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Ordnungspolitische Diskurse

Discourses in Social Market Economy



Artyom Lukin

**Road and Belt, Iron Silk Road and
Russian-Chinese geopolitical
cooperation and competition**

Diskurs 2021 - 3

Road and Belt, Iron Silk Road and Russian-Chinese geopolitical cooperation and competition

Artyom Lukin

Abstract

This paper examines political and economic dimensions of the Russia-China relationship, with an emphasis on Russia's involvement in Beijing's Belt and Road Initiative (BRI). Being the largest, and trans-continental, Eurasian country, Russia occupies an important place in China's BRI. The current relationship between the two great Eurasian powers can be characterized as an entente, or quasi-alliance. Moscow welcomes the BRI, but, unlike many other governments across the world, it has never signed an agreement to formally join the initiative. This signals Russia's stance that Eurasian integration should not be dominated by China, as well as the Kremlin's insistence on status equality with China. In recent years there has been a noticeable rise in shipments from China to Europe, and in the reverse direction, using the rail routes via Russia. However, despite the increase in its trans-continental freight traffic going via Russia, China still refrains from investing in the upgrade of Russia's transport networks, such as railroads, ports and highways, and is overall reluctant to invest in the Russian economy. The reasons are both economic, such as the relatively high risks and low profit margins in the Russian market, and political ones, related to Russia's insistence on parity and equality with China.

Keywords

Russia-China relations, the Belt and Road Initiative, Eurasia

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The political context

There are at least three major parts of Eurasia — East Asia, Central Asia, and the Arctic — where China's and Russia's geopolitical interests intersect, creating potential for competition and conflict. However, Moscow and Beijing have so far largely been able to keep their differences in key Eurasian zones under control while displaying a significant degree of mutual coordination and collaboration.

East Asia. As a classic great power, Russia tends to view geopolitics in terms of spheres of influence. Moscow is inclined to see continental East Asia as primarily, albeit not exclusively, Beijing's sphere of influence. And Russia is ready, to some extent, to defer to Chinese interests there.

Russian deference to China on East Asian issues, albeit somewhat hurting Moscow's great-power pride, makes geopolitical sense. The Kremlin treats Pacific affairs as an area of lower concern than Europe or the Middle East. Mongolia is the only East Asian nation that may receive Russian security protection in case it finds itself in danger of an external aggression.

It is important that Moscow does not see China as a major security risk on Russia's eastern borders and does not expect China to become one in the foreseeable future. Moscow is aware that Chinese military preparations are directed primarily toward Taiwan and the Western Pacific, not against the Russian Far East. Not sensing any major menace from China, Moscow chooses not to engage in balancing China in East Asia. On the most important issues of contemporary East Asian geopolitics Moscow has either tended to support Beijing or displayed neutrality. On the Korean Peninsula, Moscow has largely played second fiddle to Beijing. On the South China Sea disputes, although Russia's official stance is strict neutrality, some Russian gestures may be seen as backing Beijing. For example, following the July 2016 Hague tribunal ruling that rejected China's claims to sovereignty over the South China Sea, Putin expressed solidarity with China. Russian weapon sales are helping China alter the military balance in the Western Pacific to the detriment of the US and its allies.

Sometimes Russia does act against Chinese wishes in East Asia, demonstrating that it is still an independent actor in the region. One example is Russia's drilling for hydrocarbons in the areas of the South China Sea over which China lays sovereignty claims. The Russian state-owned energy company Rosneft operated on Vietnam's shelf, despite Beijing's displeasure

and periodic harassment by Chinese ships. However, in 2020 Rosneft reportedly had to halt its activities in the Chinese-claimed areas after Beijing pressured Hanoi to terminate the off-shore development with the Russian oil major (Gavin, 2020). The decision to stop the project was apparently made by Vietnam, not by Rosneft.

The Russian-American enmity pushes Moscow into a confrontational posture toward US alliances in Asia, even though before the Ukraine crisis Russia was generally tolerant of US strategic presence in the Pacific. As long as Moscow perceives Washington as the main adversary, it will continue efforts to weaken the system of alliances that undergird America's global primacy. The thrust of Moscow's policy to undermine US alliances is directed at Europe, but part of the effort is also focused on the Asia-Pacific. Russia's goal of weakening US alliances in Asia is, naturally, shared by Beijing. South Korea seems to be the main target for Russia and China because it is seen as the weak link among the US allies in the Asia-Pacific.

