example, they have not committed any military expertise or resources to overcome the U.S. ballistic missile defense program. However, their joint military exercise in August 2005 proved their preparedness to fight together. In August 2005, for the first time in forty years, Russian and Chinese armed forces carried out joint military exercises. These included such "ingredients" as the use of long-range strategic bombers, neutralization of anti-aircraft defenses, command posts, and airbases, gaining air superiority, enforcing a maritime blockade, and control of maritime territory. The objectives of the joint exercises had little to do with combating terrorism; instead, they were aimed at conventional warfare, employing all military services except for nuclear forces (Haas 2006).

The limits of rapprochement in Russian and Chinese foreign policy are more visible in respect to South and East Asia, where the two governments have adopted divergent positions. For instance, both countries expressed concern about the India-Pakistan nuclear tests in 1998, but Russia supported India and China supported Pakistan. Since China sees India as a rival and a threat to its national security, it opposed Russia's willingness to supply nuclear reactors for India's civilian nuclear power program and to sell arms to the Indian army. Beijing and Moscow differ also about North Korea and Japan. Russia has given declaratory and symbolic support to China's stance on Taiwan, but now that Taiwan has become Russia's fourth-largest trading partner in Asia, China has complained about Russia's close links with the Taiwanese government.

There are many impediments to the creation of a formal Russian-Chinese bloc. Aside from the differences between their positions on certain international issues,

the main reason is the question of who would lead the bloc. China is no longer willing to follow Moscow's guidance, as it did in the 1950s, and Russia's economic and military situation is not so strong that it can simply take leadership.

Russian perspectives on China and international relations tend more toward traditional pragmatic considerations of the dynamic between rising and falling great powers or the balance of power. That is why closer ties with China resulted from Western activities in the region. Russia formed a closer relationship with China during the NATO invasion of Kosovo and America's development of a national missile defense system and strong international position in the immediate post-Soviet era. During the past fifteen years, Sino-Russian joint statements have emphasized that their strategic partnership is not an alliance directed against any third country. Chinese representatives repeatedly affirm that "three no's" govern their policy toward Russia: "no alliances, no oppositions, and no targets against a third country" (Weitz 2003).

Even on the domestic front, policies in both countries are uncoordinated and their interests are sometimes in conflict. Although both sides have signed security agreements and resolved their border issues, their economic and societal ties are not so developed. First, Russia sells large quantities of weapons to China, but arms purchases alone do not make for a strong military alliance. In addition to the arms trade, exchanges of military-industrial technology and talent have also tightened the relations between the two governments. China purchases modern arms technology and weapons from Russia, whereas Russia needs foreign capital and customers for its surplus weapons. From 1992 to 2007, China was the destination of one-third of Russian exports of armaments, and Russia provided around four-fifths of China's arms imports. Since 2000, Russian deliveries of weapons systems to China have included fighter aircraft, submarines, and destroyers, amounting to an average US\$2 billion annually.

Until a few years ago, Beijing bought large quantities of surplus Soviet-era military products. Over the past few years, however, China has not purchased any major weapons systems from Russia. This is partly because China's arms industry can now match Soviet-era technologies. In addition, Russia is reluctant to provide sophisticated technology and advanced weapons to China because they could be used against Russia if Sino-Russian relations deteriorate (Weitz 2010).

Meetings between high-level officials are frequent, in contrast with local contacts between regional authorities. The leaders of both states have institutionalized their annual summit meetings, and the prime ministers meet biannually. The trade, foreign, and defense ministers also meet regularly. Nevertheless, the lack of good understanding between the ordinary people of the two states is evident, and there is less friendship at the grass-roots level now than in the 1950s. Russia's increasing nationalism in recent years has especially undermined good relations, as many Russians (predominantly those living in the Far East) see the Chinese as a threat because of illegal migration and China's rapid economic growth.

Chinese migration to Russia's Far East is an important Russian concern. Rus-

sians fear that declining population in the Far East together with massive Chinese immigration could lead to a long-term Chinese occupation and perhaps annexation of large parts of eastern Russia. These negative perceptions are underpinned by the stark economic and demographic contrasts in the border regions. The Russian Far East has around 7 million inhabitants, which contrasts with the 100 million Chinese citizens in the border provinces. Moreover, the population of the Far East, occupying one-third of all Russian territory, is declining every year (274 people leave the region every day). The motives for Chinese migration can be found in the income disparity (Russian income per capita is higher than Chinese in the Northeast) and the unemployment in the Chinese regions.

