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# REPORT

## **RUSSIAN-CHINESE DIALOGUE: THE 2017 MODEL**

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**Editorial Board:**

**Editor-in-Chief:**

**I.S. Ivanov**, RAS Corresponding Member, Dr. of History

**Authors:**

*From Russia:*

**S.G. Luzyanin**, Dr. of History (Head); **A.V. Kortunov**, Ph.D. in History; **A.N. Karneev**, Ph.D. in History; **V.E. Petrovsky**, Dr. of Political Science; **V.B. Kashin**, Ph.D. in Political Science; **I.E. Denisov**; **R.A. Epikhina**; **Y.V. Kulintsev**; **L.V. Filippova**

*From China:*

**Zhao Huasheng**, Professor (Head); **Wu Xinbo**, Professor, Ph.D. in International Relations; **Liu Huaqin**, Ph.D. in Economics; **Shi Ze**, Professor; **Shi Zhiqin**, Professor, Ph.D. in International Relations; **Xing Guangcheng**, Dr. of Law; **Feng Yujun**, Dr. of Law; **Cai Cuihong**, Professor, Ph.D. in International Relations; **Ma Bin**, Ph.D. in International Relations

**Copy Editors:**

**I.N. Timofeev**, Ph.D. in Political Science; **T.A. Makhmutov**, Ph.D. in Political Science; **L.V. Filippova**

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This report presents the results of analysis of the state of Russia–China relations in 2016 and the first quarter of 2017. Leading Russian and Chinese experts study major Russia’s and China’s interests and prospects for cooperation on the international arena, key areas and ways of expanding trade, economy and investment ties between the two states, assess the dynamics of military-technical collaboration and priorities of cooperation in culture, science, education and mass media between the two states, and set forth recommendations for promoting Russia – China interaction. Particular attention is given to multilateral collaboration in Eurasia.

The views and opinions of authors expressed herein do not necessarily state or reflect those of RIAC. Any linguistic inadequacies in the publication are the sole responsibility of the translation editors.

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## Contents

Introduction .....	4
Russia and China: Developing a Comprehensive Partnership .....	6
Mutual Support in the Key Issues of Sovereignty, Security and Development .....	6
Russia–China Interaction on Regional Issues.....	8
Cooperation in Cyber Security.....	19
Searching for a New Model of Military-Technical Cooperation.....	24
Dynamics of the Development of Military-Technical Cooperation.....	24
The Political Dimension of Russia–China Military-Technical Cooperation .....	27
Obstacles to the Development of Stable Cooperation .....	28
Russia–China Trade and Economic Cooperation.....	30
The Specifics of Economic Cooperation .....	30
Vladimir Putin’s 2016 Visit to China .....	31
The Dynamics of Bilateral Trade .....	34
Cooperation in Investments and Finance.....	40
E-Commerce.....	45
Transport Cooperation.....	46
Cross-border and Interregional Dimension of Cooperation .....	47
Trade and Investment Regimes. Market Openness.....	56
Eurasia as a Region for Cooperation between Russia and China.....	59
The Alignment of the Eurasian Economic Union and the Silk Road Economic Belt.....	59
The Greater Eurasian Partnership.....	63
Development of the Agenda of the Shanghai Cooperation Organization (SCO) .....	65
Humanitarian Dialogue between Russia and China .....	74
The Development of Cooperation in Education and Culture.....	74
Bilateral Cooperation in Mass Communications and Building Mutual Trust .....	79
China–Russia Expert Dialogue .....	82
Relaxing and Simplifying the Visa Regime.....	83
Tourism as a Tool for Strengthening Humanitarian Ties .....	84

## Introduction

Analysts and experts view 2016 and the first half of 2017 as a period of continued progress for comprehensive relations and the strategic partnership between Russia and China.

Against the background of continued anti-Russian sanctions, the arrival of a new administration in Washington, and the deteriorating situation in the Middle East, in particular Syria, Russia and China continue to build an all-embracing cooperation. Importantly, close partnership ties between both nations have been bolstered by the “personal factor,” as the leaders of Russia and China have proved to be quite at ease with each other, generating a common agenda for a range of global and regional issues.

The leaders met several times during that period. Particularly noteworthy are the President of the Russian Federation’s visit to Beijing in June 2016 and the meetings that took place between Vladimir Putin and Xi Jinping at a G20 summit in Hangzhou in September 2016 and on the margins of the BRICS summit in Goa in October 2016.

A number of events that are important to Russian and Chinese political life are taking place in 2017. The Communist Party of China will hold its 19<sup>th</sup> National Congress in the autumn, while Russia is gearing up for a presidential election. On May 14–15, 2017, Beijing hosted the “One Belt, One Road” international cooperation forum, which will take place in the Chinese capital once again in 2019. The forum is emerging as a new standing institution for global economic governance, with an agenda that includes some of the matters traditionally discussed at Asia-Pacific Economic Cooperation (APEC) and G20 summits: trade liberalization and economic development, Eurasian integration processes, etc.

The President of the Russian Federation participated in the forum as a guest of honour and gave a speech directly after the President of the People’s Republic of China about the role of the Greater Eurasian Partnership. Both these facts confirm the existence of a strategic consensus between Beijing and Moscow on the outlook for Eurasia. President of the People’s Republic of China Xi Jinping will pay an official visit to Moscow in July 2017, which is expected to yield new important bilateral agreements. In September 2017, China will host a BRICS summit, where the leaders of both nations will once again have an opportunity to hold talks and check if they are on the same page on important issues.

The matter of connecting the Silk Road Economic Belt, a key overland link of China’s mega project, to the Eurasian Economic Union is directly tied into another, more global process:

the radical reshaping of international relations in Eurasia and a renewal of the Russia–China strategic axis. The Chinese initiative has objectively created additional (trade and investment, infrastructural and humanitarian) “windows” for Russia to develop and modernize, and to ease the effects of the west’s sanctions on the Russian economy.

While the “One Belt, One Road” initiative is not objectively directed against third countries and is fully open to their participation, the current stage of deepening of Russia–China relations is characterized by an intensive reformatting of international economic and integration links between Russia and China and the emergence of a “Eurasian world” in which the United States does not play the role of leader.

Thanks to the powerful financial and political backing behind it (including from the Asian Infrastructure Investment Bank and the Silk Road Foundation), the “One Belt, One Road” initiative may become an important systemic driver for joint Russia–China projects in energy, transportation, construction, machine and equipment engineering and high technology in the immediate and longer term.

This annual report, prepared by the Russian International Affairs Council (RIAC), the Institute of Far Eastern Studies of the Russian Academy of Sciences and the Institute of International Studies of Fudan University touches upon these and other crucial points of bilateral cooperation to present the results of our joint systemic work to take stock of the current state of Russia–China relations in 2016 and the first quarter of 2017.

## Russia and China: Developing a Comprehensive Partnership

### Mutual Support in the Key Issues of Sovereignty, Security and Development

The mutual support that Russia and China provide each other in the key issues of sovereignty, security and development as the foundation of Russia–China relations is reflected in the 2001 Treaty of Good-Neighborliness and Friendly Cooperation Between the People’s Republic of China and the Russian Federation and confirmed in the Joint Statement of June 25, 2016 on the occasion of the Treaty’s anniversary.<sup>1</sup>

Sovereignty, security and development reflect the principal national interests of the two countries. Moscow and Beijing have repeatedly emphasized their respect for the right of states to choose their path of development and their socio-political system, and they have both noted that inter-state disputes should be settled peacefully through political and diplomatic means.<sup>2</sup> Russia supports the One China policy, recognizing Taiwan as part of the country, and assumes a similar stance with regard to Xinjiang and Tibet. Russia also insists that the participation of third parties in the settlement of disputes in the South China Sea is unacceptable. In turn, China supports Russia in the war on terror in Chechnya. As regards the Ukrainian crisis, China has also condemned the sanctions imposed against Russia.

Striving to preserve full sovereignty in decision-making, Russia and China are not military political allies. Moscow and Beijing conduct independent foreign policies that do not impinge on the other side’s national interests. The essence of these relations is the deep coordination of policies, as well as the development of a concerted stance on the construction of a new world order that is more effective and fair, the strengthening of strategic stability, and settling crises and conflicts in various regions of the world. In accordance with the 2016 Foreign Policy Concept of the Russian Federation, Russia views the concurrence of Russia and China’s essential approaches to resolving the key issues of global politics as one of the basic components of regional and global stability.<sup>3</sup>

It is the duty of Russia and China as world powers and permanent members of the UN to maintain global strategic stability and regional security. At the international level, Russia and China are against illegal foreign interventions into the internal affairs of other states, the imposition of socioeconomic and political systems, the extra-territorial use of national

<sup>1</sup> Joint Statement of the Russian Federation and the People’s Republic of China of June 25, 2016, <http://www.kremlin.ru/supplement/5100>

<sup>2</sup> <http://kremlin.ru/supplement/5100/print>

<sup>3</sup> The 2016 Foreign Policy Concept of the Russian Federation, dated of November 30, 2016. Article 84 // [www.mid.ru/foreign\\_policy/news/-/asset.../2542248](http://www.mid.ru/foreign_policy/news/-/asset.../2542248)

legislations in violation of international law, and unilateral sanctions that go beyond those approved by the UN Security Council and do not comply with international law. Russia and China promote a multi-polar world; they object to unilateral actions and support the strengthening of the UN's central role in international affairs. Russia and China object to attempts to deny, distort and falsify the history of World War II, and they uphold its outcome. They condemn attempts to whitewash Nazism, warmongering and other actions of the abettors of the tragedies of the war.

There is a strategic consensus between Russia and China to resolutely oppose international terrorism. Acts of terror have been committed in both states, and Russian and China comprehensively condemn terrorism in all its forms and manifestations. With the threat of Islamic State (banned in Russia and China) and the East Turkestan Islamic Party (banned in China), Russia and China must step up the fight against the spread of terrorist and extremist ideas. They should also develop a mechanism by which to exchange information for the purposes of effective anti-terrorist cooperation in jointly suppressing terrorism. Together, the two sides need to counteract the financing of terrorism and the provision of material-technical support to terrorists. Russia and China comply with the appropriate resolutions of the UN Security Council and the recommendations of the Financial Action Task Force on Money Laundering (FATF) which are intended to help identify and eliminate channels used to finance terrorist groups. Moreover, both states advocate the start of negotiations on drafting an international Convention on Fighting Acts of Chemical and Biological Terrorism at the Geneva Disarmament Convention.<sup>4</sup>

During President Putin's June 2016 visit to China, the parties adopted a Joint Statement on Strengthening Global Strategic Stability.<sup>5</sup> Not only is the document a new step in the development of Russia–China relations, but it is also Russia and China's contribution to the formation of a modern concept of strategic stability as a state of international relations that is characterized by the following factors:

- At the political level: the strict compliance of all states and unions of states with the principles and norms of international law and the UN Charter regulating the issues of the use of force and coercive measures; respect for the legal interests of all states and peoples when resolving pressing international and regional issues; and the impermissibility of interventions into the political life of other states.
- At the military level: preservation by all states of their military potential at the minimal level required for meeting the needs of national security; deliberately abstaining from military

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<sup>4</sup> <http://kremlin.ru/supplement/5100/print>

<sup>5</sup> The Joint Statement of the President of the Russian Federation and the Chairman of the People's Republic of China on Strengthening Global Strategic Stability of June 25, 2016. URL: <http://kremlin.ru/supplement/5098>

construction and the expansion of military political alliances that other members of the international community could perceive as a threat to their national security, thereby being forced to take reciprocal measures aimed at restoring the lost balance; resolving disagreements through positive and constructive dialogue; and enhancing mutual confidence and cooperation.<sup>6</sup>

## Russia–China Interaction on Regional Issues

In their neighbouring regions, Russia and China traditionally encounter such pressing problems as the situation in Afghanistan, the North Korea nuclear problem, and the spreading influence of Islamic extremism. In 2016 and early 2017, the dynamics of the international situation confirmed the need for the deep coordination of Russia and China's foreign policy efforts on regional issues. Presidential elections and the installation of a new administration in the United States prompted renewed discussion on the significance of the American factor in Russia–China relations. The tying together of the Eurasian Economic Union (EAEU) and the Silk Road Economic Belt (SREB) was announced by the leaders of Russia and China back in 2015; strategic priority assigned to this task dictates the need to coordinate the efforts of Moscow and Beijing in relation to the European Union (EU), the terminal point of the western route of the Silk Road Economic Belt and the 21<sup>st</sup>-century Maritime Silk Road and the EAEU's nearest geographical neighbour and most promising partner. The plans to deploy the U.S. THAAD missile defence system in South Korea and the escalation of the conflict on the Korean peninsula have caused both Russia and China grave concerns. This list is, of course, far from comprehensive.

Moscow and China saw the announced **deployment of the U.S. THAAD missile defence system in South Korea** as a sign of a changing strategic balance of power in the region. Russia and China's assessment of this development was unequivocally negative.<sup>7</sup> The maximum range of radars to be deployed in South Korea is 1,000 kilometres (600 kilometres in guidance mode). These radars have an advantage over space-based surveillance systems, in particular those that form part of the missile approach warning system. Unlike satellites, they can monitor missiles at up to 100 kilometres and will detect a missile launch in China earlier and with more precision than other tracking and interception equipment, which is of concern to China.

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<sup>6</sup> <http://kremlin.ru/supplement/5098>

<sup>7</sup> The Joint Statement of the President of the Russian Federation and the Chairman of the People's Republic of China on Strengthening Global Strategic Stability of June 25, 2016. URL: <http://kremlin.ru/supplement/5098>

Russia's strategic nuclear forces are outside THAAD's range. Moscow is concerned with the change in the balance of power and the proliferation of weapons in the region. In response to the deployment of the Aegis Ballistic Missile Defense System with SM-3 anti-ballistic missiles, Beijing may deploy coastal missile systems. The principal threat for Russia lies in the fact that arms proliferation may start in the region, and Moscow will not be able to ignore this trend.

Preventing weapons proliferation in the region may be achieved through implementing certain initiatives, such as the resumption of six-party talks with an amended mandate. North Korea may not be ready to consider a complete abolition of its nuclear programme, but it might be open to alternatives to its development. Since Pyongyang is extremely unlikely denuclearize the peninsula, attempts could be made to convince the North Korean leadership to reduce the volume of fissile materials produced (weapons-grade uranium and plutonium) and, accordingly, produce fewer nuclear payloads. This is not a realistic scenario, however, since all the six parties to the talks are unlikely to agree to it in the foreseeable future.

The Shanghai Cooperation Organisation (SCO) could play a role in reducing international tensions. If India and Pakistan are admitted to the SCO as full members, and if they express an adherence to nuclear non-proliferation, this gesture will serve as an important example for North Korea. Besides, India was able to successfully differentiate between military and civilian nuclear programmes under the IAEA's control. Unfortunately, the U.S. initiative undermines the non-proliferation regime and pushes the countries of North East Asia and other "threshold" countries to perfect their nuclear weapons delivery systems.<sup>8</sup>

2016 witnessed **a new rise in Russia–Japan cooperation**: Prime Minister of Japan Shinzo Abe visited Russia twice, and President Putin visited Japan for the first time in 11 years. Although the parties did not resolve their territorial disputes or sign a peace treaty finalizing the results of World War II, Russia did achieve significant economic agreements with Japan, which is of particular interest for the Russian side at the present stage. Russia and Japan signed 12 intergovernmental instruments and 68 memorandums and agreements on cooperation between enterprises. President Putin's visit contributed to the diversification of Russia's foreign policy in the East and gave reason to believe once again that the Japanese sanctions against Russia are nominal at best.

Against the background of persistent tensions between China and Japan, these events could not but draw the attention of Beijing, Moscow's closest partner. At the same time, China has no grounds to speak out against the development of Russia–Japan relations. In fact, several experts believe that enhanced cooperation with Japan stems from Russia's desire to right the "Chinese bias" in its foreign policy in the east. If this is true, then it is the state's rational political choice: diplomatic and economic plurality is the policy conducted by most countries.

