

Analysis

Sino-Russian Relations 2009 to 2010: A Perspective from China

By Zhao Huasheng, Shanghai

Abstract

2009 was a significant year for Russia-Chinese relations. Six events and developments were particularly important: the 60th anniversary of Sino-Russian diplomatic relations, a greater range of economic cooperation, the sinking of the “New Star” Cargo ship, the closure of the Cherkizov market, the emergence of the G2 concept and the opening of the China-Central Asian gas pipeline. These events illustrate a normalisation of Russian-Chinese relations with a growing readiness on both sides to criticise as well as praise one another without the concern of damaging the relationship, suggesting a maturing and potential widening of relations.

The past year was very significant for Sino-Russian relations, with a number of new developments that have impacted upon the relationship, and will have a bearing on 2010. Among these events, six of them have a particular significance.

60th Anniversary of Sino-Russian Relations

Last year marked the 60th anniversary of Sino-Russian diplomatic relations. This landmark is particularly significant because according to Chinese tradition, a period of 60 years represents the end of one cycle and beginning of a new cycle. To mark this anniversary, the two governments organized a series of high profile commemorative activities: the Chinese and Russian Presidents, Hu Jintao and Dmitri Medvedev, attended a ceremony in Moscow, while the Chinese Premier, Wen Jiabao, and Russian Prime Minister, Vladimir Putin, attended a ceremony held in Beijing. These commemorations were intended, on the one hand, to sum up the history of Russian-Chinese diplomatic relations since 1949, but more importantly, they were aimed at injecting a new impetus, especially in promoting non-governmental cooperation and enhancing mutual understanding between the Russian and Chinese populations.

Non-governmental cooperation is an important area for the development of Sino-Russian relations, because at present, non-governmental cooperation is a weak point in their bilateral relationship. Both Beijing and Moscow declare that Sino-Russian relations are currently in the best period of their history. At a political level, this judgment is correct. However, in some other respects, relations should not be seen as superior to those in the past. For example, the sense of camaraderie and friendship between the Chinese and Russian people is currently much lower than was evident during the 1950s. The perceptions of one another within the national consciousnesses of China and Russia are

also not as positive as they were during the 1950s. At that time China and the Soviet Union not only regarded each other as friendly countries and peoples, but both the political elite and wider populations saw the other as their primary partner within the international system. Today, their images of each other are much more complicated. A range of opinion about the other is found in both countries, including both positive and negative images; some people see the other as a friendly country, but some perceive the other as a potential threat and express a lack of trust.

There are many explanations for this situation, including the passing of time and greater social pluralism within both countries, but a lack of mutual understanding and misperception of one another is also a factor. This poses a problem for the Russian-Chinese relationship, because without broad popular support it will be difficult to maintain long-term stability. The political leaderships of both China and Russia are aware of this issue, and are paying increasing attention to non-governmental exchanges. In recent years, China and Russia held “The Year of China” in Russia and “The Year of Russia” in China. In 2009 a new round of this cultural exchange began, this time focused on language, with China recently completing “The Year of Russian” in China, and Russia currently holding the “The Year of Chinese” in Russia.

Continued Economic Cooperation

The second major development in 2009 was that in spite of the world financial crisis, China and Russia made significant progress in economic cooperation, particularly in the field of energy. As a consequence of the global financial crisis, there was a serious drop in the level of Sino-Russian trade, with bilateral trade volume reduced by about 30 percent. In 2008, Sino-Russian trade reached \$56.8 billion, while it fell to less than \$40 billion in 2009. However, this drop in the total monetary

value of bilateral trade does not represent an equivalent drop in the amount of goods traded, rather the price paid for these goods fell.

Moreover, economic cooperation between the two countries continues to be significant, with cooperation on energy the biggest bright spot of the last year. Future developments look promising as well. In 2009 China and Russia signed a formal agreement exchanging loans for oil. China will provide long-term loans of \$25 billion to Russia, with \$15 billion going to the Russian oil company "Rosneft" and \$10 billion to the Russian oil transportation company "Transneft". In return, Russia will repay the loans by providing China with 300 million tons of oil, at an average annual volume of 15 million tons, from 2011 to 2030. To transport this oil, some of these loans are being used for the construction of a spur from the Eastern Siberia – Pacific Ocean oil pipeline to China. This new pipeline extension is expected to be completed in 2010. If all goes well, Russian oil will flow into China through this pipeline from the beginning of 2011. Meanwhile, the Sino-Russian Energy Investment Company acquired a 51 percent stake in the Russian oil and gas company "Suntarneftegaz" and obtained the development and production rights to two gas fields in East Siberia. Although these deals are not large-scale, they indicate that Sino-Russian energy cooperation goes beyond simply the sale of oil, and extends to cooperation in exploiting gas fields from upstream to downstream industries.