Finally, the rapprochement of China and Russia is essentially a matter of top-down strategic measures undertaken at the highest level to promote relations between the two states. Even the so-called Year of China and Year of Russia were activities of this kind and did not lead to a strengthening of the relationship at the lower levels of society. Clearly, the partnership between the Chinese and Russian governments is a largely elite-driven project that lacks the grass-roots support.

What Is the Matter? Economic Ties and the Energy Factor

Economic relations between Russia and China are largely determined by the geography and economic potential of the countries and how this potential is exploited (Rautava 2011). After the dissolution of the Soviet Union and the unbridled economic transition in Russia, bilateral trade began to gradually increase, dominated especially by the growth of exports from Russia to China. The move from centrally planned to more liberalized economies on both sides gave individuals, private firms, and public enterprises the freedom to seek opportunities across the Chinese-Russian border. But the economic integration of border regions (on the Russian side, Primorsky Krai, Khabarovsk Krai, the Jewish Autonomous Oblast, Amur Oblast, and Zabaikalsky Krai; on the Chinese side, Heilongjiang Province, Jilin, and Inner Mongolia) is constrained by the restrictions and limits posed by the two governments, such as tariffs, export or import licenses, and travel restrictions on entrepreneurs. The tariff rates on agricultural and nonagricultural products were high on both sides, but Russia is more protectionist in its bilateral trade with China. In addition, China has had to cut tariffs since its entry into the WTO in 2002. (Chinese tariffs declined on average from 40 percent in the 1990s to 12 percent in 2002.) Although Russia became the 156th WTO member in 2012, it often does not apply a uniform policy to China or its other trading partners.

According to Chinese customs statistics shown in Table 1, bilateral trade between China and Russia has steadily increased since the collapse of the Soviet Union, rising from US\$5.86 billion in 1992 to US\$48.2 billion in 2007, and there are good reasons for expecting trade volume to expand in the future. In 2008, the level of bilateral trade reached US\$56.83 billion, with China emerging as Russia's third-largest foreign trade partner and Russia becoming China's eighth-largest

Table 1

China's Trade with Russian Federation, 1992–2011 (US\$ billion)

Year	Export and import	Exports	Imports	Trade balance	Variation (% , y-o-y)		
					Export and import	Exports	Imports
1992	5.86	2.34	3.53	-1.19	50.3	28.6	69.2
1993	7.68	2.69	4.99	-2.3	31.0	15.0	41.4
1994	5.08	1.58	3.5	-1.92	-33.9	-41.3	-29.7
1995	5.46	1.66	3.8	-2.14	7.5	5.1	8.6
1996	6.84	1.69	5.15	-3.46	25.3	1.8	35.5
1997	6.11	2.03	4.08	-2.05	-10.5	20.1	-20.8
1998	5.48	1.84	3.64	-1.8	-10.5	-9.4	-11.0
1999	5.72	1.50	4.22	-2.72	4.4	-18.5	16.0
2000	8.0	2.23	5.77	-3.54	39.9	48.7	36.7
2001	10.67	2.71	7.96	-5.25	33.3	21.4	37.9
2002	11.93	3.52	8.41	-4.89	11.8	29.9	5.6
2003	15.76	6.03	9.73	-3.70	32.1	71.4	15.7
2004	21.23	9.1	12.13	-3.03	34.7	51.0	24.7
2005	29.10	13.20	15.90	-2.70	37.1	45.2	31.0
2006	33.39	15.83	17.56	-1.73	14.7	19.8	10.5
2007	48.20	32.10	16.10	16.0	44.3	79.9	12.1
2008	56.83	33.005	23.825	9.18	18.0	15.9	21.0
2009	38.79	17.51	21.28	-3.77	-31.7	-47.1	-10.7
2010	55.449	29.613	25.836	3.777	43.05	69.12	21.4
2011	79.75	38.9	40.85	-1.95	43.8	34.4	55.6

Source: PRC General Administration of Customs, 2012.

trade partner. However, in the second half of 2008, trade between the two countries began to slow down against the background of the global economic downturn. Not surprisingly, in 2008, bilateral commerce fell below US\$40 billion, or well below the level of 2007.

In contrast with previous years, in 2009, Russia achieved a trade surplus, but bilateral trade continued to decline. Bilateral trade between Russia and China declined 32 percent to US\$38.79 billion, according to Russian and Chinese statistics. Chinese exports to Russia fell 47 percent in that year to US\$17.5 billion (Blagov 2010). However, in 2010, bilateral trade reached the precrisis amount of US\$55.449 billion, and in 2011 reached the new amount of \$79.75 billion.