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<sup>8</sup> <https://interaffairs.ru/news/show/15680>

Russia–Japan relations are a factor that plays a significant role in the geopolitical and geo-economic structure of the Asia-Pacific Region. However, Chinese experts believe that despite the significant influence of these relations, particularly in geopolitics and security, they cannot change China’s role in Russia’s foreign policy under the current political circumstances.

First, despite the development of cooperation with Japan, Russia will not abandon its close relations with China, as doing so would damage Russia’s politics, security and economy. Second, Russia–Japan relations are not developing smoothly. Despite the fact that both countries have been striving since the 1990s to improve bilateral relations, no breakthrough has been achieved thus far. Domestic political reasons do not allow the two states to resolve their territorial disputes, which complicates the comprehensive and deep development of Russia–Japan connections. Besides, Japan is a military ally of the United States, and Tokyo largely ties its strategic decisions to those made in Washington. Japan joined the western sanctions against Russia in connection with the Ukrainian crisis. And despite the fact that many experts insist that the sanctions are formal in nature, this nevertheless damaged the development of Russia–Japan bilateral relations. For instance, in 2014, this resulted in the cancellation of Vladimir Putin’s visit to Japan, even though contacts at the highest political level are one of the determining factors of the bilateral cooperation. It determines the limited nature of Russia–Japan cooperation.

Russia and China should strive for a positive agenda in their relations with Japan. Japan is interested in promoting cooperation with Russia against the background of tense relations with China; Tokyo views China’s strengthening positions as a threat to Japan’s geo-economic and geopolitical interests. Chinese experts believe that Japan is trying to limit China’s influence through its cooperation with Russia, which is part of Japan’s strategy to build a united anti-China front in the Asia Pacific. Moscow, therefore, should treat Japan’s attempts to use Russia in its game against China with great care so as not to damage Russia–China relations. However, Russia does not intend to side with a particular party in the territorial disputes of third countries. Russia advocates resolving conflicts through a dialogue between the parties concerned. In November 2013, Minister of Foreign Affairs of the Russian Federation Sergey Lavrov said at the press conference after the 2+2 negotiations in Tokyo: “As a matter of principle, we never make friends with someone to stand against someone else. One of the priorities of Russia’s foreign policy is that we do not want any country to feel uncomfortable, to feel any threats to its security.”

The 2016 Foreign Policy Concept of the Russian Federation designates China and **India** as top priority foreign partners beyond the former Soviet space (Articles 84 and 85).<sup>9</sup> China and

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<sup>9</sup> URL://http: [www.mid.ru/foreign\\_policy/news/-/asset.../2542248](http://www.mid.ru/foreign_policy/news/-/asset.../2542248)

India are neighbouring countries, they have constructive bilateral relations, and their economic ties continue to develop. In February 2017, the first strategic dialogue between the two countries took place. China strives to strengthen its cooperation with India and welcomes India's participation in the One Belt, One Road initiative. The project of the China–India–Myanmar–Bangladesh economic corridor proposed by China may also promote both economic cooperation between the two states and the development of the region. At the same time, there are still contentious issues in China–India relations. India is dissatisfied with China's stance on India's joining the Nuclear Suppliers Group (NSG). Beijing believes that prior to joining the NSG, New Delhi should resolve certain procedural issues. China believes that India does not meet the requirements for joining the Group: India is not a member of the Treaty on the Non-Proliferation of Nuclear Weapons (Nuclear Non-Proliferation Treaty, or NPT), but it became a nuclear weapons state after the Comprehensive Nuclear-Test-Ban Treaty came into force. Consequently, if India were to join the NSG, this would require a revision of the Group's rules. India also expresses concerns regarding the proposed China–Pakistan corridor, as it believes that the initiative affects India and Pakistan's territorial dispute in Kashmir and impinges on India's sovereignty. New Delhi is also dissatisfied with the fact that Beijing vetoed India's bid in the UN Security Council to have Masood Azhar, leader of the Pakistan-based Jaysh-e-Mohammed militant group, declared a terrorist. From China's perspective, adopting this resolution requires convincing proof. There are also unresolved territorial disputes between China and India.

Back in 1996, Yevgeny Primakov proposed the concept of three-party cooperation between Russia, India and China (RIC) – countries which belong to a group of states that have transitional economies, hold similar positions in the international political and economic structure, and have similar approaches to shaping the world's political and economic order after the Cold War. Today, the RIC format, together with other structures and dialogue platforms (BRICS, G20, SCO, etc.), is an important element in ensuring the stable governability of global development while preserving “classical” global management institutions headed by the UN. Priority tasks that unite the RIC countries are increasing the level of investments between the three countries and ensuring security in the region and in the world as a whole.

Once India officially becomes a member of the SCO, Russia, China and India will be the largest states in the organization, and cooperation among the three will significantly influence the further development of the SCO. The joint work of these three countries will create prerequisites for the SCO to transition to a new level; at the same time, disagreements between the states will create obstacles for the organization's development. China firmly adheres to the principle of political equality in the SCO, claiming at the same time that large member states should provide more resources for the organization's development. The task of the three countries is to preserve

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harmonious relations in the SCO and to promote the achievement of consensus within the Organization.

Russia, China and India are the principal members of BRICS. The BRICS platform expresses the interests of developing countries and acts as a participant in the construction of a new world economic order. The trilateral relations have a decisive significance for BRICS' development prospects and play an important role in shaping the future economic order.

Russia, India and China are in favour of strengthening the role of developing countries in managing the global economy and initiating a reform of the International Monetary Fund (IMF) as soon as possible. After World War II, when the leading western countries created the global financial management institutions (including the IMF) and distributed the quotas, they did not take into account the legitimate interests of large developing countries, which were either disenfranchised or minimally represented. Currently, the RIC countries advocate eliminating the disproportionate representation in the global financial institutions and in the IMF quota system.

A significant international event of 2016 was the judgement rendered by the Permanent Court of Arbitration (PCA) in The Hague in the **“Philippines vs. China”** case. The Court sided entirely with the Philippines in the territorial dispute around the uninhabited islands in the South China Sea.<sup>10</sup> The Court adjudged Beijing's territorial claims to virtually the entire South China Sea adjacent to eight other countries to be illegitimate. From the very outset, China refused to participate in the arbitration, stated that it did not recognize its legitimacy as it was a non-regional actor, and sharply rejected the verdict. Both the expert community and the general public perceived the judgment as influenced by the United States and Japan.<sup>11</sup>

Beijing's stance is that if the Philippines recognizes the Court's judgment and China does not, the arbitration cannot be considered legitimate and legal. It appears that when the two parties to a dispute adhere to opposing views of the arbitration's legitimacy, the only way to resolve the conflict is through bilateral talks. Sovereignty over a particular territory can be determined only at the level of politics, not at the level of arbitration.

Russia is not a party to the conflict and advocates the non-use of force for states involved in territorial disputes and the continued search for ways to settle existing differences on the basis of international law – primarily the 1982 UN Convention on the Law of Sea – and in the spirit of the 2002 Declaration on the Conduct of Parties in the South China Sea (DOC) and the Guidelines for the Implementation of the DOC agreed upon by China and the ASEAN in 2011. Russia supports the efforts of China and the ASEAN to develop a Code of Conduct for the South China

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<sup>10</sup> <https://pca-cpa.org/wp-content/uploads/sites/175/2016/07/PH-CN-20160712-Award.pdf>

<sup>11</sup> <http://www.reuters.com/article/us-southchinasea-ruling-stakes-idUSKCN0ZS02U>;  
[http://news.ifeng.com/a/20160712/49340924\\_0.shtml](http://news.ifeng.com/a/20160712/49340924_0.shtml)

Sea and believes that the attempts of non-regional forces to intervene in the settlement of the South China Sea territorial issue are counterproductive.<sup>12</sup>

At the same time, both China and the ASEAN may interpret Russia's position as a sign of support. On the one hand, Moscow has advocated direct negotiations and condemned intervention by non-regional actors, thereby supporting China. On the other hand, Moscow has also called for a peaceful resolution based on the UN Convention on the Law of the Sea, which aligns with the position of the ASEAN.

That said, Russia's position should be treated as related specifically to the legal aspects of arbitration. Speaking to Russian journalists on September 5, 2016 after his working visit to the G20 summit in Hangzhou, China, President Putin stressed, "We sympathize with and support China's position on the non-recognition of the court's judgment... This is not a political position, this is a purely legal position, and it states that any arbitration should be initiated by the parties to a dispute, and that the arbitration court should hear the arguments and positions of the contending parties..."<sup>13</sup> This statement made sounded as a more subtle nuancing of Russia's position; previously, Russia had stressed its interest in preserving equally close cooperation both with China and with regional dialogue partners, and now it is sounding clearer notes of solidarity with the concerns of China.

The "Joint Sea-2016" joint naval exercises in the South China Sea held in October 2016 emphasized the growing mutual support developing between the two countries in the context of the evolving international situation and the response to the rather high level of tension (that exists to varying degrees of intensity for Russia and China) in relations with the United States.<sup>14</sup> Predictably, the decision to hold exercises in this region spurred heavy criticism in the western media, as well as in the media of several regional countries.<sup>15</sup>

In turn, China's evolving stance on Syria in **the Middle East** may be seen as a manifestation of cautious support for Moscow's efforts to stabilize the situation based on support for the legitimate government of Syria and on a dialogue with all the parties concerned, primarily with the United States, the EU and the countries in the region. China has intensified its efforts in that part of the region by launching limited humanitarian and technical aid.<sup>16</sup> Director of the Office for International Military Cooperation of the Central Military Commission, Rear Admiral

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<sup>12</sup> [http://www.mid.ru/foreign\\_policy/news/-/asset\\_publisher/cKNonkJE02Bw/content/id/2354135](http://www.mid.ru/foreign_policy/news/-/asset_publisher/cKNonkJE02Bw/content/id/2354135)

<sup>13</sup> <http://www.kremlin.ru/events/president/news/52834>

<sup>14</sup> [http://function.mil.ru/news\\_page/country/more.htm?id=12095907@egNews](http://function.mil.ru/news_page/country/more.htm?id=12095907@egNews)

<sup>15</sup> <http://www.businessinsider.com/china-russia-island-seizing-south-china-sea-2016-9;>

<https://rusi.org/commentary/whats-behind-sino-russian-exercises-south-china-sea;>

<http://www.japantimes.co.jp/news/2016/09/12/asia-pacific/joint-china-russia-naval-drill-in-contested-south-china-sea-set-to-kick-off/#.WJcGyRuLS00>

<sup>16</sup> <http://www.strategic-culture.org/news/2016/09/22/china-joins-russia-in-syria-shaping-new-anti-terrorist-alliance.html>

Guan Youfei, visited Damascus in August 2016. Experts assessed this visit as a turning point in China's intensified participation in the settlement of the Syrian crisis.<sup>17</sup> There was information that small groups of China's military advisors had been sent to Syria.<sup>18</sup> In the Declaration adopted after the BRICS summit, China's stance was further developed in formulations supported by all the leaders of the group on the need for an uncompromising fight against terrorism and a political settlement in Syria.<sup>19</sup>

Today, **the European Union** is the world's largest market and one of Russia's leading partners in commerce, investments, and finance. It has been China's largest partner since 2004. While the dynamics of Russia–EU relations have been blocked by continuing anti-Russian sanctions, the most relevant question of China–EU relations is the issue of giving China the status of a “market economy.” The implementation of this EU decision (which has already been drafted) depends on China complying with the demand of the United States and the EU that China reduce its steel exports to the global markets and abandon its dumping policies. The situation became even more complicated in early 2017 when, in a bid to protect its industry from China's surplus steel-manufacturing capacities, the EU introduced anti-dumping duties on importing stainless steel pipes and reinforced bars for welding Chinese pipes. Anti-dumping duties were introduced after several Chinese and Taiwanese companies had been investigated; the duties vary between 5.1% and 64.9%.<sup>20</sup>

The political agenda of China–EU relations also became complicated after President of the European Council Donald Tusk, in the course of preparing for the EU summit in Malta, sent a letter to the leaders of the member states warning them that if the EU collapses, they run the risk of becoming dependent on Russia and China. The letter mentions such potential geopolitical threats for the EU as “an increasingly... assertive China, especially on the seas” and “Russia's aggressive policy towards Ukraine and its neighbours.”<sup>21</sup>

At the same time, the EU's approaches to the One Belt, One Road initiative and the EAEU are different.

Initially, the EU reacted cautiously to China's One Belt, One Road initiative, but now its attitude has become more positive. After a short period of hesitation, the EU and its member states showed an interest in the project. Later, 14 EU members joined the Asian Infrastructure Investment Bank (AIIB), a multi-party institution promoted as part of the One Belt, One Road project. At the 17<sup>th</sup> meeting in June 2016, the leaders of the EU and China approved the joint investment plan proposed in November 2014 for the EU and the One Belt, One Road project (the

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<sup>17</sup> <http://www.telegraph.co.uk/news/2016/08/18/china-steps-up-military-cooperation-with-assad-as-top-admiral-vi/>

<sup>18</sup> [http://www.vesti.ru/doc.html?id=2789260&utm\\_source=push&utm\\_campaign=hotnews](http://www.vesti.ru/doc.html?id=2789260&utm_source=push&utm_campaign=hotnews)

<sup>19</sup> <http://brics2016.gov.in/upload/files/document/58038a52e09d4GoaDeclarationAdopted.pdf>

<sup>20</sup> <http://www.vestifinance.ru/articles/80513>

<sup>21</sup> <http://interfax.com.ua/news/political/400003.html>

Juncker Plan).<sup>22</sup> The plan entails creating a platform for promoting a communication network as part of One Belt, One Road and the EU, and developing digital economic cooperation. China also reached an agreement with some non-EU member countries on their participation in the Juncker Plan. In January 2016, China became the 29<sup>th</sup> member of the European Bank of Reconstruction and Development intended to promote the development of the countries of Central and Eastern Europe.<sup>23</sup>

The creation of a railway infrastructure is the key aspect of implementing the One Belt, One Road project. In recent years, China's cooperation with Eastern European countries in this area has been actively developing. In 2012, the first Chongqing–Duisburg train was launched (on the Chongqing–Xinjiang–Europe line).<sup>24</sup> Freight traffic on the line continues to grow: as of 2016, trains run from 17 Chinese cities to 39 destinations in Europe, including cities in Germany, Spain, the United Kingdom and other Western European countries.

What is more, the “16+1” mechanism, in which China and Central and Eastern European countries take part, plays an important coordinating role in the development of the Silk Road.<sup>25</sup> Of 16 European countries, 11 are EU members, four are candidates for membership, and one is a potential candidate. The states of Central and Eastern Europe are an important link in the One Belt, One Road project, since they act as a hub between China and Europe. A number of “16+1” countries supported China's initiative, with the Czech Republic, Hungary and Poland being particularly active in that regard.

At the same time, Brussels views the EAEU with concern, seeing this union as an instrument for Russia intended to restore its global influence. Brussels refuses to recognize the legitimacy and international legal identity of the organization and considers its effectiveness and results to be uncertain. The perception of the EAEU in the EU has been largely influenced by the Ukrainian crisis, and it could be a manifestation of political pressure on the part of Brussels, tying many issues in bilateral and multilateral interaction to Russia's compliance with the Minsk Protocol.

The EU is the largest trade partner of five EAEU states, and the EAEU is the EU's third largest partner. Opening negotiations between the EU and the EAEU could allow for an even greater increase in the trade and economic indicators of the two unions.