Much of the Russia-China military collaboration is focused on the Asia-Pacific. There have been a number of important milestones recently. In 2018, China participated in Russia's Vostok-2018 strategic maneuvers in the Russian Far East. *In July 2019, Russia and China conducted their first joint air force operation beyond their national borders. Russian and Chinese long-range nuclear-capable bombers, accompanied by fighter jets and surveillance aircraft, carried out a patrol over the East China Sea and the Sea of Japan.* In December 2020, Russian and Chinese strategic bombers conducted another joint patrol over *the East China Sea and the Sea of Japan.*

Northeast Asia is currently the most suitable strategic theater to operationalize an emerging military alliance of Moscow and Beijing. Russia and China have a direct presence in the region, where they maintain substantial military potentials that — if combined — can complement each other. And importantly, it is in the North Pacific where they both directly intersect with the US.

That said, with the exception of Northeast Asia, there seems to be little strategic coordination between Russia and China in the rest of the Asia-Pacific (or Indo-Pacific). In Southeast Asia, Russia and China don't compete with each other, but neither do they collaborate in any significant sense. The crisis in Myanmar, triggered by the military coup in February 2021, has shown that Moscow and Beijing may not necessarily be on the same page. While Russia has emerged as the most high-profile backer of the military junta, China's attitude to the coup in Myanmar is more ambivalent. In South Asia, the 2020 border crisis between India and China demonstrated Moscow's willingness to act as a de facto mediator. India may be more interested in the Russian mediation than China. Being the stronger side in the conflict, Beijing would prefer to exclude the involvement of any third parties, including Russia, that might help India offset its relative weakness vis-à-vis China.

Central Asia.¹ When it comes to Moscow-Beijing politics over the post-Soviet space, the most problematic question is certainly about Central Asia, a region composed of five former Soviet republics which shares borders with both Russia and China. Since the nineteenth century, Russia has traditionally considered Central Asia as its sphere of influence. However, in the 2000s China began its economic expansion in the region. It is now by far the biggest trade partner for Central Asian states as well as its largest source of investments. China also set up a small military presence inside Tajikistan, apparently to secure a sensitive area which borders China's Xinjiang region and Afghanistan.

Despite initial misgivings in Moscow, China's economic penetration of Central Asia has not, so far, done any substantial harm to Russian interests. Just like Russia itself, Central Asian 'stans' are moving extremely cautiously with respect to Beijing's calls for a free trade area, fearing their economies will be devoured by China. Moreover, populations in Central Asia, particularly in Kazakhstan and Kyrgyzstan, exhibit high levels of Sinophobia. Russia is rather confident the Central Asians are not going to abandon it in favor of China. On the contrary, they may need Moscow even more to hedge against Beijing's rising geo-economic influence.

Multiple predictions by Western analysts that Moscow and Beijing would inevitably clash over Central Asia have thus far been proven wrong. In a stark contrast to the Russian-Western antagonism over Ukraine, Russia and China were able to establish an understanding – and strike a rather stable balance – in Central Asia, whereby Beijing has emerged as the main economic force while Moscow retains the status as Central Asia's chief political-military ally and partner. There will be some irritants, but a clash of Chinese and Russian interests in Central Asia is unlikely in the foreseeable future.

The Arctic. Apart from East Asia and Central Asia, the Arctic is another area where Russia and China's interests may, theoretically, come into conflict. Russia lays claims to a significant part of the Arctic Ocean and views it as a sanctuary vital for the country's security and economic interests, as well as for the national identity. China, on the other hand, has been displaying Arctic ambitions, calling itself a 'Near-Arctic state' and seeking to gain access to the Arctic's resources, including through the vision for the Polar Silk Road that would see Chinese ships traversing Arctic routes (Xinhua, 2018).

Until recently, Russia was wary of letting China into the Arctic. But this seems to be changing. The strengthened Russia-China strategic partnership necessitates a more accommodating attitude by Moscow toward Beijing's Arctic aspirations. Furthermore, with a severely reduced access to Western capital and technology, collaboration with China looks like the

¹ The following sections on Central Asia and the Arctic draw upon Artyom Lukin. The Russia–China entente and its future. *International Politics*. 2020. <https://doi.org/10.1057/s41311-020-00251-7>

only realistic option for carrying out major projects in the Russian Arctic that Russia cannot afford to implement on its own due to their huge costs and technological complexity.