Industrial materials (base metals, chemicals, wood, paper), and energy are Russia's chief commodity exports to China, although the share of metals and chemicals has fallen in recent years. Chinese imports of vehicles and mechanical machinery have fallen to 1 percent, compared to fifth place in all of China's imports from Russia in 1990. Significant growth in mineral fuels (primarily petroleum, coal, and very small amounts of gaseous hydrocarbons) has occurred in recent years, with increases from 5 percent of total imports in 1992 to around half of all Chinese imports in 2010.

In contrast, consumer goods (textile, leather goods, apparel, and footwear) accounted for 40–60 percent of all imports from China to Russia from 1996 to 2010. The import of foods from China was important in the 1990s, when the Russian Far East experienced shortages of some foods due to the economic collapse of the Soviet Union. Now, however, the share of foods represents only 2 percent of the imports, compared to 12 percent in the 1990s. China also increased its exports of vehicles and other transportation equipment to Russia, and now machinery (mechanical and electronic) composes 20–30 percent of all imports from China, as shown in Table 2.

In 2011, both governments decided to stop trading in U.S. dollars instead began to trade in their own currencies. Experts assert that this decision was due in part to the global financial crisis of 2008 and partly to the opening of the new oil pipeline from Russia to China. A new Siberian oil pipeline will soon pump one billion barrels of Russian oil into China every year, and Russia wants the currency of exchange to be in rubles (Li 2010).

Trade between China and Russia has two dimensions. The first concerns individual enterprises (both private and public), and the second relates to critical sectors controlled by the central government, such as armaments and energy. The energy sector, including petroleum and natural gas supply, is the area with the greatest potential for trade expansion. While both countries have been major trade partners in this field since 1995, Russian crude oil sales have been restricted by the high cost of delivery by train from eastern Siberia or by sea routes.

There are two reasons why China will continue to purchase oil from Russia. First, China wants to establish a strategic petroleum reserve in its coastal area to meet the increasing demand for crude oil in the future. Second, China wants

Table 2

China's Trade with Russia (%)

Imports from Russia				
SITC	1996	2000	2005	2010
Food and live animals	4.2	7.3	7.2	5.3
Beverages and tobacco	0.0	0.0	0.0	0.0
Crude materials, inedible, except fuels	7.1	18.1	20.5	20.6
Mineral fuels	4.6	13.5	41.3	49.3
Edible oils	0.1	0.0	0.0	0.0
Chemicals	29.5	19.8	13.8	11.0
Manufactured goods by material	32.3	30.1	15.1	12.2
Machinery and transport equipment	17.7	4.1	1.9	1.3
Miscellaneous manufactured articles	3.1	1.7	0.2	0.3
Other items	1.3	5.3	0.1	0.0
Total	100.0	100.0	100.0	100.0
Exports to Russia				
SITC	1996	2000	2005	2010
Food and live animals	26.1	6.2	4.7	4.7
Beverages and tobacco	0.5	0.9	0.1	0.1
Crude materials, inedible, except fuels	2.7	1.8	0.7	0.5
Mineral fuels	1.4	2.2	1.0	0.7
Edible oils	0.0	0.0	0.0	0.0
Chemicals	2.4	3.8	3.6	5.2
Manufactured goods by material	6.9	6.8	13.8	18.6
Machinery and transport equipment	5.7	7.2	19.1	35.4
Miscellaneous manufactured articles	54.3	71.2	57.0	34.8
Other items	0.0	0.0	0.0	0.0
Total	100.0	100.0	100.0	100.0

Source: PRC General Administration of Customs 2012.

to diversify its suppliers and be less reliant on its current major suppliers in the Middle East and Africa.

The flow of foreign direct investment (FDI) is determined by the sectors to which it is designated. The primary interest of centrally controlled Russian FDI is to gain access to energy export infrastructure, particularly for natural gas, and Gazprom

has no interest in investing in China. China is also concentrating on its own energy sector, and has made many efforts to obtain assets in Russian energy. However, the Russian position strictly opposes selling any energy assets it considers to be strategic (Feng, Sun, and Walton 2009).