The active participation of the EU could have a significant positive influence on the development of the EAEU and the One Belt, One Road initiative. First, the EU's participation in advancing and tying together the Russian and Chinese projects may increase their financial and technological capabilities. There is a global trend at present to decrease financial flows. Financial

<sup>22</sup> [http://russian.news.cn/china/2015-06/30/c\\_134369216.htm](http://russian.news.cn/china/2015-06/30/c_134369216.htm)

<sup>23</sup> <http://ru.reuters.com/article/businessNews/idRUKBN0TY0NE20151215>

<sup>24</sup> [http://m.russian.china.org.cn/russian/doc\\_1\\_26351\\_259800.html](http://m.russian.china.org.cn/russian/doc_1_26351_259800.html)

<sup>25</sup> <http://www.mfa.gov.lv/ru/sotrudnichestva-stran-centralnoj-i-vostochnoj-evropy-i-kitaya>

capital is returning to developed countries and flowing out of developing markets. In this context, such institutions as the Eurasian Development Bank (EDB) and the European Bank for Reconstruction and Development (EBRD) could provide the necessary finances. The EADB in Central Asia and the EBRD in Eastern Europe, eastern and southern Mediterranean and Central Asia have a significant experience of working closely with other international banks, and this experience should be studied. The EU is also the world leader in industry, high-technologies, and science and technology and it can contribute to increasing industrial and technological development in Eurasia's, creating manufacturing chains in Greater Eurasia, and furthering industrial cooperation.

Second, as the world's largest market, the EU can offer Eurasia an opportunity to structurally optimize its manufacturing. This applies in particular to energy-exporting Russia and Central Asian countries: the volume of energy the EU consumes is comparable to that consumed by China, and it could therefore alter the states' energy export-import balance. Cooperation between Russia, China and the EU in energy pricing could promote the economic development of all Eurasian countries, help avoid uncertainty linked to oscillating prices in energy-producing countries and improve the economic situation in consumer states. Besides, one of the reasons for tying together the Silk Road Economic Belt and the EAEU is the desire to create a corridor for unimpeded freight transit to the European market. Currently, Russia, Poland, the Scandinavian countries and other regions do not have recognized transit procedures, which impedes the promotion of this strategy. Removing these obstacles will allow Eurasia to benefit greatly from its cooperation with the EU.

Third, tying together the EAEU and the Silk Road Economic Belt requires effective coordination mechanisms to be created. The EU has a wealth of experience in creating multilateral cooperation mechanisms. The EU's participation in developing and establishing the appropriate structures would enable higher standards to be used, increase financial transparency, ensure the effective use of resources, and promote the introduction of environmental standards.

Russia and other EAEU member states are objectively interested in increasing their interaction with the EU through the mechanisms of the Eurasian Economic Union; thus far, however, the EAEU–EU dialogue is not progressing. In the meantime, cooperation between the EU and the EAEU is no longer only an element of Russia–EU relations, as it also influences the implementation of China's One Belt, – One Road initiative. Developing cooperation between Russia, China and the EU is an important mechanism in tying together the EAEU and the Silk Road Economic Belt and in ensuring a favourable situation in the region.

At the same time, the prospects of cooperation between Russia, China and the EU with regard to Eurasia are ambiguous, even if we take into account possible normalization of Russia–EU political relations. With the start of the global financial crisis, the EU experienced serious

domestic problems, a debt crisis in the Eurozone, and economic difficulties. These issues are exacerbated by political problems and security challenges, including the Ukrainian crisis, the sanctions war with Russia and its consequences for the EU's domestic market, the influx of migrants, acts of terror, and the forthcoming Brexit. All these circumstances will lead to greater social instability and internal division, which makes it impossible for the EU to invest significant efforts into developing Eurasian cooperation with China and Russia.

The American factor also greatly influences regional cooperation between Russia, China and the EU. The approach of the United States will have a major impact on the EU's participation in Eurasian integrational projects. However, the foreign policy of the new U.S. administration in this area remains unclear, and is a factor of uncertainty in the cooperation between Russia, China and the EU.

**The election of Donald Trump President of the United States** has resulted in the country adjusted its domestic and foreign policies significantly. This in turn has created uncertainty in the development of the global situation. As far as his policy towards China is concerned, President Trump is expected to place a great emphasis on the economy and pay less attention to issues of ideology and geopolitics. Trump's America First strategy will spur the desire for economic nationalism as a means of stimulating the U.S. economy, which will make the competition between the United States and China more obvious. Harsh measures introduced by the new U.S. President are expected to lead to increased trade tensions between the United States and China and an increased risk of trade wars. At the same time, in January 2017, Donald Trump said that if China wants to preserve its One China policy, it should make reciprocal concessions; this statement served as a sort of an invitation to dialogue and bargaining. This position presupposes both a high probability of a conflict scenario in United States–China relations and a balanced dialogue. However, United States–China relations are characterized by a high degree of mutual economic dependency, and a conflict scenario will lead to major material, image and foreign political costs for both countries. A phase of a pragmatic and harsh dialogue can be foreseen here, with both parties not ready to make immediate concessions.

Donald Trump's principal goals do not include promoting the American value system on the international stage; therefore, political differences between China and the United States and between Russia and the United States may be mitigated, which will further mutual confidence. It appears that Donald Trump's administration may intervene less in the affairs of Russia and China's neighbours, and the pressure put on Russia and China in the issues of security and cooperation with neighbouring countries will weaken.

At the same time, Donald Trump's administration proceeds from the "force brings peace" principle and is stepping up investments in national defence in order to increase the military might of the United States. The "hawks" on Donald Trump's team could push the United States

to take more aggressive measures in the South China Sea, thereby intensifying the confrontation with China there and forcing Russia to intervene in the conflict. Most likely, the new U.S. Administration will take a hard line against North Korea, which could also lead to tensions between Moscow and Beijing on the one hand and Washington on the other. What is more, since Donald Trump is leaning toward the long-distance containment of China in the western part of the Pacific, Japan will wish to develop its own armed forces and contain China. In addition, given Donald Trump's low interest in geopolitics, Beijing may hope that the United States will not intervene greatly in the implementation of the One Belt, One Road initiative. Chinese experts believe that Trump's lack of interest in the U.S. global leadership could promote the more effective participation of China in international affairs and lead to it playing a greater international role.

Beijing took the announced withdrawal of the United States from the Trans-Pacific Partnership (TPP) as a sign of reduced geo-economic pressure on China in the Asia Pacific, giving new impetus to the negotiations China is conducting with the ASEAN and other countries on a Regional Comprehensive Economic Partnership (RCEP) and advancing other mechanisms of economic cooperation. At the same time, Russian experts believe that the possibility of a complete dismantling of the existing trade and economic regimes causes China certain concerns: the existing rules of world trade, despite their drawbacks, ensure a greater degree of stability than a total lack of rules.<sup>26</sup>

In April 2017, President of the People's Republic of China Xi Jinping and President of the United States Donald Trump held a successful meeting. Despite concerns regarding Donald Trump's position on China, the meeting set a positive tone for the further development of bilateral relations and ensured a smooth transition from interacting with the Barack Obama administration to interacting with the Donald Trump administration. China and the United States announced the establishment of four high level dialogue mechanisms, in security, diplomacy, cyber security and law enforcement. They also announced a comprehensive economic, public and humanitarian dialogue. The establishment of four dialogue mechanisms sets up an important platform for bilateral interaction and ensures institutional guarantees. Further development of bilateral relations will depend on whether China and the United States will be able to achieve positive dynamics in economic and trade issues, whether they will be able to cooperate successfully on the Korean nuclear problem, and whether Trump's visit to China will take place within a year.

Until the Presidents of Russia and the United States meet face to face, it is difficult to predict how Russia–U.S. relations will develop. However, Chinese experts foresee several scenarios of how Russia–China relations might develop with the new U.S. Administration in

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<sup>26</sup> <https://www.weforum.org/agenda/2017/01/full-text-of-xi-jinping-keynote-at-the-world-economic-forum>

place. Many experts predict an improvement of Russia–U.S. relations under Donald Trump, but this is far from being a done deal. In the current situation, Russia has become an instrument of the United States’ domestic policies, which restrict the freedom of Donald Trump’s Administration in its interactions with Russia. A pessimistic view on the development of China–Russia relations is based on the idea that cooperation between the two countries has always been based on counteracting the strategic threat coming from the United States. Donald Trump will reduce pressure on Russia. Russia’s strategic needs in China will weaken significantly, and the two states will begin to drift apart. However, Russia–China relations are based on comprehensive and multifaceted foundations, and they cannot be reduced to the strategic containment of pressure from the United States. In the “China–Russia–United States” triangle, an improvement of relations between two countries does not necessarily lead to deterioration of relations with the third. Even with the reduced U.S. threat to Russia, Russia and China will retain common perspectives on building a world order, and will continue to share an interest in maintaining international and regional security.

If the scenario of simultaneously deteriorating China–U.S. and Russia–U.S. relations plays out, the value and significance of the Russia–China partnership will objectively increase, and the parties will feel the need for the deep coordination of their actions on the world stage. In the event that the dynamics of China–U.S. relations are positive, this could create opportunities for improving relations between Russia and the United States.

Several experts suggest that Donald Trump could strike a strategic compromise with Russia, seeking to divide Russia and China while at the same time containing the latter and forming an alliance with Russia. Russia–China relations have a special status and value in the system of Russia’s foreign policy priorities; therefore, it is difficult to imagine that should relations between Russia and the United States improve, Russia will make a break with China. Such a step would not be in line with Russia’s diplomatic philosophy, or with Moscow’s political and economic interests. And it would not increase Russia’s weight and position in international affairs. If a détente does take place in Russia–U.S. relations, Russia will still continue to deepen and develop its strategic relations with China.

### Cooperation in Cyber Security

Collaboration in cyber security remains an important area of Russia–China cooperation. China is enhancing its cooperation with international organizations in cyberspace security. In 2016, China’s efforts affected the UN, the International Telecommunications Union (ITU), the SCO and BRICS. In May and December 2016, Washington hosted the second and third high level

dialogues on fighting cybercrime (the meetings also dealt with other issues). On June 13, 2016, the first China–UK high-level security dialogue was held in Beijing. One of the four key issues at the talks was fighting cybercrime. On June 25, 2016, the heads of Russia and China released a Joint Statement of the Presidents of the People’s Republic of China and the Russian Federation on Cooperation in Information Space Development.

Russia–China cooperation in cyber security has both bilateral and multilateral dimensions. In-depth bilateral contacts are motivated by the fact the Russia and China similarly assess the consequences that threats in this area hold for their domestic development, and the high level of political confidence allows the two countries to effectively use the partner’s resources to ensure their general information security. The joint actions of Moscow and Beijing are based on similar approaches to cyber security founded on the primacy of international law, the rejection of attempts to establish any country’s global dominance on the internet, existing high-level agreements on the sources of cyber security threats, and similar goals in cyberspace management. Both countries are against the use of information technologies to: intervene in the internal affairs of other countries; undermine sovereignty, political, economic and social stability; breach public peace; spread terrorist, extremist and separatist propaganda; incite inter-ethnic and inter-faith enmity; and carry out other terrorist or criminal activities. Both Russia and China support the sovereign right to manage the internet in their national segments.

Russia and China have accumulated extensive experience of working together in the field of information security, both in terms of inter-governmental and inter-company interaction in cyber security technologies and in terms of coordinating an international stance on cyberspace management. In May 2014, the Russian telecommunications company Rostelecom signed an agreement with the Chinese Huawei on the construction of underwater communications lines in the Far East of Russia signed worth \$60. In August 2014, the Ministry of Industry and Trade of the Russian Federation and the Ministry of Industry and Information Technology of China signed an agreement on increasing the export of software components from Russia to China and increasing the import of China-made servers to Russia. The initiative to create the International Code of Conduct for Information Security submitted to the UN General Assembly in 2011 demonstrates that Russia and China have a coordinated international stance on cyberspace management. The initiative was followed by many years of work in this area.

Judging by the progress made in 2016, it would be fair to say that the Russia–China strategic partnership in cyber security could transition to a new level. The legal foundation for developing bilateral cooperation was laid in 2015 when President of China Xi Jinping visited Moscow and the Agreement on Cooperation in Ensuring International Cyber Security was

signed.<sup>27</sup> As part of implementing the document, Moscow and Beijing are developing a mechanism for ongoing consultations between the ministries of foreign affairs and the intelligence and law enforcement agencies.<sup>28</sup>

In 2016, Russia and China expanded and intensified their interaction: on April 27, 2016, Moscow hosted the First Russia–China Information and Communication Technologies Development and Security Forum;<sup>29</sup> on June 25, 2016, the Joint Statement of the Presidents of the People’s Republic of China and the Russian Federation on collaboration in information space development was adopted.<sup>30</sup> These steps have allowed Russia and China to progress from collaborating in information security only to cooperating in both cyber security and informatization, moving gradually from a strategic partnership and developing collaboration mechanisms to active dialogue and cooperation in specific areas.

According to the decision of the leaders of the two countries, the President of the Russian Federation’s aide in charge of information technologies and the head of the Central Leading Group for Internet Security and Informatization and Internet Security were appointed to act as representatives of Russia and China on cooperation in developing the information space. They are charged with holding regular meetings and consultations on issues of mutual interest, determining new mutually beneficial areas of cooperation in information space, promoting initiatives and ensuring coordination of inter-agency cooperation.<sup>31</sup>

In the future, the efforts of the ministries of foreign affairs of the two countries should continue to be focused on solving the following issues: developing common rules of conduct on the worldwide web; shaping a peaceful, secure and open information space based on cooperation; developing international cooperation in preventing and suppressing the use of the internet for terrorist and criminal purposes.

Inter-parliamentary exchanges could deal with common problems of legislative regulation in the area of information and communication technologies on a regular basis.

Despite successes in developing collaboration, Russia–China cooperation in cyberspace still faces a number of challenges and requires further advances in terms of working together and coordinating the stances of the two countries.

The strategy for Russia–China cooperation in cyber security is based on respect for and compliance with internet sovereignty. Certain western observers believe that the stance adopted by China and Russia stance on the sovereign right of states to manage the internet in their national segments threatens the openness and freedom of self-expression on the internet. The two

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<sup>27</sup> <http://government.ru/media/files/5AMAccs7mSIXgbff1Ua785WwMWcABDJw.pdf>

<sup>28</sup> <http://api.duma.gov.ru/api/transcript/1183175-6>

<sup>29</sup> <http://2016.safeinternetforum.ru/programma/>

<sup>30</sup> <http://www.kremlin.ru/supplement/5099>

<sup>31</sup> <http://kremlin.ru/supplement/5099>

countries need to stand their ground at various international platforms with regard to this issue and prevent isolation.

Russia and China are often accused of launching hacker attacks. The two countries should jointly promote the improvement of their international image in cyber security, including by pointing out the fact that Russia and China suffer from cyber-attacks themselves, which can be proved by joint scientific research and the improved technologies for maintaining information security.

It is important for Russia and China to ensure the effective implementation of cyber security agreements, as it will draw universal attention. However, the multi-partite nature of cyberspace creates certain difficulties for effectively implementing the agreement. It is also necessary to set specific areas of cooperation. The two parties should enhance scientific and technical cooperation, contribute to developing joint R&D in cyberspace, expand information exchanges, and involve economy and other areas in this collaboration. In the future, it would be advisable to involve a broader professional community in Russia–China cooperation in cybersecurity, for example, internet providers, telecommunications companies, and hardware and software manufacturers. This could be done by creating individual dialogue platforms and involving state regulators in their work when needed.

State support should be provided for joint scientific projects carried out by academic institutions and companies in both countries that are aimed at ensuring security of internet payments, counteracting hacker attacks and fighting the spread of computer viruses. Developing a set of measures to protect critical infrastructure facilities and ensure the failsafe behaviour of information and communication networks could be an important subject for joint R&D in the near future.