In recent years Russian officials have repeatedly stated that Russia is ready for more collaboration with China in the Arctic, with the two countries signing a number of agreements on Arctic projects. So far the most important case of the Russia-China Arctic collaboration has been Chinese participation as the biggest foreign stakeholder in the liquefied natural gas (LNG) projects on Russia's Arctic shore (Humpert, 2019). Russia also hopes to attract Chinese investment into the Northern Sea Route, the Arctic's main shipping artery and a potential maritime corridor between Asia and Europe (TASS, April 2019). The Kremlin is apparently betting it will be able to manage China's rising presence in the extreme North without risking Russian dominance of the Arctic.

The economic dimension of the Russia-China relationship

Due to the effect of the coronavirus pandemic, in 2020 China-Russia trade dropped by 2.9%, amounting to \$107.76 bln (TASS, 2021). The contraction was largely caused by the fall in the price of oil, Russia's main export to China. The pandemic also inhibited the operation of transport links between Russia and China. For example, due to the Chinese precautions over covid, the throughput of the Zabaikalsk/Manzhouli railway border crossing, the main Russia-China overland entry point, is now two times lower than pre-covid, while for trucks it is three times lower (Biang, 2021). Despite the covid-related problems in the functioning of the bilateral trade, Russia's economic dependence on China showed a noticeable increase in 2020, with China's share in Russia's foreign trade rising to 18.3% from 16.7% a year earlier (Gabuev, 2021). Just a decade earlier, in 2010, China accounted for 9.5% of Russia's exports and imports. At the same time, China is far less dependent on trade with Russia, with the share of Russia in China's exports and imports hovering around 2% (2.3% in 2020) (Asia Business Blog, 2021). Below I provide an overview of the main areas of Russia-China economic interaction.

Oil. Exports of Russian energy resources, especially oil and gas, to China currently constitute the most important part of the bilateral economic relationship. In 2019 Russia completed a fresh expansion of its Eastern Siberia — Pacific Ocean (ESPO) oil pipeline system (Transneft, 2019), which connects its east and west Siberian fields with China, Russia's Pacific coast, and local refineries. ESPO allows Russia to ship a third of its total oil exports to Asia-Pacific markets, primarily to China (Reuters, 2019). The ESPO system was launched over the past decade. Today, via the ESPO, Russia is shipping 600,000 barrels per day (bpd) directly to China via the Skovorodino-Mohe trans-Amur pipeline link, and also exporting over 600,000 bpd via

the oil port of Kozmino on the Pacific coast near Nakhodka, with a substantial part of the Kozmino oil also going to China by tankers. (Russia is also shipping 200,000 bpd to China via a pipeline crossing Kazakhstan.). Over the past decade Russia continuously expanded the ESPO system pipeline and by the end of 2019 it reached its full designed capacity of 1.6 million bpd (130 mln tons a year). The Eastern Siberia – Pacific Ocean pipeline was initially scheduled to reach its maximum annual capacity of 130 mln tons of crude by 2030, but, due to the high demand for this route, the project was completed 10 years ahead of schedule (Transneft, 2019).

Even though Russia's oil exports to China are rising, it is notable that there have been no acquisitions by Chinese companies of major upstream oil assets in Russia, including in its Far East. Russia made offers to China about the sale of some major Eastern Siberian oil fields, but negotiations failed to produce deals. The main stumbling block with the Chinese seemed to be over the price of the oil fields. By contrast, India turned out to be a more willing buyer, having purchased a share in the major Vankor oil field in Eastern Siberia.

Natural gas. In December 2019, President of Russia Vladimir Putin and China's Chairman Xi Jinping officially launched a huge pipeline system, the Power of Siberia, that will supply natural gas from the Russian Far East and Eastern Siberia to northeastern China. With the Power of Siberia coming online, Russia was able to begin selling massive amounts of pipeline gas to Asia's largest economy. Until recently, all Russia's export gas pipelines ran west, to Europe. The Power of Siberia trunk line became the first one pumping gas to Asia. The 30-year contract, expected to generate \$400 bln for Russia's Gazprom, is the energy company's largest export contract ever. The project has clear geopolitical undertones, accentuating the deepening strategic entente of Russia and China.