Natural gas cooperation is an area with great potential. After more than five years of negotiations, in 2008 Moscow and Beijing reached a framework agreement on plans to construct two routes (East and West) to China from existing Russian gas pipelines, through which Russia will provide China with 68 billion cubic meters of natural gas annually. The western pipeline will provide 30 billion cubic meters via a West Siberian gas source and the eastern route will provide 38 billion cubic meters, via the Sakhalin natural gas pipelines. In the last days of 2009 China National Petroleum Corporation and Gazprom signed an agreement on the basic conditions for this gas supply and both sides agreed to work towards signing a formal contract in 2010.

Besides energy cooperation, China and Russia approved "The Planning Framework for Regional Cooperation between Northeast China and the Russian Far East and Eastern Siberia" in 2009. This document envisions a large-scale agenda, which involves more than 200 projects for economic cooperation on a regional level.

Sinking of the New Star

On 15th February 2009, a Russian border patrol gunship off the coast of the Russian Far East sunk the "New Star" cargo ship, which was registered in Sierra Leone, killing 8 crew members, including 7 Chinese citizens. The Russian gunship opened fire on the "New Star" as it tried to escape from Nakhodka, a port in the Russian Far East, where it was being detained because of a commercial dispute. The incident caused a strong response among the Chinese population. The Russian Foreign Ministry claimed that Russian border guards acted within the law. However, many Chinese people considered that Russia's actions in using force to sink a merchant ship, and not actively rescuing its crew, was a barbaric act showing contempt for human life. The Chinese Foreign Ministry also publicly intervened in the matter, holding an emergency meeting with the Russian ambassador to China, after which the Chinese Foreign Ministry officials publicly expressed dissatisfaction with the attitude of the Russian authorities. It is very rare for a civilian incident to cause public dispute between the two countries' foreign ministries. Indeed, in the past the two countries dealt with such problems in consultations behind closed doors.

Closure of the Cherkizov Market

The fourth event was the sudden closure of the Cherkizov market in Moscow. Cherkizov was Moscow's largest retail market. It was also the main gathering place for Chinese businessmen, with some tens of thousands of Chinese people doing business there. In June 2009, the Russian government suddenly and forcibly closed the market, detaining goods from the market. This incident resulted in a large number of Chinese businessmen suffering huge economic losses. This event also aroused strong feeling in the Chinese media and public. The main reason that the Russian authorities gave for shutting the market was to strengthen enforcement of economic laws. However, many Chinese believe that the closure was intended to protect Russian domestic producers.

The goods that were sold in the Cherkizov market mainly transited through the so-called "gray customs clearance" procedure for exporting goods to Russia. "Gray customs clearance" appeared in the early 1990s. At that time, Russia was suffering from a serious shortage of consumer goods. As a result, a large number of Chinese businessmen became involved in non-governmental trade between China and Russia in order to fill this void, only to find that Russia's cumbersome customs clearance procedures hindered such trade. In or-

der to simplify the customs procedures, the Russian Customs Committee specified that some traders could receive clearance for all their imports under one declaration. In this way, entire consignments of goods delivered by plane could be cleared with a single customs declaration form. Later, this approach was extended to customs clearance for shipping and rail transport. Through “gray customs clearance”, the sender simply paid customs duties in China and was able to accept receipt of his goods without having to provide customs declarations. An intermediate agent company took responsibility for all other intermediate links, including transportation, customs clearance, and commodity inspection.

However, the Russian government now claims that “gray customs clearance” is associated with smuggling, and has taken several steps to shut down this procedure, although in practice this form of customs clearance is still allowed to exist. The sudden closure of the Cherkizov market and the declared end to “gray customs clearance” has dragged Chinese officials into the debate. The Chinese state position is that it has no objection to the Russian authorities regulating economic trade, but the historic background against which the practice of “gray custom clearance” developed should also be taken into account and the legal interests of Chinese businessmen should be protected.

The Emergence of G2 Concept

The fifth event was emergence of the G2 concept, bringing together China and the US as the most important economies. In the context of the global economic crisis, China’s strength and influence has grown rapidly and the idea of the G2 has spread within international politics. The G2 concept was proposed by the US, but its emergence also represents a test for Sino-Russian relations. If the Chinese accept this idea, then the Sino-Russian strategic partnership is bound to collapse. Within Chinese academic and public opinion, the G2 concept caused different reactions. Some take a positive outlook, considering that it raises China’s international status and increases its voice within the international system, however, the mainstream view is negative. First, politically, it is not compatible with Chinese political culture. China stands for a multi-polar world and equality and fairness within the international community. The philosophy behind the G2 is clearly contrary to this political principle. Second, despite the increase of China’s national strength, China is still a developing country and its GDP per capita remains low; it still faces numerous internal problems, which are not consistent with the G2 position. Third, if China accepts the

G2 concept, it will make relationships between China and other countries difficult. More than that, some people believe the G2 idea is a trap, which China must not fall into. Indeed, it should be noted that China’s official position in fact rejected the G2 concept. During President Obama’s visit to China in November 2009, Premier Wen Jiabao clearly expressed opposition to the idea of Sino-US co-governance.