Russia and China should move towards institutional and practical cooperation and coordination between specific administrative bodies. The strategic agreements that have been signed should not remain at the level of top leaders. Specific measures such as these, which will have an impact on the population of the two countries will also make it possible to respond to the opinions that cooperation between Russia and China in cyberspace is based entirely on confrontation with the United States.

The two sides should also strengthen mutual trust in cyberspace management, the lack of which is evidenced by reports in the Russian media on hacker attacks from Chinese. In order to increase confidence, it would be advisable to sign intergovernmental agreements intended to prevent the theft of confidential commercial information. China has already signed such agreements with Germany, the United Kingdom and the United States.

Russia and China should intensify joint research into, and step up actions intended to fight cyber security threats. Today, the internet is being used increasingly by terrorist

organizations and individual terrorists. It would be advisable for the two countries to take preventive measures against the use of the internet for committing acts of terror and other crimes; the parties should fight such trends and demonstrate an initiative to establish a UN-based cooperation mechanism that would involve academic research and development of global legal instruments. The parties should develop a system to exchange information on cyber threats and improve the response mechanism in the cases of an emergency. The two sides should also promote the establishment of mechanism for exchanging information and experience between ministries.

A promising area of Russia–China cooperation is the joint promotion of the construction of the Digital Silk Road, a global e-commerce platform based on digital free trade zones. China hopes that Russia will support this concept and participate actively in the joint work to set it up, contributing to the development of cyber security and informatization of the region's countries, overcoming the digital gap, and promoting the construction of the Digital Silk Road.

Russia and China should also continue to promote global management of the new type of cyberspace. The two countries have proposed the appropriate initiative in the UN. As internet powers, Russia and China should intensify their cooperation in the UN, the ITU, the SCO, BRICS and ASEAN, and they should work together to fight for the right to set rules in the international information environment and create a multilateral, democratic and transparent internet management system.

## Searching for a New Model of Military-Technical Cooperation

### Dynamics of the Development of Military-Technical Cooperation

Military-technical cooperation between Russia and China grew steadily in 2016. Russian exports of military goods and services to China have come very close to the record figures of the early 2000s. A massive contract portfolio worth over \$8 billion as of the end of 2016 promises the same high level of cooperation in the coming years. At the same time, to create a more solid foundation for bilateral military-technical relations, Russia and China should find more in-depth forms of industrial integration and transition to implementing long-term R&D projects in the key areas of military equipment development.

Currently, Russia is China's only major supplier of military goods and services. Speaking in November 2016 at the China International Aviation & Aerospace Exhibition in Zhuhai China, Deputy Director of the Federal Service for Military-Technical Cooperation Vladimir Drozhzhov said that the overall volume of current military-technical cooperation contracts with China exceeds \$8 billion. Several new agreements are presently in the works. Therefore, China accounts for over 15 per cent of Rosoboronexport's portfolio of orders, totalling \$52 billion as of October 2016.<sup>32</sup>

Later in November 2016, Minister of Defence of the Russian Federation Sergey Shoygu noted during his visit to Beijing that the two countries had reached the level of around \$3 billion annually in contracts in various areas.<sup>33</sup> Previously, the maximum figure of Russia's defence exports to China was \$2.7 billion per year in the early 2000s.<sup>34</sup> Given inflation, this record indicator would be about \$3.6 billion in 2016 prices. Accordingly, 2016 did not set an absolute record in terms of Russia's exports to China. However, the overall level of cooperation corresponded to the "golden age" of Russia–China military-technical cooperation in the 1990s, when the Chinese People's Liberation Army (PLA) began full-scale rearmament based on Russian technologies.

After 2000, Israel, China's second-largest partner in terms of military-technical cooperation, was forced to curtail cooperation, bowing to the pressure from the United States. Previously, China had purchased major quantities of military technologies from CIS countries,

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<sup>32</sup> A. Nikolsky. China Has Returned to the Top Five Importers of Russian Weapons. // Vedomosti. November 1, 2016.

<sup>33</sup> "The Head of Russia's Ministry of Defence Notes Major Successes in Implementing Russia–China MTC Contracts" // Directorate of Media Service and Information of the Ministry of Defence of the Russian Federation. November 23, 2016 [http://function.mil.ru/news\\_page/world/more.htm?id=12104572%40egNews](http://function.mil.ru/news_page/world/more.htm?id=12104572%40egNews)

<sup>34</sup> Interview given by Sergey Isaikin, Head of Rosoboronexport to RIA Novosti. April 10, 2009, [http://vpk.name/news/27293\\_obem\\_vts\\_rossii\\_i\\_kitaya\\_za\\_poslednie\\_vosem\\_let\\_sostavil\\_16\\_mlrd\\_rosoboroneks\\_port.html](http://vpk.name/news/27293_obem_vts_rossii_i_kitaya_za_poslednie_vosem_let_sostavil_16_mlrd_rosoboroneks_port.html)

primarily Ukraine and Belarus. But the defence industries of these countries have mostly exhausted the USSR's technological reserves and China's interest in cooperation flagged. China continues to utilize the experience of Ukrainian companies in designing transportation planes and in manufacturing aircraft engines, and utilizes the experience of Belarusian companies in designing multi-axle automobiles with increased off-road capacity. However, in monetary terms, this cooperation is barely 10 per cent of the volume of Russian supplies.<sup>35</sup> As a rule, Ukrainian and Belarusian manufacturers are present in those segments of China's weapons market where there are no Russian offers.

Official agencies in Russia do not release data on the volume of military goods and services exported to China; only the final data on military exports at year-end are published, maybe with comments that would make it possible to draw conclusions on the significance of the market of a particular country. Based on the comments for the first half of the 2010s, exports to China were within the range of \$1.5–2 billion per year; in the 2000s, they were close to \$2 billion per year; in 2001–2003, the figure was significantly higher; and in the mid-2000s, exports experienced a slump (for instance, in 2006, new contracts were concluded for only \$200 million).

The largest contracts for the supply of Russian weapons to China include the contract to supply 24 units of the 4++ generation Su-35 aircraft (concluded in autumn 2015) and four battalions of S-400 anti-aircraft weapon systems (concluded autumn 2014). Both contracts resulted from drawn-out negotiations that started around 2010. The negotiations took so long because Russia wanted to make sure that the risks for its intellectual property rights would be minimized and carefully scrutinize and agreed the clauses in the agreements. As regards the S-400, the workload of Russia's manufacturing capacities was a factor hindering rapid progress of the talks. Official sources did not disclose the value of the contracts, but the most frequent assessments place them at around \$2 billion for the Su-35 contract and \$1.9 billion dollars for the S-400s.<sup>36</sup> The first four Su-35 were delivered to China in late 2016. The start of S-400 delivery is expected by the end of 2017.<sup>37</sup>

In February 2017, Minister of Defence of the Russian Federation Sergey Shoygu noted the positive development of cooperation and mentioned another contract for exporting "anti-ship missile systems" to China.<sup>38</sup> It is possible that this agreement is related to the fact that China's new YJ-18 anti-ship missiles have been in service since 2015 which in terms of their appearance and surmised characteristics are similar to Russia's 3M54E missiles of the Kalibr family. China

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<sup>35</sup> [http://www.liga.net/infografica/227198\\_privet-oruzhie-kto-glavnyy-pokupatel-ukrainskogo-vooruzheniya.htm](http://www.liga.net/infografica/227198_privet-oruzhie-kto-glavnyy-pokupatel-ukrainskogo-vooruzheniya.htm)

<sup>36</sup> <http://www.vestifinance.ru/articles/64559>

<sup>37</sup> <https://lenta.ru/news/2017/02/14/c400/>

<sup>38</sup> <http://tass.ru/armiya-i-opk/4041766>

presumably received a number of (YJ-12 type) missiles to arm its air force, ships and submarines; presumably, it also received the right to their licensed manufacturing.

Despite China's significant achievements in aircraft engine construction, Russia still remains an important supplier. In October 2016, it became known that Russia's United Engine Corporation had concluded another contract to sell China D-30 and AL-31F engines worth up to \$1 billion in total.<sup>39</sup>

At the same time, the contract to sell two Amur-1650 submarines to China and license the construction of two more in China did not progress, even though it had been discussed in 2012–2013 and even reached the stage of a memorandum of intentions.<sup>40</sup> It is possible the countries failed to agree on their positions, or that the submarines did not conform to the specific requirements of the PLA Navy; we cannot, however, discard the possibility that work on the contract was delayed, for instance, due to the customer changing the technical requirements, and the negotiations will resume at some point in the future.

This data allows us to make certain assumptions concerning the structure of the \$8-billion portfolio of orders placed by China. Major contracts for the Su-35 and S-400 account for nearly 50 per cent of the portfolio, while the new aircraft engine contract accounted for about \$1 billion. The remaining amount could come from the anti-ship missiles contract, as well as from multiple smaller contracts for Russia to carry out R&D for China, and for the shipment of spare parts, materials, equipment, etc. According to the statements made by the Russian side, the role of joint R&D has been gradually increasing over recent years.<sup>41</sup>

The actual execution of the major Su-35 and S-400 contracts could lead to either a slump or a renewed spike in cooperation in the coming years. Both systems are delivered in volumes that are small from China's perspective, and they will be carefully studied and assessed. The purchases could lead to new import contracts and increased cooperation with regard to importing Russian components for China's new weapons systems. In particular, Russia could participate in and supply components for the creation of new refurbished Chinese fighters of the J-11 family, as well as in the joint development and manufacturing of a new long-range anti-aircraft system.

The 2014 break of Russia's military-technical ties with the EU and Ukraine opened up opportunities for Russia–China cooperation to transition to a qualitatively new level. In many areas, Chinese suppliers of equipment and technologies could replace their European counterparts. Although these ties were established during a time of crisis, they could very well be preserved after relations with the West are normalized. Thus far, these possibilities remain greatly underused. Russia has started importing small quantities of Chinese marine diesel

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<sup>39</sup> “China Continues to Purchase Military Plane Engines from Russia” // Vedomosti. October 25, 2016

<sup>40</sup> <http://tass.ru/mezhdunarodnaya-panorama/1374510>

<sup>41</sup> [https://vpk.name/news/27293\\_obem\\_vts\\_rossii\\_i\\_kitaya\\_za\\_poslednie\\_vosem\\_let\\_sostavil\\_16\\_mlrd\\_rosoborone\\_ksport.html](https://vpk.name/news/27293_obem_vts_rossii_i_kitaya_za_poslednie_vosem_let_sostavil_16_mlrd_rosoborone_ksport.html)

engines for certain types of ships in service in the Russian Navy and border guards. However, major transactions, such as the purchase of technologies for manufacturing electronic components for space equipment are so far only being discussed. China's share in the total amount of Russian military imports remains insignificant. On the whole, the process of re-orienting toward Chinese suppliers is moving more slowly than could have been expected. This is due to the lengthy cycle of negotiations on complex technical projects and the dearth of data Russia's weapons manufacturers have on the possibilities of China's industry.

### The Political Dimension of Russia–China Military-Technical Cooperation

Even though military-technical cooperation has effectively been restored to a level comparable to that of the 1990s and early 2000s, its role in Russia–China relations has actually decreased. Unlike the early 2000s, military-technical cooperation is no longer one of the foundations of relations between the two countries. At that time, China accounted for up to one half of Russia's exports, and exports were the only source of income for the Russian defence industry.<sup>42</sup>

Starting 2008–2009, manufacturers of conventional weapons in Russia on the whole received the bulk of their commissions from the Russian military itself, rather than from exports. Russian weapons exports are now more diversified, and China generally accounts for no more than 20 per cent of its overall annual volume. Although China remains a major and profitable client, access to China's market is no longer a decisive factor for Russia's military-industrial complex. On the other hand, China has achieved a noticeably higher level of self-sufficiency in terms of producing its own weapons and military equipment. The need for Russian weapons has objectively decreased and is now concentrated in several relatively small, yet important sectors, such as aircraft engines.

At the same time, cooperation with Russia remains significant for increasing the potential of the PLA. For instance, it would have been impossible to carry out two major rearmament programmes for the PLA Air Force (manufacturing Y-20 heavy cargo aircraft and H-6K strategic bomber) without the purchase of Russian aircraft engines.

When China's Navy put its YJ-18 missiles into service, it caused certain concerns for U.S. military experts.<sup>43</sup> Even limited supplies of such systems as the S-400 long-range anti-aircraft systems and Su-35 fighters with powerful radars are capable of changing the balance of power in certain hotbeds of tension close to China's border, particularly in Taiwan. Some other

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<sup>42</sup> [https://ria.ru/defense\\_safety/20161201/1482608766.html](https://ria.ru/defense_safety/20161201/1482608766.html)

<sup>43</sup> <https://www.bloomberg.com/news/articles/2015-10-30/china-s-supersonic-ship-killer-is-making-u-s-navy-s-job-harder>

Asian countries, such as India (a traditional partner of Russia), also express grave concerns about selling Russian weapons to China.

Russia conducts an expressly independent military-technical cooperation policy in the Asia-Pacific Region, exporting state-of-the-art weapon systems both to China and to its opponents – in particular, India and Vietnam. Such a balanced policy has yet to face significant obstacles. The special nature of Russia–China relations when it comes to security is well known, yet Russia’s refusal to engage in military-technical cooperation with other Asian countries would only result in the United States having greater influence on those countries, which is not in China’s interests.

### Obstacles to the Development of Stable Cooperation

An important problem in the development of stable Russia–China cooperation is the extreme technological nationalism typical of both the military and the military industry of the two countries, which means that both sides strive to concentrate all important work on design and manufacturing within the country. This phenomenon assumes particularly extreme forms in the Chinese military-industrial complex. Both parties, particularly China, view importing military goods and services as a threat to security and a national problem that needs to be resolved as soon as possible.

Despite these facts, China’s military will still need to engage in significant military-technical cooperation with Russia in the near future. The possible worsening relations with the United States only buttresses this need. On the other hand, we can definitely speak about Russia gravely lagging behind China in several areas of military production, such as drones, military shipbuilding and manufacture of many types of electronic components. Both parties need to up the scale of their cooperation and progress to more complex forms thereof, such as long-term joint projects in promising military and dual-purpose technologies (artificial intelligence, laser weapons, robotics, hypersound, etc.). The process have been set in motion, but it has thus far been restricted by a lack of confidence in and understanding of the long-term prospects of the cooperation. Overcoming these difficulties requires essential agreements to be signed at the highest level on the principles of interaction in scientific and military-technical areas.

Presently, as they react to the major military-technical initiatives of the United States, Russia and China often simultaneously create expensive and unique technologies, attempting to catch up with the leader. The United States can employ the potential of its European and Asian allies due to a well-developed basis for manufacturing cooperation in the military industry, which also rests on solid legislative international legal foundations.

Russia and China have to realize that military-technical cooperation is not a means for overcoming temporary shortcomings in a country's own production and in its scientific and technological base. For an unspecified length of time, the co-existence of the military industries of the two countries will take the form of cooperation, since this co-existence is necessary to ensure their defence capabilities. The parties should move on to the creation of joint long-term plans for the development of military technologies which could serve as a response to similar long-term programmes developed in the United States (the Third Offset Strategy, the Defense Innovation Initiative, etc.). Using an analysis of the strengths and weaknesses of the Russian and Chinese defence industries, stable cooperation mechanisms for the key breakthrough areas in science and technology need to be formulated. Economic logic cannot dominate such cooperation entirely, since this cooperation is required in order to ensure that the national security of both parties in the face of the growing pressure and threat of the United States.

As information technology begins to play a central role in the development of military equipment, the problem of the inadequate protection of the intellectual rights of foreign partners in China is becoming more important. Since the IT industry is particularly vulnerable to such breaches, problems with protecting intellectual property may become an obstacle in the way of developing promising areas of Russia–China military-technical cooperation. This is why they need to be resolved as quickly as possible.