The Power of Siberia is quite a feat of engineering, with the pipeline extending over 2,200 kilometers from the Chayanda gas field in the northern region of Yakutia to the Russian border with China where it crosses beneath the Amur river to enter China. The second phase of the project, expected to be completed in 2022, will involve the construction of another branch stretching for about 800 kilometers from the giant Kovykta gas field, located not far west of Lake Baikal, linking it up with Chayanda. The Power of Siberia passes through swampy, mountainous and permafrost areas with extreme environmental conditions, with the lowest winter temperatures along the route ranging from –41 degrees Celsius on the China border to –62 in Yakutia. On the Chinese side, another gas line connects to the Russian system and will eventually stretch another 3,370 kilometers south to Shanghai (Bloomberg, 2019). In 2025, the pipeline is planned to reach its full capacity, supplying to China 38 bln cubic meters of gas annually.

The agreement on the Power of Siberia between the two state-controlled energy behemoths – Gazprom and China's CNPC – was signed in May 2014 during Putin's visit to Beijing. It was hardly a co-incidence that the gas mega deal was clinched in the midst of the Ukraine crisis. The clash with the West over Ukraine may have pushed Moscow to accelerate the gas talks with Beijing that had been dragging on for a decade.

It is anyone's guess how much exactly China will pay for the Power of Siberia's gas. The price formula used in the contract between Gazprom and CNPC is a closely-guarded secret. The whopping \$400 bln revenue figure is just an estimate deployed mostly for PR purposes. It is not clear how profitable for Russia the gas exports to China will be, considering that, in order to extract and transport gas for the Power of Siberia project, Gazprom had to build an infrastructure from scratch in the very inhospitable and challenging conditions of Eastern Siberia. The costs involved in the construction of the project's pipelines and the development of remote gas fields were never fully disclosed. The estimates range within \$35-40 bln. (Vedomosti, 2019). Some Kremlin detractors allege that the Power of Siberia is a geopolitical, rather than commercial, project, which is unlikely to bring profits, except for Putin's cronies whose companies get contracts to build Gazprom's pipelines (Gazeta.Ru, 2019). The reality may be more complex. According to some informed observers, the price for China is similar to what Germany pays for the Russian gas, with the gas price linked to oil (Gabuev, 2019). However, the Power of Siberia will not bring Russia as much profits as its current gas contracts with Europe – and the payback period for the pipeline may be quite long – because the European contracts source gas from Gazprom's fields in Western Siberia where necessary infrastructure was put in place long ago. That said, there is little doubt that the Power of Siberia makes economic sense in the long term, if Russia wants to get a foothold in China's gas market. China has risen to become the world's top importer of natural gas, overtaking Japan in 2018 (Reuters, 2018). As some observers note, China has really just started using natural gas because this hydrocarbon fuel still accounts for just 7-9% of China's total energy consumption, well below the 30% gas holds in the fully developed nations like the US (Clemente, 2019).

Apart from unlocking China's gas market, the Power of Siberia is designed to boost the economic development and living standards in the regions in eastern Russia which it traverses. In particular, the Russian government seeks to create a cluster of advanced chemical industry around the Power of Siberia's terminus on the border with China. Gazprom is constructing a gas-processing plant, one of the world's largest. Before sending the pipeline gas to China, the facility will extract from it the more valuable ingredients such as helium, ethane, propane, butane and pentane-hexane that can be further used in petrochemical and other industries (Gazprom, 2021).

The Power of Siberia is going to be followed by a second pipeline that will bring to China natural gas from Western Siberia, Russia's main hydrocarbon province. The initial plan was to build that pipeline through the Altai mountains into China's Xinjiang. In 2019, the plan was changed in favor of a route via Mongolia. Although the pipeline's route will be longer, it should be easier to build thanks to Mongolian steppes and will allow to deliver gas right into China's core industrial areas. The decision to use Mongolia as a transit country may be a sign that Moscow and Beijing do not expect any big troubles from Ulan Bator. Mongolia is unlikely to become another Ukraine. Given that the country is completely sandwiched by Russia and China, there is little risk it could attempt to escape from their geopolitical control.