In 2010, the Sino-Russian bilateral trade volume was only 1.92 percent of China's total foreign trade, and Russian exports to China accounted for only 5.5 percent of Russia's total exports at the same time. The Sino-Russia trade scale is far from the needs of current bilateral economic development. Moreover, China has become more important in Russia's trade than Russia in China's trade. Russia moved from fourth place as a destination for Chinese exports in 1992 to ninth place in 2007, whereas since 1992, China has consistently been one of the top five destinations for Russian exports. In 2010, it became a leading source of Russian imports, ahead of the United States, Japan, and Ukraine. China's imports are more oriented to primary products from Russia, and China's trade with Russia is much more dynamic, as compared with the stable import and export commodity structure with the European Union or the United States.

In August 2012, Russia became a member state of the World Trade Organization. As China's important trade partner, Russia will have a profound impact on bilateral trade and economic cooperation now that it is a WTO member. Russia's accession to the WTO will not only open new markets for China, but will bring in other competitors against China. Still, overall, Russia's WTO accession is more beneficial for China than harmful. First, Russia's accession to the WTO is not only conducive to making the trade system more standardized and improving the trade environment, but will also benefit the long-term, stable development of trade and economic cooperation between the two countries. Second, Russia should reduce tariffs on some commodities based on relevant WTO principles and rules, which is extremely beneficial for expanding China's exports to Russia. This is because Russia's average tariff rate is 12.4 percent, which is higher than the tariffs below 5 percent in the developed countries and below 10 percent in the developing countries (Yin 2009).

Stronger Energy Cooperation Ahead: Win-Win Diplomatic Strategy

Energy cooperation between China and Russia began in the early 1950s when the Soviet Union provided China with the technology and skills required to develop a modern oil industry. By the mid-1990s, both governments were seriously considering the construction of a major oil and gas export pipeline between China and Russia. Although the Chinese demand for oil and gas was expected to rise in the late 1990s and the early twenty-first century, real collaboration between the two states only began after 2004.

When Russia's economic transition occurred in the 1990s, much of the oil sector was privatized by oligarchs who were seeking fast profits and had little interest in developing the oil industry. In contrast, much of the gas remained in the hands of the state-owned company, Gazprom. It was under these circumstances that the first

proposals for oil and gas cooperation occurred between China and Russia, and they were underpinned by the Strategic Partnership in 1996.

Yukos became a leader of oil production in Russia, and first formulated the strategy for delivering oil from Russia's east to the Asia-Pacific region. It carried out trial rail deliveries of oil from western Siberia through eastern Siberia and then to China by two routes. The first route crossed from Russia to China at the frontier post of Zabajkalsk, and then delivered the oil to the China National Petroleum Corporation (CNPC). The other route went through Mongolia, delivering oil to Sinopec. A plan was made to construct an oil pipeline about 2,400 km from Angarsk to Daqing in northeastern China with an annual flow of 30 million tons.

During this time, a gas pipeline was constructed from the Kovytko field to South Korea under the Yellow Sea, avoiding North Korea and Mongolia. In 2003, gas from the Kovytko field, with an annual volume of 2.13 trillion, was planned to deliver 4 bcm per year to eastern Siberia, 20 bcm to China, and 10 bcm to South Korea.

In August 2003, the Russian government approved the Energy Strategy of Russia to 2020 Plan, which identifies possible volumes and routes for oil and gas exports and major investments required in production and transport (Leonty, Andrews-Speed, and Korzhubaev 2009). In 2004 and 2007, documents were issued confirming the decision to construct an oil export pipeline to the Pacific Ocean and to export gas to China.

Deliveries of oil from Russia to China rose dramatically from 3 million tons in 2002 to 16 million tons in 2006, and have stabilized at 13 million tons. The largest share of oil exports comes from western Siberia via the East Siberian Railway. At 9 million tons per year, this comprises more than 60 percent of all deliveries of Russian oil to China. After the bankruptcy of Yukos, the CNPC agreed to lend Rosneft US\$6 billion as an advance payment for future deliveries of 48.4 million tons of oil between 2005 and 2010, and all deliveries were undertaken this way. Some oil from western Siberia is also delivered to China through Kazakhstan.

In 2008, the 13 million tons of oil from Russia to China were transported by rail, but no gas transportation occurred. Russian hesitation about delivering oil and gas pushed Chinese officials to search for possibilities in Central Asia for exploring and developing gas and oil fields, despite the greater distance and risk.

Finally, the first phase of developing an oil infrastructure reached completion in August 2010 with the construction of a pipeline to the Pacific Ocean from eastern Siberia (ESPO) and a branch line to Daqing (China), with supplies delivered in January 2011 expected to hit 1.3 million tons. According to the final schedule for crude oil exports and transit in January–March 2011, Russia would deliver 3.68 million tons of oil to China via ESPO, which runs in a 2,757 km arc above Lake Baikal and flows to Daqing from Skovorodino. Besides, after second stage's pipeline construction, about 4,070 km, has finished in 2013, it becomes the world's longest pipeline (Al Jazeera 2011).