## Russia–China Trade and Economic Cooperation

### The Specifics of Economic Cooperation

Over the past two years, Russia and China have deliberately attempted to change the traditional formula of “hot politics, cold economics.” Even though Russia and China have achieved great success in terms of strategic and security cooperation, economic cooperation is progressing slowly.

In the 15 years following the signing of Treaty of Good-Neighborliness and Friendly Cooperation (2001), Russia and China increased their trade turnover several fold, expanded the use of national currencies in mutual payments, adopted support measures for inter-regional and investment cooperation, carried out certain structural changes in bilateral trade, and achieved their first successes in innovations. The mutual complementarity of Russia and China in the energy sector as well as in investments, science and technology, agriculture, transportation, the power sector etc., ensures the possibility of expanding the volume and improving the quality of economic cooperation.

At the same time, Russia–China trade and economic cooperation is still mostly the domain of major state-owned companies due to the fact that bilateral interaction between the two countries is traditionally based on “mainstream mega-projects” in the power sector, the military-industrial complex, the construction of major infrastructural facilities, etc.<sup>44</sup> Heads of major companies (most of which are state-owned) and representatives of the appropriate ministries and agencies remain the principal participants in the bilateral cooperation.<sup>45</sup> Both Russia and China accumulate cooperation experience at this particular level, which is assisted by the “warm” relations enjoyed between the leaders of the two countries.<sup>46</sup> This could simplify the decision-making process at the highest level.<sup>47</sup>

Small and medium-sized businesses work under entirely different circumstances. Russian and Chinese small and medium-sized businesses note the lack of quality information on the

<sup>44</sup> <https://ria.ru/east/20160624/1450887992.html>

<sup>45</sup> <http://www.globalaffairs.ru/valday/Promyshlennaya-kooperatsiya--put-k-sopryazheniyu-rossiiskoi-i-kitaiskoi-ekonomik-18110>

<sup>46</sup> <http://carnegie.ru/2016/06/03/ru-pub-63726>

<sup>47</sup> At the same time, these “warm” relations do not guarantee that contracts are signed. Far from it. In fact, businesses may conduct negotiations for years in order to agree on the conditions that are most profitable for them, and if that is impossible, they abandon cooperation. For instance, in 2016, against the background of the falling rouble and falling profitability, RusHydro and China Three Gorges Corporation (CTG) abandoned their joint projects. CTG cancelled its planned purchase of 49 per cent of the Lower Bureya Hydropower Plant in the Amur Region, and RusHydro abandoned the joint project to construct flood control dams in the Far East. Thus, against the background of dropping power consumption in China, the entrance of Chinese companies into the power sector of the Amur Region has been virtually abolished (<http://www.vedomosti.ru/business/articles/2016/09/02/655378-rusgidro-tri>, <http://www.eastrussia.ru/material/priamure-v-2016-m-starye-problemy-i-novye-ozhidaniya>)

specifics of doing business in the other country, in particular, information on local legislation.<sup>48</sup> Small and medium-sized businesses run into administrative barriers more often than large state-owned companies do. In order to remove these obstacles to the development of cooperation, relevant educational and training programmes could be developed by the Russian Export Center in partnership with academic bodies and businesses that have experience of working with China.

The main achievements in bilateral economic cooperation between Russia and China in 2016 mostly concerned “old economy” sectors (the energy and heavy equipment industries) and the financial infrastructure. We are now seeing results in new areas as well: cross-border e-commerce, trading in the products of the agro-industrial complex and tourism. These results were largely predicated on structural changes made to the Chinese economy, where city consumers are gradually becoming the new driver of growth.<sup>49</sup> What is more, Russia’s Far Eastern regions continued to develop the institutional environment and the transportation infrastructure in order to expand cooperation with China and attract investments.

Given the specific political and economic features of Russia and China, long-term bilateral partnership will mostly likely continue to be based on cooperation at the highest level and between major companies. At the same time, instead of specific transactions, inter-governmental negotiations should focus more on creating a stable favourable environment for business cooperation, especially given the crisis in the global economy that has served as a background for Russia–China economic collaboration in recent years.

### Vladimir Putin’s 2016 Visit to China

Vladimir Putin made an official visit to China on June 24–25, 2016. The economies of both countries had encountered a number of problems since Putin’s previous visit in 2014. The structural transformation taking place in China led to the country’s GDP growth rate dropping to 6.7 per cent annually. Overproduction and capital drain had a negative influence on the economy. In addition, the authorities were forced to fight the blow to their reputation after the decline of the securities market. Over the same period, the Russian economy experienced the consequences of the sharp drop in the global oil prices, the falling national currency, and the almost zero per cent GRP growth rate.

<sup>48</sup> <http://old.themoscowtimes.com/conferences/rus/postrelease/576461/>

<sup>49</sup> <http://www.mckinsey.com/~media/mckinsey/industries/retail/our%20insights/here%20comes%20the%20modern%20%20chinese%20consumer/2016%20china%20consumer%20report%20the%20modernization%20of%20the%20chinese%20consumer.ashx>, [http://english.gov.cn/news/top\\_news/2016/10/09/content\\_281475461965957.htm](http://english.gov.cn/news/top_news/2016/10/09/content_281475461965957.htm), <https://www.ft.com/content/d341fe12-f5c5-11e5-803c-d27c7117d132>

Despite these difficulties, expectations of the bilateral cooperation, primarily in Russia, remained unreasonably inflated. This circumstance may be seen as one of the problems in developing bilateral collaboration, since it leads to a portion of the elites becoming disappointed in the “turn to the East,” and it may have a negative impact on the further development of bilateral relations.<sup>50</sup> Aide to the President Yuri Ushakov warned about this, stressing before the visit that “mega-agreements cannot be signed at every summit” and that it was more important to start implementing the agreements that had already been signed.<sup>51</sup>

The visit resulted in just two contracts being signed (38 documents in total were signed):<sup>52</sup> Rosneft and China National Chemical Corporation (ChemChina) agreed on Eastern Siberia–Pacific Ocean (ESPO) pipeline oil supplies between August 1, 2016 and July 31, 2017; and Zvezda Shipbuilding Complex, a participant of the Far Eastern Shipbuilding and Ship-Repairing Center (FESRC), signed a contract with China Shipbuilding & Offshore Co., Ltd (CSOC) and Qingdao Beihai Shipbuilding Heavy Industry Co., Ltd (BSIC) for the construction of a transportation and transfer dock. Cooperation with Chinese partners will make a major contribution to creating one of Russia’s most cutting-edge shipyards in the Primorsky Region.<sup>53</sup> When the project has been completed, the state-of-the-art industrial and shipbuilding cluster in the Far East<sup>54</sup> will allow the Russian oil and gas industry to carry out an entire range of works on exploring and producing hydrocarbons on the shelf.<sup>55</sup>

The majority of the documents signed were memorandums and framework agreements pertaining to projects in development, under adjustment or pending approval and were not binding. Most of them had certain features in common. First, these projects were slated to be implemented with the participation of Chinese companies in Russia, and not the other way

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<sup>50</sup> See: Putin’s Visit to China: Continuing a Turn to the East // <https://ria.ru/east/20160624/1450887992.html>; V. Kashin, On Vladimir Putin’s Visit to China: Without Inflated Expectations, With Specific Results // [russiancouncil.ru/inner/?id\\_4=7852](http://russiancouncil.ru/inner/?id_4=7852); A. Lukin. Russia’s Turn to Asia: A Myth or Reality? (in Russian) // <https://interaffairs.ru/jauthor/material/1468>; A. Gabuev. A Younger Brother or an Elder Sister? // <http://carnegie.ru/2016/06/27/ru-pub-63937>.

<sup>51</sup> [www.rbc.ru/newspaper/2016/06/23/576a86399a794724a0ce54a9](http://www.rbc.ru/newspaper/2016/06/23/576a86399a794724a0ce54a9)

<sup>52</sup> The leaders of the two countries and representatives of the relevant ministries, agencies and major companies discussed the principal factors of cooperation, including: the fuel and energy complex; transportation; hi-tech transportation engineering; inter-bank cooperation; cooperation in loans, financing and investments; the construction of infrastructure facilities; and manufacturing construction materials. Individual documents pertained to cooperation in agriculture and forestry, innovations and telecommunications. The complete list of the signed documents is available on the official website of the President of the Russian Federation: <http://kremlin.ru/supplement/5101>

<sup>53</sup> <http://dcss.ru/news/2016-god/sudostroitelnyy-kompleks-zvezda-pervyy-rezident-tor-bolshoy-kamen.html>

<sup>54</sup> Zvezda Shipbuilding Complex belongs to a Rosneft and Gazprombank consortium. It is the first resident of the Bolshoi Kamen priority development area in the Primorsky Region. (Zvezda Shipbuilding Complex Becomes First Resident at Bolshoi Kamen PDA // <https://www.rosneft.ru/press/news/item/180795/> )

<sup>55</sup> <https://rg.ru/2015/10/06/cluster.html>

round.<sup>56</sup> Second, Russian companies planned to attract Chinese financing, including by selling shares in the relevant companies.<sup>57</sup>

This format of cooperation was largely determined by two factors. On the one hand, given the slump in the Russian economy and the western sanctions, Russian companies are limited in their ability to attract loan capital both in Russia and in the West, while Chinese enterprises are ready to offer commercially viable cooperation terms. On the other hand, China has entered the “new normalcy” phase. Given the slacking growth rate of the national economy, those industrial enterprises that developed rapidly in the 2000s against the background of an infrastructural construction boom, now encountered a spate of problems, including flagging domestic demand for their products, downtime for their production capacities, falling prices and fierce competition. The authorities decided that one of the ways to solve those problems was to move to foreign markets under the “moving outward” strategy and the Silk Road Economic Belt.

The documents that have been signed demonstrate that Russia and China are interested in increasing the role of technological partnership. Projects in this area will allow China to localize new technologies, while giving Russia the opportunity to decrease the dependency of its trade turnover on mineral raw materials and their prices by increasing the volume of commodities with high added value. The governments of the two countries concluded a cooperation agreement on the development, manufacture, commercializing and aftersales service of a wide-body long-range aircraft and the aircraft family based on that plane. In terms of maintenance expenses, this plane is expected to be about 10 per cent more efficient than similar aircraft and it could compete with Boeing and Airbus, at least on the Russian and Chinese markets.<sup>58</sup> In addition, an agreement was signed on the construction of a future civilian heavy helicopter through the joint efforts of China’s Avicopter and Russian Helicopters Holding. Mass production is planned for launch in China (presumably in Tianjin) to meet China’s market demand (about 200 aircraft),<sup>59</sup> that is, the product of this joint project will not compete with Russia’s Mi-26 helicopters.<sup>60</sup> The roles of Chinese and Russian participants in both these technological projects are distributed

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<sup>56</sup> Memorandum of Understanding between Gazprom and China National Petroleum Corporation on Cooperation in Underground Gas Storage (UGS) and Gas Generation in China.

<sup>57</sup> The plans involve the construction of a processing complex in the Far East in cooperation with China National Chemical Corporation. During Vladimir Putin’s visit, the parties signed an agreement on a certain Chinese company contributing 40 per cent to the capital of the Eastern Oil and Chemical Company (EOCC) with proportionate participation in financing. Construction of the project’s three stages (valued at 1.313 trillion roubles) is slated for completion in 2028. Rosneft signed a Memorandum of Understanding with Beijing Enterprises Group to sell 20 per cent of Verkhnechonskneftegaz (in Irkutsk Region) to Beijing Gas Group.

<sup>58</sup> <https://rg.ru/2016/11/02/rossiia-i-kitaj-postroi-at-novyj-samolet.html>

<sup>59</sup> <https://sputniknews.com/world/201606261041972207-russia-china-putin-visit/>

<sup>60</sup> [kommersant.ru/doc/3023608](http://kommersant.ru/doc/3023608)

similarly: Russia will be responsible for the technological component, while China's role will be assembly and promotion.<sup>61</sup>

The agreement between Roscosmos and the China National Space Administration (CNSA) designed to lay the legislative foundation for Russia–China cooperation in the construction of rocket engines and launch vehicles is worthy of special mention.<sup>62</sup> The new agreement opens avenues for selling Russian-made RD-180 rocket engines to China.<sup>63</sup>

Based on the number of contracts signed and their content, Vladimir Putin's visit to China was not a new turning point in Russia–China relations. And this was completely expected. However, the parties did discuss already existing projects and problems and individual new contracts, laid the legal foundation for signing several of them, and launched negotiations on expanding economic integration on the Eurasian continent.

## The Dynamics of Bilateral Trade

Trade is the principal form of bilateral economic collaboration between Russia and China. Given the undervaluation of customs value in Russia and the overvaluation of export value in China, as well as the different methods for calculating and determining a commodity's country of origin,<sup>64</sup> the two statistical data of the two countries on the trade turnover differ.<sup>65</sup> One glaring example is 2016, when the difference was \$3.5 billion. Given this situation, it would be useful for the customs and statistical agencies of Russia and China (and given the agreements on tying together the Silk Road Economic Belt and the EAEU, of other countries in the Union) to discuss the possibility of aligning statistical reports on bilateral cooperation and creating a single online database of the dynamics of mutual cooperation.

<sup>61</sup> For more details, see: <http://www.uacrussia.ru/ru/press-center/news/oak-ukreplyaet-rossiysko-kitayskoe-sotrudnichestvo-v-sfere-aviastroeniya> и <https://ria.ru/east/20160625/1451681283.html>

<sup>62</sup> <http://www.roscosmos.ru/22350/>

<sup>63</sup> Prior to signing this document, cooperation in missile construction with China, a state that is not party to the Missile Technology Control Regime (MTCR), was impossible.

<sup>64</sup> <https://rg.ru/2015/09/29/experty.html>

<sup>65</sup> For instance, China's report lists operations in such commodity classes as “flying vehicles, space vehicles and parts thereof” (TN VED [Foreign Economic Activity Nomenclature] code 88) and “weapons and munitions, parts and supplies thereof” (TN VED code 93). The data provided by the Federal Customs Services of Russia does not contain such information. What is more, the calculation of the dynamics for specific commodity groups often demonstrate multidirectional dynamics for the same TN VED code depending on whether the Russian or Chinese customs statistics were used.

Nevertheless, on the whole the customs statistics of Russia and China reflect similar dynamics. China's data shows that bilateral trade turnover grew by 2.3 per cent in 2016 compared to 2015,<sup>66</sup> while Russian data shows a 4 per cent growth (up to \$69.6 billion and \$66.1 billion, respectively).<sup>67</sup> It should be noted that this positive trend in bilateral relations emerged against the background of a major drop in global trade as a whole,<sup>68</sup> and a drop in China's trade with the majority of its largest partners.<sup>69</sup>

At year-end 2016, China and Russia held 1<sup>st</sup> and 12<sup>th</sup> places, respectively, in the list of each other's trade partners, retaining or even improving their positions from 2015.<sup>70</sup> Nevertheless, due to a significant difference in the sizes of the Russian and Chinese economies, Russia's share in China's foreign trade (with the exception of individual categories of primary products) remains insignificant: 2 per cent of imports,<sup>71</sup> and 1.8 per cent of exports.<sup>72</sup> This trade is more evident in inter-regional cooperation.<sup>73</sup>

### China–Russia Trade Turnover for 2016

	<b>China–Russia Trade Turnover*</b>	<b>China–Russia Trade Turnover**</b>	<b>Chinese exports to Russia*</b>	<b>Russian imports from China**</b>	<b>Russian exports to China***</b>	<b>Chinese imports from Russia*</b>
Value (million dollars)	69,562,100	66,108,200	37,334,100	38,087,000	28,021,300	32,228,600
Share in the overall trade/exports/imports (%)	1.9	14.1	1.8	20.9	9.8	2
Growth (%)	2.3 ▲	4 ▲	7.4 ▲	9 ▲	-2 ▼	-3.1 ▼

<sup>66</sup> [http://customs.ru/index2.php?option=com\\_content&view=article&id=24785&Itemid=1976](http://customs.ru/index2.php?option=com_content&view=article&id=24785&Itemid=1976);

[http://www.chinacustomsstat.com/asp/1/NewData/Record\\_Class.aspx?id=3160&currency=usd](http://www.chinacustomsstat.com/asp/1/NewData/Record_Class.aspx?id=3160&currency=usd)

<sup>67</sup> [http://www.customs.ru/index2.php?option=com\\_content&view=article&id=24785:-----2016--&catid=125:2011-02-04-16-01-54&Itemid=1976](http://www.customs.ru/index2.php?option=com_content&view=article&id=24785:-----2016--&catid=125:2011-02-04-16-01-54&Itemid=1976)

<sup>68</sup> <http://www.bloomberg.com/news/articles/2016-09-27/wto-says-global-trade-in-its-worst-year-since-financial-crisis>

<sup>69</sup> In 2016, trade turnover dropped by 6.7 per cent with the United States (to \$385 billion), 2.7 per cent with the EU (to \$677.36 billion, 4.1 per cent with the ASEAN (to \$479.46 billion) and 1.3 per cent with Japan (to \$262.22 billion) ([http://www.chinacustomsstat.com/asp/1/NewData/Record\\_Class.aspx?id=3160&currency=usd](http://www.chinacustomsstat.com/asp/1/NewData/Record_Class.aspx?id=3160&currency=usd)).