Natural Gas Linkages

The sixth major event is the opening of the China-Central Asian natural gas pipeline in December 2009. The pipeline pumps gas from Turkmenistan through Uzbekistan and Kazakhstan to China. According to the agreement, Turkmenistan will provide China with 30 billion cubic meters of natural gas annually for 30 years, of which 13 billion will be produced by a Chinese company based in Turkmenistan, and the other 17 billion will be provided by Turkmenistan.

The China-Central Asia gas pipeline is a project of bilateral cooperation, but it also has an impact on Sino-Russian relations. Until recently, Russia held a monopoly over gas export pipelines in Central Asia and it has tried hard to maintain that position. Apart from a small pipeline from Turkmenistan to Iran, Central Asian natural gas export routes are fully dependent on Russia, owing to the legacy of Soviet infrastructure. In 2003, Russia and Turkmenistan signed a long-term gas cooperation agreement. Russia will buy 2 trillion cubic meters of natural gas over 25 years. In 2007, Russia and Turkmenistan signed a further agreement to build a gas pipeline along the Caspian Sea to Russia.

Objectively, the China-Central Asia pipeline has broken the Russian monopoly on natural gas export routes. However, although China has built a gas pipeline and is purchasing natural gas from Central Asia, it does not have any intention of challenging Russia in Central Asian energy exports. China’s interest is solely to serve its domestic energy needs. After the collapse of the Soviet Union, and the resultant fundamental changes in the political structure within the former Soviet space, a change in the economic structure is natural and inevitable, including in terms of energy. The question is only how and when. A multi-actor and more balanced energy structure in Central Asia is in the interests of the Central Asian Republics. In some respects, this kind of structure also serves the interests of importers, because it provides a more stable structure. Russia has a natural gas contract with Turkmenistan, but Russia buys gas in order to re-export it. However, these sales are subject to the highly volatile international market.

Once an international drop in demand of natural gas occurs, Russia does not need this gas. In 2009, due to lower demand for gas in Europe, Russia substantially reduced its purchase of Turkmenistan's natural gas, and has completely stopped buying from April 2009 after an explosion in the pipeline. This development of events placed Turkmenistan in a very difficult economic situation, because gas exports are its main source of revenue. Russia and Turkmenistan reached a new agreement in December 2009 that from January 2010, Russia will resume importing natural gas from Turkmenistan, but in less volume than before, 30 billion cubic meters annually. In this context, the opening of the China-Central Asia natural gas pipeline does not damage Russia's interests directly. In 2008 Turkmenistan produced 75 billion cubic meters of natural gas, and this figure will continue to grow in order to meet the current demand for exports. Indeed, Russia reacted positively to the opening of the China-Central Asia pipeline. In December 2009, Russian First Deputy Prime Minister Igor Shuvalov said in Almaty that Russia supports the project, and Prime Minister Vladimir Putin has also said that the China-Central Asia pipeline would not damage Russia-China energy cooperation.

Implications

These six events impacted Sino-Russian relations in 2009. They also indicate certain new trends in Sino-Russian relations. First, China and Russia are trying to break through the bottleneck blocking economic cooperation in order to lay a strong economic foundation to their relationship. Second, wider-societal issues are increasingly prominent in Sino-Russian relations, whereby "low politics" has begun to affect "high poli-

tics". However, these wider low-level issues are becoming the most unstable elements in Sino-Russian relations. Third, sentimental elements are decreasing, and the two governments have begun to manage their bilateral relations in a more practical way. Increasingly, the officials of the two governments feel able to openly ask questions and express their dissatisfaction with one another. In a certain sense, this represents a normalization of the relationship. Fourth, the Sino-Russian relationship has successfully withstood the test of the energy issue in Central Asia. Many analysts predicted that Sino-Russian energy competition in Central Asia would lead to conflict between Moscow and Beijing, however, conflict did not occur.

2010 could be a productive year for Sino-Russian relations. Politically, Sino-Russian relations will maintain their positive dynamic. Besides interaction at international events and meetings, the presidents of the two countries will meet at least four times bilaterally, and at the summits of the Shanghai Cooperation Organization and BRIC grouping. As a result, political cooperation, both at regional and international levels, will be strengthened. Also, a breakthrough in energy cooperation may occur in 2010. If all goes well, significant results in energy cooperation are planned in the form of the completion of the China-Russia oil pipeline as well as gas deals. In 2010 Russia will hold "The Year of Chinese Language" in Russia, which will provide the main framework for Sino-Russian societal and cultural exchange in the next year. This cultural initiative should form the basis for a good atmosphere in Sino-Russian relations, particularly improving the perceptions of one another in both societies.

About the Author

Professor Zhao Huasheng is the Director of the Center for Russia and Central Asia Studies and the Center for Shanghai Cooperation Organization Studies, Fudan University, Shanghai, China. He is also Vice-Chairman of the Chinese Society for the Study of Sino-Russian Relations.