Coal. Russia has been increasing its coal exports to China. In 2008, Russia's coal exports to China amounted to just 0.3 mln tons. In 2019, they exceeded 30 mln tons, accounting for 14% of Russia's total coal exports and 10% of China's coal imports (Ministry of Energy, 2021). Within ten years, Russia aims to increase its China-bound coal exports to 55 mln tons. Two thirds of the China-bound Russian coal is shipped via sea ports in the Russian Far East, with the remaining part going through railway border crossings, mainly the Zabaikalsk – Manchuria.

Electric power. Russia started small-scale electricity exports from the Far East (via the Amur Territory) to China in 1992. In 2011 Russia and China built a more powerful inter-state transmission line across the Amur River near Blagoveshchensk, allowing the Russian Far East to considerably increase electricity supplies to the neighboring Heilongjiang. However, in recent years the volume of Russian electricity exports to China has been stagnating and even somewhat decreasing. In 2018, the Russian Far East exported 3,109 mln kWh to China, 6.3% down compared to 2017 (Inter RAO, 2021). In 2019, the volume again dropped somewhat, to 3,000 mln kWh, which constitutes 0.004% of China's total electricity consumption, earning Russia roughly 130 mln USD. Inter RAO, Russia's state-owned exporter of electricity, has expressed concern and disappointment that China is refusing to take more electric power from the Russian Far East, leaving the inter-state transmission infrastructure underutilized (TASS, June 2019). The possible reasons for China's reluctance to buy more electricity from Russia include the slowing economic growth in China, reducing demand for electric power.

Agriculture. Agriculture is seen as a major promising area of cooperation between Russia and China. Food is now Russia's second biggest export item to China after oil (Gabuev, 2020). However, Russian and Chinese interests do not completely coincide when it comes to agriculture. Russia would like to export a broad range of its foodstuffs to China, such as milk, pork, poultry etc., whereas the Chinese side is almost exclusively focused on one product – soybeans – which is considered a strategic imported commodity. Beijing views Russia as one of the alternatives to soy imports from the US, even proposing to form a “soybean industry alliance” with Russia (Wu, 2020).

Chinese imports of Russian soybeans have been rising, but Russia still accounts for a fraction of China's soy imports, which is mostly due to Russia's limited capacity to substantially increase the production of soy beans. In 2018, Russia sold 810,000 tons to China (Amur.Info, 2020), while China's total imports of soybeans stood at 88 mln tons valued at \$33 bln. (Expert-Business, 2019). Some Chinese agriculture traders admit Beijing sees soybean imports from Russia mainly as a political move rather than economic necessity, meaning there is little urgency for China to invest in Russia's agriculture (Amur.Info, 2020).

A major stumbling block in the Russia-China agriculture trade is Beijing's continued refusal to allow imports of Russian pork. If the Chinese pork market were open to Russia, it would give a boost to Russian meat industry. Moscow is unhappy with China's reluctance to allow Russian pork. Possibly as a retaliatory move, in 2019 Russia suspended imports of citrus fruits and some other fruits, such as apples, from China, citing phytosanitary concerns. Russia also halted imports of a range of Chinese aquaculture products (Rosselkhoznadzor, 2019).

Transport. There have been some significant advances in the development of transport infrastructure connecting Russia and China. Two new trans-border bridges across the Amur River – one for vehicles and the other for railway trains – are the most significant accomplishment in this respect. They will become the first ever permanent bridges linking Russia and China across their main natural boundary, the Amur.

The automobile vehicle bridge, which links the Russian city of Blagoveshchensk and Chinese Heihe, was ready in the spring of 2020, but is still not in operation due to the coronavirus restrictions. When fully operational, the toll bridge will be able to handle 630 trucks, 154 buses and 68 cars a day (Kommersant, 2019). The bridge will allow an eight-fold increase in the cargo traffic turnover between Blagoveshchensk and Heihe, from the current 500,000 tons to 4 mln tons (Amurskaya Pravda, 2019).

The rail bridge across the Amur, linking Nizhneleninskoye on the Russian side with Tunjiang on the Chinese side, is in the final stages of construction, expected to be completed in 2021. Its initial capacity is 5.2 mln tons a year, which can be expanded to 20 mln tons. The bridge will mostly be used to export to China commodities from the Russian Far East, mainly coal, iron ore, and timber.