<sup>70</sup> [http://www.ved.gov.ru/exportcountries/cn/cn\\_ru\\_relations/cn\\_ru\\_trade/](http://www.ved.gov.ru/exportcountries/cn/cn_ru_relations/cn_ru_trade/),

[http://customs.ru/index2.php?option=com\\_content&view=article&id=24785&Itemid=1976](http://customs.ru/index2.php?option=com_content&view=article&id=24785&Itemid=1976),

[http://www.chinacustomsstat.com/asp/1/NewData/Record\\_Class.aspx?id=3160&currency=usd](http://www.chinacustomsstat.com/asp/1/NewData/Record_Class.aspx?id=3160&currency=usd)

<sup>71</sup> [http://www.chinacustomsstat.com/asp/1/NewData/Record\\_Class.aspx?id=3160&currency=usd](http://www.chinacustomsstat.com/asp/1/NewData/Record_Class.aspx?id=3160&currency=usd)

<sup>72</sup> Ibid.

<sup>73</sup> Several Russian regions are almost entirely dependent on trade with China. China's share in the total import of the Jewish Autonomous Region, the Republic of Tuva, and the Trans-Baikal Region exceeds 90 per cent. At the same time, Russian exports are mostly geared toward China's northeast: 22.3 per cent of all Russian goods go to Heilongjiang Province. (<http://dytu.customs.ru>, <http://stu.customs.ru>, <http://www.customs.gov.cn/tabid/2433/InfoID/837693/frtid/49629/settingmoduleid/126765/Default.aspx>)

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[http://www.chinacustomsstat.com/aspx/1/NewData/Record\\_Class.aspx?id=3160&currency=usd](http://www.chinacustomsstat.com/aspx/1/NewData/Record_Class.aspx?id=3160&currency=usd) (\*), [http://www.customs.ru/index2.php?option=com\\_content&view=article&id=24785;-----2016--&catid=125:2011-02-04-16-01-54&Itemid=1976](http://www.customs.ru/index2.php?option=com_content&view=article&id=24785;-----2016--&catid=125:2011-02-04-16-01-54&Itemid=1976) (\*\*), calculations by the author.

The Federal Customs Service of the Russian Federation reports that Russian exports to China decreased 2 per cent year-on-year to \$28 billion.<sup>74</sup> This, however, is not an indication of shrinking Russian exports; rather, it signals Russia's dependence on the ever-fluctuating raw-material prices in its trade with China. In particular, despite the increase in the physical volumes of mineral fuels as Russia's main exports, oil export prices denominated in dollars shrank 5.6 per cent year-on-year.<sup>75</sup> As a result, Russia has a negative balance in its trade with China.

On the whole, Russia has become the world's largest oil supplier to China for the first time, increasing its exports to the country up by nearly 25 per cent compared to the 2015 level, or 1.05 million barrels per day. This was largely due to the growing demand from independent privately owned Chinese oil refineries,<sup>76</sup> and also thanks to the convenient location of the port of Kozmino, which is used for trans-shipping Siberian crude to be processed in China's Shandong Province.<sup>77</sup> Given the increase in crude exports via the Eastern Siberia–Pacific Ocean (ESPO) pipeline and the reduction of crude supply from Saudi Arabia under an agreement with the OPEC countries, Russia may be able to retain its leading position in 2017.

The second largest export was wood and wood products, which stood at 9.25 per cent. This represents a growth by 16.9 per cent in value terms, or a 1.5 per cent increase in real terms year-on-year.<sup>78</sup> China retained the status of the biggest buyer of Russian timber, with its share of purchases from the Russian Federation increasing by 3 per cent to 64 per cent.

The third largest export category was represented by machinery and equipment,<sup>79</sup> whose deliveries grew by 6.9 per cent year-on-year.<sup>80</sup> The largest sub-category here remained nuclear reactors, boilers, equipment, and mechanical appliances and parts. Deliveries of these products decreased by 19.9 per cent. The greatest increase in trade (of 4,951.5 per cent) was reported in railway locomotives, trams, and rolling stock and rolling stock parts.

Imports of agricultural produce increased substantially.<sup>81</sup> Fish and crustaceans remained the greatest import category here (at \$1.03 billion, an increase of 5.8 per cent).<sup>82</sup> Animal and

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74 Hereinafter, data on Russian exports to China is calculated based on the following sources: <http://russian-trade.com/statistics/by-country/china/export/2015/> and <http://russian-trade.com/statistics/by-country/china/export/2016/>

75 In 2016, mineral fuels accounted for 63.7 per cent of Russian exports to China

76 Private refineries were only permitted to trade in crude in late 2015. (URL: <http://www.reuters.com/article/us-china-economy-trade-crude-idUSKBN1570VJ>)

77 <https://lenta.ru/news/2016/08/03/neft/>

78 HS Codes 44–49.

79 HS Codes 84–90.

80 Machine-Building Factories in Sverdlovsk Region Increased Exports to China by 2.5 times in 2016 (<http://www.interfax-russia.ru/Ural/news.asp?id=819580>).

81 <http://www.forbes.ru/news/339329-rossiya-nashla-novyy-sposob-rasshirit-eksport-produktov-v-kitay>

plant fats came second (\$172.7 million, an increase of 89.6 per cent), followed by oilseeds (\$145.4 million, an increase of 16.3 per cent). Imports of cocoa and cocoa products grew by 174.3 per cent, while imports of ready products from cereals, flour, starch or milk grew by 330.2 per cent. Imports of flour-based confectionery products also increased. Imports of flour and cereal products grew nearly two times, and those of sugar and sugar-based confectionery products increased by 2.7 times.

At the same time, against the background of the slowdown of the Chinese economy and industrial overproduction, Chinese purchases of non-ferrous metals from Russia dropped by 59.6 per cent,<sup>83</sup> while purchases ferrous metals decreased by 36.5% and those of chemical products fell by 33.6 per cent.<sup>84</sup>

Chinese imports to Russia grew 9 per cent in the past year, reaching \$38.1 billion.<sup>85</sup> The most imported articles were machinery and equipment,<sup>86</sup> which accounted for 58.8 per cent of total imports, followed by chemical products (9 per cent), and clothes and footwear (8.7 per cent).<sup>87</sup>

In light of the generally positive foreign trade trends, the authorities of the two countries have decided not to abandon the earlier goal of bringing mutual trade up to \$200 billion, and not by 2020 as originally planned, but within a more flexible timeframe (three to seven years from 2016).<sup>88</sup>

### *Trade in Food and Agricultural Products*

In 2016, China purchased over \$1.55 billion of food from Russia, making it Moscow's top trade partner in terms of food and agricultural exports.<sup>89</sup> China's share in Russian agricultural exports stood at 10.1 per cent, which is 19.5 per cent higher than in 2015.

China purchases both traditional products from Russia, such as frozen fish, soy, and sunflower and soy oil, and relatively new products, such as sweets, flour-based and confectionery products, ice cream, juices, wines, etc.<sup>90</sup>

82 China mainly purchases frozen fish from Russia. Deliveries of the most "cost-intensive" types of Russian seafood (sea cucumber, crab, caviar and sea urchins) to China from Russia are several times smaller than to Korea and Japan. This may be partially explained by the Chinese anti-corruption campaign, which has resulted in public officials starting to spend less on expensive receptions. However, the potential growth of seafood consumption in China may also be related to growing urbanization and increasing incomes. (For details, see Russian-Chinese Interregional and Cross-Border Cooperation: New Trends and Problems // China: Politics, Economics, Culture. Moscow: Institute of Far Eastern Studies, 2016, p. 232; Fabinyi M., Neng Liu (2014) Seafood Banquets in Beijing: Consumer Perspectives and Implications for Environmental Sustainability. Conservation & Society. Vol. 12, Issue 2, pp. 218–228.)

83 HS Codes 74–81.

84 HS Codes 28–29, 38–40 and 54–55.

85 Hereinafter, import data is calculated based on the following sources: <http://russian-trade.com/statistics/by-country/china/import/2015/> and <http://russian-trade.com/statistics/by-country/china/import/2016>

86 HS Codes 84–90.

87 HS Codes 61, 62 and 64.

88 The decision was announced during Premier Chin Li Keqiang's official visit to Russia in November 2016 (see <https://ria.ru/east/20161107/1480822361.html>).

89 <http://www.rbc.ru/business/01/03/2017/58b59b3f9a79476034e16c28>

The growth in the volume and assortment of food exports to China can be explained by a number of factors. The depreciation of the rouble made Russian products more affordable, while the quality remained the same. In addition, against the background of China's continued urbanization, the growing mistrust in the quality of Chinese food products and the fact that more people in China are attempting to lead a healthy lifestyle, Russian food products are attractive to Chinese consumers as more environmentally conscious choices than the domestically produced alternative.<sup>91</sup>

In December 2015, the 10-year talks on lifting some of China's existing barriers preventing foods from entering its market resulted in the cancellation of restrictions of Russian wheat exports that had been in place since 1976.<sup>92</sup> The parties also signed protocols on phytosanitary requirements for maize, rice, soy and rapeseed.<sup>93</sup> In particular, China permitted wheat imports from the Altai and Krasnoyarsk territories and the Novosibirsk and Omsk regions, as well as exports of maize, soy, rapeseed and rice from Khabarovsk, Primorsky Krai, Zabaykalsky Krai, Amur Region, and the Jewish Autonomous Region.<sup>94</sup> Exports began in 2016.

Despite this, the Chinese authorities permitted cereal imports from a small number of Russian regions only.<sup>95</sup> In addition, China insisted that Russian farmers export maize, rice, soy, and rapeseed not in bulk, but rather in sacks or by way of special transport, which manufacturers consider to be an additional restriction.

On the whole, Russian food exports to China are dominated by raw materials (frozen fish and cereals), which are processed in China and then exported to many countries, where they compete with Russian products.<sup>96</sup>

Restrictions in China still apply to imports of most categories of dairy products, as well as animals and animal products from Russia first introduced because of the unfavourable epidemiological situation in that country (outbreaks of African swine fever, bird flu, and foot-and-mouth disease).<sup>97</sup> The formal approval of Russian poultry exports was only issued in late 2016.<sup>98</sup> The prospects of pork exports to China from the Mikhaylovskaya Priority Development Area will depend on how successful subsequent talks prove to be.

90 <http://www.rbc.ru/business/01/03/2017/58b59b3f9a79476034e16c28>

91 According to data from McKinsey consulting company, the number of Chinese people living in cities who were worried about whether domestically produced food was harmful to their health rose from 60 per cent in 2012 to 72 per cent in 2015. (<http://www.mckinsey.com/~media/mckinsey/industries/retail/our%20insights/here%20comes%20the%20modern%20chinese%20consumer/2016%20china%20consumer%20report%20the%20modernization%20of%20the%20chinese%20consumer.ashx>)

92 <https://rg.ru/2016/01/28/reg-sibfo/zerno.html>

93 [http://fsvps.ru/fsvps-docs/ru/importExport/china/files/protokol\\_rf\\_china.pdf](http://fsvps.ru/fsvps-docs/ru/importExport/china/files/protokol_rf_china.pdf)

94 <https://www.vedomosti.ru/business/articles/2015/12/17/621497-eksport-zerna-kitai>

95 <https://www.vedomosti.ru/business/articles/2015/12/17/621497-eksport-zerna-kitai>

96 For more details on trade in frozen Alaska pollock and the subsequent Russia–China competition on the European market, see M. Alexandrova. Russia–China and Cross-Border Cooperation: New Trends and Problems, pp. 230–232.

97 <https://rg.ru/2016/05/04/rossiia-voznovnit-postavki-miasa-v-kitaj.html>

98 [http://forbes.kz/news/2016/11/11/newsid\\_126847/](http://forbes.kz/news/2016/11/11/newsid_126847/)

In addition to this, Russia still has obstacles to the further development of trade in food and agricultural products. For example, the country does not have a developed system for transporting and storing foods, such as grain storages at overland checkpoints, which makes it difficult to ensure the rapid increase of deliveries if necessary.<sup>99</sup> President Vladimir Putin was expected to discuss the possibility of building a grain terminal during his visit of China in 2016, but only a memorandum was signed as a result.

The unpredictable custom clearance and sanitary-hygienic inspection times at the border (varying from one week to two months) makes exporting food products with a shelf life of under six-months pointless. For this reason, foodstuff (including dairy products, the export of which to China are banned) weighing up to 20 kilograms are often exported illegally as foods for personal consumption.<sup>100</sup> It would be advisable to develop a transportation and storage system for agricultural products in areas bordering China, ensure the transition to a universal railway track, improve the customs procedures, and make sure commodities are processed in a speedier way. It would also be advisable to simplify document flows by introducing a single shipment document.

In addition, most Russian manufacturers do not have a clear understanding of the peculiarities of the Chinese market. Russian companies do not have the financial resources to open offices in China, conduct market research and organize advertising campaigns;<sup>101</sup> they do not have experience working on e-trading platforms;<sup>102</sup> nor are they aware of the specific features of the Chinese internet or the role that social networks play in the lives of Chinese consumers.<sup>103</sup> As a rule, Russian companies are not involved in branding their products or promoting them via retail networks; their products are sold for them by Chinese distributors. As a result, it is Chinese companies, rather than Russian manufacturers, which carve out niches in the Chinese market by producing Russian commodities adapted for the local market.<sup>104</sup> In addition, Russian goods have to compete in China, not just against local manufacturers, but also against other, often bigger foreign brands that entered the Asian markets quite some time ago and have had the time required to win consumer loyalty.<sup>105</sup>

It would be advisable to develop a single strategy for promoting Russia as a supplier of environmentally friendly products, to make the phrase “Made in Russia” synonymous with a seal

99 [www.interfax.ru/world/530848](http://www.interfax.ru/world/530848)

100 <https://lenta.ru/articles/2017/01/23/soosweet/>

101 <https://lenta.ru/articles/2017/01/23/soosweet/>

102 [http://www.bbc.com/russian/news/2016/06/160620\\_alieexpress\\_russia\\_comment](http://www.bbc.com/russian/news/2016/06/160620_alieexpress_russia_comment)

103 <http://www.economist.com/news/business/21703428-chinas-wechat-shows-way-social-medias-future-wechats-world>

104 In Suifenhe, a Chinese city on the border with Russia, at least 10 companies manufacture the popular Russian cake *Medovik*. Importing the cake from Russia is unprofitable because the product has a short shelf life, and the customs clearance procedure is time-consuming. The recipe of the Chinese version has been adapted to the local consumers' tastes (the sugar content was reduced). A *Medovik* cake costs around \$1.90 (about 13 yuan) to make, and it sells for between \$3.8 and \$4.4 (26–30 yuan). The Suifenhe factories have thus created a market worth \$3.9 million (27 million yuan). For details see: [secretmag.ru/longread/2016/12/22/china/](http://secretmag.ru/longread/2016/12/22/china/)

105 <https://lenta.ru/articles/2017/01/23/soosweet/>

of quality for Chinese consumers.<sup>106</sup> This would simplify market entry for individual Russian companies. In order to increase the share of Russian products on the Chinese market, companies need to work with purchasing agents as well as with potential customers. Russian companies might want to pay more attention to studying the Chinese market, searching for and then carving out their own niches, branding and promoting their products, and working with Chinese social media in order to maximise their sales.<sup>107</sup> It would also be advisable to adapt products for the Chinese market in terms of trademark names, product composition and packaging.