The export of gas is another unrealized potential for energy trade between the two states. As consumption has been increasing recently, demand is growing on

the Chinese side. A preliminary agreement between China and Gazprom called for deliveries to begin in 2011, with volumes gradually increasing to 80 bcm per year. At a price of US\$240 per 1,000 cubic meters (roughly the price sold to Europe in 2006), this would have a market value of US\$19.2 billion, about double the value of Russia's energy exports to China in 2007 (Bellacqua 2010).

In 2009, a pipeline agreement was signed by the Russian energy giant Gazprom and the China National Petroleum Corporation that had supplied China with 70 bcm of gas per year. In March 2013, Gazprom and CNPC signed a memorandum of understanding on Russian gas supplies to China along the so-called eastern "Power of Siberia" route. The pipeline infrastructure capacity could deliver Russian gas to China became considerable amount of 40 bcm per year.

In addition, on May 21, 2014, after 10 years of negotiations, Russia's Gazprom and China's CNPC have finally signed a historic natural gas agreement for 30 years, in a deal about US\$400bn (£237bn) natural gas trading value of providing 38bn cubic metres of gas each year for Gazprom to deliver Russian gas to China. In the gas deal, the rough price would be about US\$0.38 to US\$0.39 per cubic meter, more than that for imports from Central Asia (US\$0.34) but less than Russia's price last year for Germany, France and Italy (US\$0.49). (Huang 2014) Furthermore, the two neighbour countries also aim to double bilateral trade volume to US\$200bn for the next 10 years. This amount will boost China to the position of Russia's single biggest trading partner. (BBC News, 2014) Three reasons may explain for the successful Sino-Russia natural gas agreement. Firstly, Russia under Ukraine crisis is eager to seek a new gas customer. Secondly, since finding the shale gas in North America, it has greatly impacted world gas price. Lastly, China has obtained a very stable supply from Central Asia that has given a heavy pressure for Russia's gas supply and its price.

Under this gas agreement, Russia will start to deliver gas to China via the West Siberian pipeline in 2015 and via East Siberian pipeline in 2018. Total two pipelines will supply up to 68bn cubic metres of gas annually (West line 38bn and East line 30bn), which supply amount consists almost 85 percents of recent China gas consumption. Clearly, under this gas agreement, China and Russia are mutually benefitted on gas trade which is also a win-win strategical consideration (Ng 2014, Mathews 2014).

Conclusion

Without doubt, the relationship between China and Russia has improved in many respects, but some complicated issues continue to cause strain. The question now is: How will Sino-Russian relations develop in the twenty-first century? Will the world witness a new conflict between the two powers, with a reversed balance of power and territorial claims on China's part? Or will the world witness an alliance between Russia and China against the West?

While many scholars have a favorable view of the top-down improvement in

relations (the Year of Russia and Year of China being good examples), at the level of ordinary citizens the relationship is not as successful. Suspicious and sometimes even xenophobic behavior on the Russian side makes a rapprochement between ordinary people even tougher. This is underpinned by Russian policies that restrict the travel and entrepreneurial activities of Chinese people due to fear of a flood of Chinese migrating to the eastern part of Russia. The misinterpretation and misperception of such behavior, combined with uncoordinated movements on some international issues by both governments, make it unlikely that a strategic security alliance will emerge between China and Russia. Moreover, although neither state seems willing to create an anti-bloc to any third party on the international stage, the two countries are rivals in the struggle for hegemony in certain regions, as Vladimir Putin has been planning for an expanded role for Russia in the Asia-Pacific since at least 2005 (Rozman 2008).

On the other side, economic and trade relations between China and Russia have developed at a fast rate against the backdrop of the global economic slump. Their alliance is promoted in the economic arena, where billions of U.S. dollars are invested in the construction of oil and gas industries. Mineral fuels comprise around half of all Chinese imports, but the volume will increase in the near future due to the effects of the new oil pipeline and the promising gas agreement. If the two states continue to cooperate in this way, an energy partnership between them, in our opinion, could challenge the future balance of world power, and we may eventually witness a changing of the world order.

Note

1. On October 1, 1949, the Communist Party of China, under the leadership of Mao Zedong, announced in Tiananmen the creation of the People's Republic of China and re-named Peking back to Beijing.

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