It is significant that both bridges were constructed on the basis of parity. China did the construction work on its side of the border, while Russia was responsible for the building on its side. The funding also came from both China and Russia. In the case of the Nizhneleninskoye-Tunjiang railway bridge, China and Russia, respectively, financed their halves of the project. Regarding the Blagoveshchensk – Heihe bridge, the financing scheme was more complicated.

China fully funded its half of the bridge, while the construction on the Russian side was financed through a specially-created Russian-Chinese company that got a loan from a bank in Heilongjiang. Russia itself did not spend any public money on the bridge (Kommersant, 2019). The Heilongjiang authorities initially demanded that the entire bridge be built by Chinese companies, given that the financing was provided by a Chinese bank. However, the Russian side did not agree to this demand, insisting that the Russian side of the bridge should be built by Russian contractors (Amurskaya Pravda, 2019). Such a stance reflects Russia's emphasis on equality with China in the face of China's superior economic capabilities.

While China has invested money in the trans-border bridges, it is still reluctant to commit to transport infrastructure projects inside the Russian territory. Despite efforts by Russian authorities to attract Chinese investment into the development of transport infrastructure, China has not yet spent a single yuan on transport infrastructure projects in Russia. A case in point is the continued absence of Chinese investments in the international transport corridors Primorye-1 and Primorye-2 that are mainly designed to give the provinces of Heilongjiang and Jilin direct access to Russian ports on the Sea of Japan's (East Sea) coast. Russian Vice Premier Yuri Trutnev, who leads negotiations with China over the Primorye-1 and Primorye-2, has repeatedly expressed disappointment over the lack of "a clearly formulated position" by Chinese on the development of the corridors (Trans.Ru, 2019). Even though China keeps saying it is interested in transport corridors via the Russian Far East, it avoids taking any specific commitments with respect to investment or the volume of Chinese cargos to pass through the corridors. One major reason for Chinese reluctance to finance Russian infrastructure projects is China's desire to have ownership and management control over them, which Russian authorities are unwilling to grant.

Russia's does benefit from China's Belt and Road thanks to the role of Russia's rail network as an important link in the China – Europe overland freight routes. In 2020, the total number of freight trains from China to Europe rose 50 per cent — and was up sevenfold since 2016 (Financial Times, 2021). Most of this China-Europe traffic goes via Kazakhstan and Russia, because these two Eurasian countries provide the shortest land route from China to Europe. In 2020, the volume of traffic between China and Europe via the Russian railways doubled (Gazeta.Ru, 2020). The Evergiven accident in March 2021 that temporarily blocked the Suez Canal highlighted the importance of alternative routes, including the trans-Eurasian continental corridors, for global trade.

Russia also hopes to capitalize on the Northern Sea Route (NSR) as the Arctic waters are expected to become more navigable with the global warming and technological advancements.

Russia's ambitions seem to be compatible with China's Polar Silk Road (Reuters, 2021). However, as with other Russia's mega projects in the sphere of transport, China is not in a hurry to fund the expensive infrastructure required to turn the NSR into a major commercial sea lane.

Conclusion

Being the largest, and trans-continental, Eurasian country, Russia occupies an important place in China's BRI. One of the BRI's main land routes includes Russia, while the Polar Silk Road will potentially traverse the Russian-controlled Arctic waters. In recent years there has been a noticeable rise in shipments from China to Europe, and in the reverse direction, using the rail routes via Russia. However, despite the increase in its trans-continental freight traffic going via Russia, China still refrains from investing in the upgrade of Russia's transport networks such as railroads, ports and highways. China's unwillingness to fund Russia's transport infrastructure, including those transport corridors that are directly relevant to the BRI, can be explained by several reasons. First, China exhibits general reluctance to invest in Russia's economy due to the perceived relatively high risks associated with doing business in Russia that are not, in most cases, offset by profit margins. In other words, the risks are relatively high while potential profits are not that high. This is exacerbated by the almost decade-long stagnation of the Russian economy which is not seen as a particularly attractive and promising market by Chinese businesses. Second, Russia's insistence on parity and equality with China and its refusal to grant Chinese companies special terms, similar to those they get in many other countries who are in need of infrastructure investments, is another major inhibition. Moscow's refusal to sign a bilateral BRI agreement with China might also be a reason why Beijing has not yet invested a single yuan in BRI-related projects in Russia.

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