For the purposes of diversifying the structure of Russian exports, talks need to continue on making the Chinese market more accessible and on lifting the existing restrictions. In addition to agricultural raw materials, Russia should also start exporting processed goods to China.<sup>108</sup>

## Cooperation in Investments and Finance

Russia and China have noticeably developed bilateral investment cooperation in recent years, but the level of interaction still does not meet the expectations of the two parties. Potential cooperation in power generation, infrastructure, transportation, agriculture, etc. will directly depend on how efficient the investment ties between the countries are.

In 2016, Russia and China completed major investment projects with the participation of the Silk Road Fund. The organization purchased a 9.9-per cent stake in Yamal LNG from NOVATEK,<sup>109</sup> and also granted the Russian company a 15-year loan of around \$792.8 million (730 million euros).<sup>110</sup> In addition, the fund signed an agreement on the purchase of a 10-per cent share in the Russian company Sibur jointly with China Development Bank.<sup>111</sup> The deals were concluded against the background of the securitization of Chinese investments in Australian and UK power generation capacities, which served as yet more evidence of the high level of trust that exists between Russia and China.<sup>112</sup>

<sup>106</sup> <https://lenta.ru/articles/2017/01/23/soosweet/>; <https://rg.ru/2017/03/23/reg-sibfo/chto-tormozit-eksport-sibirskogo-prodovolstva-v-kitaj.html>

<sup>107</sup> Certain niche product groups appear to be particularly promising, such as commodities for children, including baby foods, the consumption of which may grow, especially if the decision to abolish the birth control policy bears fruit. Success stories in this area include the 2016 launch of the company babystep.tv, which specializes in the production of videos on how to bring up children. ([http://kommersant.ru/doc/3000787;http://www.rbc.ru/own\\_business/19/09/2016/57dfcd879a7947fc2ad7db28?from=newsfeed](http://kommersant.ru/doc/3000787;http://www.rbc.ru/own_business/19/09/2016/57dfcd879a7947fc2ad7db28?from=newsfeed)).

<sup>108</sup> <https://rg.ru/2016/01/28/reg-sibfo/zerno.html>

<sup>109</sup> The deal was worth 1.087 billion euros.

<sup>110</sup> Earlier, 20 per cent in Yamal LNG was sold to China's national oil-and-gas corporation CNPC. (<https://www.gazeta.ru/business/2016/03/15/8125055.shtml>;

<https://www.vedomosti.ru/business/articles/2016/03/15/633666-novatek-yamal>)

<sup>111</sup> Sibur is the largest gas processing and petrochemical company in Russia. Its main shareholder is Novatek CEO Leonid Mikhelson (<http://tass.ru/ekonomika/3870276>).

<sup>112</sup> See: [http://russiancouncil.ru/blogs/nikolay-murashkin/?id\\_4=2794;http://russiancouncil.ru/inner/?id\\_4=8134#top-content](http://russiancouncil.ru/blogs/nikolay-murashkin/?id_4=2794;http://russiancouncil.ru/inner/?id_4=8134#top-content)

On the whole, according to PwC, Russia demonstrated the highest increase in the number of announced international merger and acquisition deals with the participation of Chinese capital in 2016 (up 467 per cent),<sup>113</sup> which indicates that Chinese investors have become more active in Russia. Nevertheless, in absolute terms, Russia was still significantly behind the leaders (the EU and the United States) in terms of the number of agreements signed, as well as the size of the capital attracted from China and the total accumulated investments. In addition, as in the previous years, not all the deals concluded will be seen through to their completion: in its 2016 report, PwC mentions 34 contracts under discussion, whereas the China Global Investment Tracker database, which lists the deals that have actually been concluded, mentions only two contracts for the sale of shares and a single agreement dealing with a construction project.

As the Chinese economy is moving towards an increase in the provision of services and a decrease in the role of heavy industry in the generation of GDP, areas of investment are also changing. Raw materials are gradually being replaced by tourism, high technologies, sports, entertainment, and so on.<sup>114</sup> These trends are less visible in Russia due to the relatively small scale of the tertiary sector and the fact that the country's hi-tech industry is closed to foreign investment.<sup>115</sup> Nevertheless, Chinese investors are already manifesting an interest in investing in online movie services,<sup>116</sup> as well as mobile games in Russia.<sup>117</sup> Over the coming years, investment projects in the traditional areas of cooperation (power generation, construction, forestry, etc.) could be complemented by projects that bring information technologies and services together.

#### Chinese investment deals in Russia in 2016

Month	Chinese investor	Value (million dollars)	Share in company	Russian company	Sector
June	China National Chemical Engineering	440	-	-	Chemical industry (construction contract)
November	Beijing Gas	1080	20%	Verkhnechonskneftegaz	Energy (gas industry)
December	SAFE/Silk Road Fund*	1150	10%	Sibur	Energy (gas industry)

113 [http://www.careers.pwccn.com/webmedia/doc/636198371915780251\\_ma\\_press\\_briefing\\_jan2017.pdf](http://www.careers.pwccn.com/webmedia/doc/636198371915780251_ma_press_briefing_jan2017.pdf)

114 <https://www.bloomberg.com/graphics/2016-china-deals/>

115 <https://www.acra-ratings.ru/research/56>

116 <http://kommersant.ru/doc/3087165>

117 <http://tass.ru/ekonomika/4103271>

Sources: <https://www.aei.org/china-global-investment-tracker/>,\* <https://www.sibur.ru/en/press-center/news/10stakeinSIBURtobesoldtoChinasSilkRoadFund/>

A number of important financial and banking cooperation decisions were made in 2016 in order to stimulate Chinese investments into the Russian economy.

First, Russia ratified a new agreement on avoiding dual taxation with China.<sup>118</sup> The importance of this document is explained by the fact that Chinese banks usually supply their loan agreements with a provision on compensating the taxes charged in Russia, which makes loans more expensive. In terms of attracting investments, one of the most important provisions stipulated by the new documents is that “the interest arising in one state which is to be paid to a resident of the other state is to be taxed in that other state only.” Seeing as the loan interests are no longer included in the bank’s income basis and are exempt from taxes, the bilateral agreement will allow financial organizations to reduce their interest rates. In addition, Chinese loans are getting less expensive thanks to the gradual reduction in the interest rates established by the People’s Bank of China.<sup>119</sup>

Second, further to the agreements reached during President Putin’s visit to China, the People’s Bank of China has designated Russia’s ICBC Bank<sup>120</sup> as the clearing bank for operations involving the Chinese yuan in Russia<sup>121</sup> for the purpose of conducting unhindered trade and financial payments in the Chinese currency.<sup>122</sup> Russia was granted the status of an important offshore centre for yuan operations, allowing the country to expand the range of available yuan-based instruments and increase the liquidity of the Chinese currency.<sup>123</sup>

What is more, in late 2016, the Central Bank of Russia issued ICBC Bank with a licence to attract deposits in foreign currencies from private individuals.<sup>124</sup> In the future, this will enable the bank to process money transfers as a clearing centre when opening an accounts, as well as to diversify its liability structure.<sup>125</sup>

The central banks of the two countries have tested the swap mechanism on the yuan derivatives market and made sure the mechanism is ready for implementation.<sup>126</sup> At present,

118 Agreement between the Russian and Chinese Governments on Avoiding Dual Taxation and on Preventing Tax Avoidance as Applied to Income Tax. URL: <http://base.garant.ru/70800622/>. A similar document has been signed with Hong Kong ([http://www.consultant.ru/document/cons\\_doc\\_LAW\\_201024/](http://www.consultant.ru/document/cons_doc_LAW_201024/)).

119 <http://www.eastrussia.ru/material/kitayskim-kreditam-ronyayut-stavku/>

120 The Russian arm of China’s largest state-owned commercial bank, the Industrial and Commercial Bank of China (ICBC).

121 <http://www.icbc.com.cn/icbc/海外分行/莫斯科网站/ru/客户服务/特别关注/ICBC20160926.htm>

122 <http://ru.reuters.com/article/businessNews/idRUKCN11T0VY>

123 <http://www.banki.ru/news/daytheme/?id=9289865>

124 At the core of the bank’s client base are Russian and Chinese companies that serve the trade turnover between the two countries. This is why the bank’s liabilities were originally created in roubles and in foreign currencies at the expense of the companies’ crediting organizations. (<http://www.banki.ru/news/lenta/?id=9372697>; <http://www.vestifinance.ru/articles/77773>).

<sup>125</sup> <http://www.kommersant.ru/doc/3145107>

<sup>126</sup> The Central Bank of Russia and the People’s Bank of China signed a three-year agreement in 2014 on swaps in national currencies worth up to 150 billion yuan (around \$21.8 billion). The agreement may be prolonged. ([http://cbr.ru/press/pr.aspx?file=13102014\\_154408if2014-10-13T15\\_39\\_28.htm](http://cbr.ru/press/pr.aspx?file=13102014_154408if2014-10-13T15_39_28.htm))

almost all the market players have liquidity problems, so derivatives play the role of an additional source of financing, enabling companies to obtain money in the other country's currency without needing to buy that currency on currency markets.<sup>127</sup> In addition, swaps allow the risks associated with fluctuations of currency exchange rates to be hedged.<sup>128</sup> Some experts note that, as that the yuan has entered a period of volatility following a protracted period of strengthening period, some market players are trying to make money by investing in these securities.

The yuan now has more applications in the Russian economy: in particular, the Central Bank of Russia has permitted its use to pay for the charter capital of crediting organizations, including Russian organizations.<sup>129</sup>

On the whole, the share of payments in national currencies between Russia and China stood at around 10 per cent (the rouble exceeded 3 per cent, whereas the yuan was greater than 9 per cent).<sup>130</sup> The highest growth dynamics were reported in the regions of the two countries situated on the common border. In particular, foreign payments by VTB Bank's Far Eastern clients in 2016 grew by a third in yuan, and by 11.4 per cent in roubles. This allowed Russian companies reduce their currency conversion expenses. Similar dynamics were reported in Sberbank's Far Eastern branches throughout 2016.<sup>131</sup>

Promising aspects of financial and banking cooperation include the "joining" of the national payment systems of the two countries and the issuance of co-badged Mir and UnionPay cards, as well as evolving the Chinese infrastructure for Russian Mir cards.<sup>132</sup> Russia has implemented similar solutions to support the use of UnionPay cards. Other topics being discussed by the parties include the use of the Chinese Cross-Border Interbank Payment System (CIPS) as an alternative to the SWIFT international bank payment system, and listing the securities of Russian companies on the Chinese securities market.<sup>133</sup> The parties are also in talks about allowing Russian insurance companies into the Chinese re-insurance market and giving Chinese insurance companies permission to invest in the Russian financial market.<sup>134</sup>

The risk of a decline in Chinese investments in the Russian economy is linked to the depreciation of the national currencies of the two countries. The low exchange rate of the rouble has affected the payoff times of a number of Russian investment projects, forcing Chinese companies to give up of some of the deals. The depreciation of the yuan, for its part, resulted in more expensive cross-border investments in the currencies of third countries.<sup>135</sup>

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<sup>127</sup> [http://cbr.ru/press/pr.aspx?file=13102014\\_154408if2014-10-13T15\\_39\\_28.htm](http://cbr.ru/press/pr.aspx?file=13102014_154408if2014-10-13T15_39_28.htm)

<sup>128</sup> <http://bankir.ru/novosti/20150314/yuan-i-rubl-ukreplyayut-druzhbu-10100301/>

<sup>129</sup> <http://kommersant.ru/doc/2989741>

<sup>130</sup> Data for late June 2016 <http://www.finmarket.ru/database/news/4309995>

<sup>131</sup> [http://www.sberbank.ru/ru/press\\_center/all/article?newsID=6e281d02-b9b6-40a8-8b89-b5adbfd84482&blockID=&regionID=&lang=ru](http://www.sberbank.ru/ru/press_center/all/article?newsID=6e281d02-b9b6-40a8-8b89-b5adbfd84482&blockID=&regionID=&lang=ru)

<sup>132</sup> <http://government.ru/news/25191/>

<sup>133</sup> In early 2017 Rusal became the first Russian company to place its panda bonds in China (<http://www.vestifinance.ru/articles/81066>).

<sup>134</sup> [https://www.cbr.ru/finmarkets/files/development/review\\_160217.pdf](https://www.cbr.ru/finmarkets/files/development/review_160217.pdf)

<sup>135</sup> <https://www.bloomberg.com/graphics/2016-china-deals/>

In addition, as part of its fight against capital flight, the Chinese government has introduced stricter controls over the country's investments in foreign enterprises, which may also result in a decrease in Chinese investments in Russia.<sup>136</sup> This same decision has affected financial cooperation between the two countries. The necessary investment infrastructure for floating Russian securities in Chinese yuan was prepared as early as 2016.<sup>137</sup> The idea was to issue securities worth \$1 billion. Now that China has introduced measures to fight capital flight, panda bonds remain the only way of placing Russian securities in that country. Panda bonds prevent money generated by bond sales from being automatically transferred to the Russian budget,<sup>138</sup> which means that Russian companies may consider the instrument to be useless at present.<sup>139</sup>

To overcome these obstacles, the parties may want to discuss the introduction of an exclusive quota for investments in Russia, which would include the sales of Russian securities denominated in yuan. Russia is not among the largest recipients of Chinese foreign direct investments, so the measure would hardly result in any dramatic capital flight from Russia. On the other hand, it would enable companies interested in expanding their cooperation to stay in Russia.

Any further increase in payments in national currencies was also held back by the high cost of the trade financing denominated in the yuan that was obtained by Russian banks and companies from Chinese financial organizations, as well as by the reluctance of Chinese banks to use the money left on their rouble accounts to make investments and conduct operations on the interbank market. The underdeveloped state of the agency networks Russian banks in the Asia-Pacific, and the limited range of products they offer, are also factors.<sup>140</sup>

In China, industrial enterprises with Russian capital are facing the same difficulties as their Chinese colleagues: increasingly strict environmental regulations;<sup>141</sup> ever-growing excess capacities and debts; and production cuts.<sup>142</sup>

Russia and China should take advantage of the new opportunities provided by financial cooperation in order to promote the creation of new areas for investment interaction, including

<sup>136</sup> <https://www.wsj.com/articles/china-issuing-strict-controls-on-overseas-investment-1480071529>

<sup>137</sup> The Chinese office of the Central Bank of Russia viewed coordination of work to provide for the issuance of yuan-denominated Russian sovereign bonds as its primary mission. (<https://russian.rt.com/article/326575-yuan-tovarischi-kogda-cb-rossii-vypustit-gosobligacii>, <https://rg.ru/2016/06/24/bank-rossii-otkroet-predstavitelstvo-v-pekine.html>, <http://www.finanz.ru/novosti/obligatsii/cb-rf-otkroet-ofis-v-kitae-dlya-prodazhi-bondov-v-yuanyakh-1001481690>).

<sup>138</sup> <https://www.bloomberg.com/news/articles/2017-03-09/bond-pioneer-who-outsmarted-sanctions-sees-yuan-quest-fall-short>

<sup>139</sup> <http://www.vedomosti.ru/newslines/top/economics/news/2017/02/28/679385-minfin-ofz-yuanyah>

<sup>140</sup> M. Alexandrova. Russian-Chinese Financial and Banking Cooperation // *Asia and Africa Today*, 2016, No 8, pp 24–30.

<sup>141</sup> As an example, Sinopec and Sibur are postponing their joint project to build a rubber producing enterprise because the operation would have to be environmentally cleared and market-assessed in China. Given that the enterprise is situated close to Shanghai, the probability is great that China will not clear it to operate.

<sup>142</sup> In 2016, Akron, one of Russia's major fertilizer manufacturers, was forced to sell the controlling stake in its only Chinese enterprise.

by way of tying the One Belt, One Road Initiative and the Eurasian Economic Union together towards the speedier introduction of bilateral action plans.

## E-Commerce

Cross-border e-commerce became a relatively new aspect of the Russia–China trade in 2016.

By late 2016, the share of Russians making purchases on Chinese online stores had grown to nearly 60 per cent.<sup>143</sup> The popularity of Chinese online stores in Russia is explained by the broad range of products they offer and the low prices, which is particularly important to Russian users, who are seeing their incomes shrink. Many major Chinese online retailers operate on the Russian market, including JD.com, LightInTheBox.com and Dhgate.com.<sup>144</sup> The absolute leader is of course China's leading online hypermarket, AliExpress, which accounted for around 90 per cent of all of Russia's online orders from China in 2016%.<sup>145</sup> AliExpress took little time to establish partnerships with Russian banks<sup>146</sup> and payment services,<sup>147</sup> helping its clients get commodities faster and cheaper.<sup>148</sup> It is thus having a positive effect on the development of the entire Russian online trading market and helps attract more consumers to online stores. Russia is among AliExpress's top three markets,<sup>149</sup> accounting for at least 35 per cent of the company's sales structure.<sup>150</sup> The state's appeal comes from the capacity of the market and the absence of an e-commerce tax. In addition, considering that the average bill on the website amounts to 980 roubles (around \$17.20), almost all shipments from China fall within the duty-free category.<sup>151</sup>

In 2016, efforts were made to implement the Russian presidential decree to create Russian online platforms for exporting Russian commodities.<sup>152</sup> In September 2016, the Russian national pavilion was inaugurated at TMall Global (part of Alibaba Group)<sup>153</sup> as part of measures agreed at the 20<sup>th</sup> St Petersburg International Economic Forum.<sup>154</sup> Several other online platforms

<sup>143</sup> <http://www.akit.ru/рост-покупок-в-онлайн-магазинах-китая/>

<sup>144</sup> [http://www.rbc.ru/technology\\_and\\_media/15/01/2016/5698e0579a7947ab0f090bfd](http://www.rbc.ru/technology_and_media/15/01/2016/5698e0579a7947ab0f090bfd)

<sup>145</sup> <http://www.akit.ru/рост-покупок-в-онлайн-магазинах-китая/>

<sup>146</sup> <http://rt.rbc.ru/tatarstan/04/11/2016/581c31439a79472d67795ecb?from=main>

<sup>147</sup> AliExpress's Russian payment systems are Qiwi, Mastercard and Yandex.Money. Russian buyers can also pay using their mobile phones and via the Chinese AliPay payment system. In 2016, AliExpress became the first foreign company to accept Mir cards issued by the Russian National Payment Card System. (<https://www.vedomosti.ru/business/articles/2016/04/27/639261-pokupki-aliexpress-mozhno-budet-oplachivat-kartoi-mir>).

<sup>148</sup> AliExpress works with Russian Post, as well as and SPSR and DPD to provide its Russian clients with the most convenient delivery options. To expedite deliveries across Russia, new processing centres and a dedicated railway train have been launched. (<http://www.interfax.ru/business/536432>; <https://rg.ru/2016/09/30/dlia-posylok-iz-kitaia-v-rossiiu-zapustiat-specialnyj-poezd.html>)

<sup>149</sup> <http://www.interfax.ru/business/536432>

<sup>150</sup> <http://www.akit.ru/рост-покупок-в-онлайн-магазинах-китая/>

<sup>151</sup> The duty is not applied to commodities under 150 euros. <http://kommersant.ru/doc/3096166>

<sup>152</sup> <http://kremlin.ru/events/president/news/50899>

<sup>153</sup> <http://www.exportcenter.ru/news/rets-otkryl-rossiyskiy-natsionalnyy-pavilon-na-tmall-global/>

<sup>154</sup> <https://rg.ru/2016/09/05/na-krupnejšej-torgovoj-ploshchadke-kitaia-otkrylsia-rossijskij-pavilon.html>

created in 2016 are also dedicated to the export of Russian products to China.<sup>155</sup> The majority of these platforms specialize in food products.<sup>156</sup> No exact sales data was available, but it is understood that they are infinitesimally small compared to the turnovers of AliExpress and other Chinese online services.

## Transport Cooperation

Transport and infrastructure projects are becoming an important area of cooperation between China and Russia.<sup>157</sup> Such projects are primarily aimed at taking full advantage of Russia's transit potential. China's interest in these projects is explained by both geopolitical and economic factors related to Russia's rivalry with the United States in Asia, and also by the need to provide contracts for the country's road and housing construction industry.<sup>158</sup> The new routes will also help cut delivery times from China.

Transport cooperation between the two countries is characterized by a fairly low flow of commodities to and from China (around 1–2 per cent of the total incoming cargo processed); the majority of freight originating in Russia actually bypasses the country via Kazakhstan.<sup>159</sup> The current freight transit restrictions are down to the shortage of Russian crossing points with China that would offer rolling-stock switches to the differing railway gauges.<sup>160</sup> In addition, the Zabaykalsky Krai crossing is failing to ensure the necessary throughput rate for railways carriages.<sup>161</sup> In fact, overland transportation modes are more expensive than sea shipping;<sup>162</sup> their load rate is low, and any new infrastructure projects will require significant investments with long payoff periods.<sup>163</sup>

It would be advisable for Russia to overcome the problem of differing railway gauges, perfect the current customs procedures, and speed up freight clearing procedures.

<sup>155</sup> <http://dakaitaowa.ru/news/item/30-dakaitaowa-com-effektivnyj-instrument-selkhoztovaroiproizvoditelya-rf-narynke-knr>

<sup>156</sup> One indicator of growing sales is the fact that in 2016, the Chinese browser Baidu started to include links to Russian flour sales as a search result for “imported flour.” The Russian company Makfa successfully opened an online shop in China and has since sold 12,000 tonnes of flour. Another Russian company, Aleiskzernoprodukt, has sold some 10,000 tonnes of flour to China (<https://rg.ru/2017/03/23/reg-sibfo/chto-tormozit-eksport-sibirskogo-prodovolstviia-v-kitaj.html>).

<sup>157</sup> <https://www.acra-ratings.ru/research/56>

<sup>158</sup> <http://www.forbes.ru/mneniya/mir/327663-zachem-kitai-oplachivaet-zhd-perevozki-cherez-rossiyu-i-kazakhstan>

<sup>159</sup> Zuyenko I., Zuban S. Transcontinental Transit, Asia-Europe. *Global Economy and International Relations*, 2016, vol. 60, No 7, p.72.

<sup>160</sup> The railway gauges in Russia and China differ; as trains cross the border they need to “change shoes” accordingly.

<sup>161</sup> <http://www.vedomosti.ru/business/articles/2016/12/13/669337-rossiya-viezhaet>

<sup>162</sup> A shipping container sent on the railway from China to Europe will cost around \$6,000. If sent by ship, it will cost \$1,000. (<http://www.forbes.ru/mneniya/mir/327663-zachem-kitai-oplachivaet-zhd-perevozki-cherez-rossiyu-i-kazakhstan>).

<sup>163</sup> Experts say for competition to become independent from freight values, shipping needs to become 25 to 40 per cent cheaper than it is now. <http://www.vedomosti.ru/business/articles/2016/12/13/669337-rossiya-viezhaet>.

To simplify cross-border transshipments between Russia and China, it would be advisable to increase the role of the regular meetings by the sub-commission on transport cooperation as part of the Russia–China Commission on preparations for regular summits of the heads of state, and to create an interaction mechanism as part of the China–Mongolia–Russia economic corridor in order to implement the intergovernmental agreement on vehicular travel along the Asian road network between Russia, China and Mongolia, and also the agreement between the Shanghai Cooperation Organisation member nations on setting up favourable conditions for international road transportation. These steps are to be implemented for the purposes of coordinating and simplifying international shipping procedures. The parties should also develop the plan to simplify cross-border shipments, specifying the goals to be met at each stage.

It would also be advisable to simplify the paperwork involved in shipments by introducing a single shipment document.

Further development of cross-border railway transportation would be facilitated by the use of a common shipping document. Russia, China and Mongolia should also create an electronic information system for cross-border railway shipments, one that would provide system guarantees of normal functioning to regular railway services between China and Europe.

#### Cross-border and Interregional Dimension of Cooperation

Interaction between individual Russian and Chinese regions is an important element of bilateral cooperation. The main trade partners on this scale are historically Russia's densely populated and economically developed Central Federal District and China's Heilongjiang Province.

Since 2013, the anti-Russian sanctions, coupled with Russia's "Turn to the East," China's encouraging its companies to break into foreign markets, and the change of power in both countries have meant that the parties have been paying special attention to developing cooperation between their regions on both sides of the common border.<sup>164</sup> This has mostly involves cooperation between China's Inner Mongolia and its north-eastern provinces and Russia's Siberian and Far Eastern federal districts.<sup>165</sup> Owing to the low population density and low economic performance of the latter, the two Russian regions play a relatively insignificant part in cross-border cooperation with China, despite their geographic proximity.

In 2016, China's share in trade with the Far Eastern and Siberian federal districts rose to 25.1 per cent and 19.2 per cent, respectively.<sup>166</sup> China continued to be the largest trade partner of

<sup>164</sup> After Xi Jinping came to power in China, the regional and ministerial heads also were replaced. Russia reshuffled its Ministry for the Development of the Russian Far East. (Russia–China Interregional and Cross-Border Cooperation: New Trends and Problems // China: Politics, Economics, Culture. Moscow: Institute of Far Eastern Studies, 2016, p. 221).

<sup>165</sup> In 2016, Russia adopted seven federal laws aimed at developing the country's Far East (<https://riss.ru/wp-content/uploads/2017/02/Doklad-na-sajt.pdf>).

<sup>166</sup> [http://dvtu.customs.ru/index.php?option=com\\_content&view=article&id=20957:-2016-&catid=63:stat-vnesh-torg-cat&Itemid=282](http://dvtu.customs.ru/index.php?option=com_content&view=article&id=20957:-2016-&catid=63:stat-vnesh-torg-cat&Itemid=282); [http://stu.customs.ru/index.php?option=com\\_content&view=article&id=15299:-----2016-&catid=170:2012-12-26-07-57-01&Itemid=241](http://stu.customs.ru/index.php?option=com_content&view=article&id=15299:-----2016-&catid=170:2012-12-26-07-57-01&Itemid=241)

these regions in 2016.<sup>167</sup> At the same time, unlike the national indicators for Russia indicators, the two regions have formed a positive trade balance with China.

The Far Eastern Federal District mainly exported minerals to China (32.8 per cent), as well as foods and agricultural products (32 per cent, including 26.1 per cent represented by fish and crustaceans), wood and wood products (19.2 per cent), and machinery and equipment (10.7 per cent). The Siberian Federal District exported mineral fuel (30.4 per cent), machinery and equipment (22.3 per cent), metallurgy products (11.5 per cent), and food and agricultural raw materials (9.8 per cent).<sup>168</sup> China mainly exported machinery and equipment to the Far Eastern Federal District (36.8 per cent), as well as food products (15.5 per cent), and chemical and metallurgy products (14.3 per cent and 11.5 per cent, respectively). And it imported chemical products (46.2 per cent), metallurgy products (14 per cent), and agricultural products (10.3 per cent) to the Siberian Federal District.

### How Russia's Far Eastern Regions Traded with China in 2016 (Data provided by the Federal Customs Service of the Russian Federation)

	Trade		Export		import	
	Millions of dollars	China's share in the foreign trade of the Russian Region (%)*	Millions of dollars	China's share in the export of the Russian Region (%)	Millions of dollars	China's share in the import of the Russian Region (%)
Far Eastern Federal District	<b>6133</b>	25.1	<b>3,850.4</b>	20.7	<b>2,282.6</b>	39.4
Including						
Amur Region	<b>445.8</b>	88.2	<b>311.9</b>	91.7	<b>134</b>	81
Jewish Autonomous Region	<b>59.9</b>	97	<b>33.1</b>	95.7	<b>26.8</b>	98.6
Kamchatka Krai	<b>210</b>	31.9	<b>203.1</b>	35.7	<b>6.9</b>	7.8

<sup>167</sup> China also became the third largest trading partner of Russia's Far Eastern Federal District in terms of exports (after South Korea [26.1 per cent] and Japan [25.7 per cent]), and the region's largest partner in terms of imports (39.4 per cent) ([http://dvtu.customs.ru/index.php?option=com\\_content&view=article&id=20957:-2016-&catid=63:stat-vnesh-torg-cat&Itemid=282](http://dvtu.customs.ru/index.php?option=com_content&view=article&id=20957:-2016-&catid=63:stat-vnesh-torg-cat&Itemid=282)).

<sup>168</sup> Calculations based on the data provided by the Federal Customs Service: ([http://dvtu.customs.ru/index.php?option=com\\_content&view=article&id=21181:-2016-&catid=63:stat-vnesh-torg-cat&Itemid=282](http://dvtu.customs.ru/index.php?option=com_content&view=article&id=21181:-2016-&catid=63:stat-vnesh-torg-cat&Itemid=282), [http://stu.customs.ru/index.php?option=com\\_content&view=article&id=15302:-----2016-&catid=203:2013-05-13-08-11-10&Itemid=279](http://stu.customs.ru/index.php?option=com_content&view=article&id=15302:-----2016-&catid=203:2013-05-13-08-11-10&Itemid=279))

Magadan Region	<b>33.6</b>	7.6	<b>12.1</b>	3.1	<b>21.5</b>	44.3
Primorsky Krai	<b>2,918.8</b>	54.4	<b>1,096.1</b>	50.4	<b>1,822.7</b>	57.2
Yakutia	<b>291</b>	6.4	<b>280.4</b>	6.3	<b>10.6</b>	10.8
Sakhalin Region	<b>992.3</b>	9.3	<b>922.2</b>	10.3	<b>70.1</b>	4.1
Khabarovsk Krai	<b>1070</b>	54.6	<b>899.9</b>	58.2	<b>170.2</b>	41.1
Chukotka	<b>111.5</b>	75.3	<b>91.6</b>	95.6	<b>19,9</b>	38.1
Siberian Federal District	<b>6,106.5</b>	19.2	<b>4,322.5</b>	16.7	<b>1,784.1</b>	30.3
including						
Altai Krai	<b>183.5</b>	19.1	<b>98.6</b>	14.8	<b>84.9</b>	28.9
Transbaikal	<b>488.8</b>	79	<b>93</b>	44.8	<b>395.8</b>	96.3
Irkutsk Region	<b>2,682.9</b>	41.4	<b>2,457.3</b>	44.9	<b>225.6</b>	22.2
Kemerovo Region	<b>525,0</b>	5.2	<b>423.6</b>	4,4	<b>101,4</b>	20.2
Krasnoyarsk Krai	<b>915.9</b>	14.9	<b>696.4</b>	14.2	<b>219.4</b>	17.7
Novosibirsk Region	<b>775.7</b>	23	<b>164.6</b>	9.1	<b>611.2</b>	38.9
Omsk Region	<b>54.2</b>	7.1	<b>21.4</b>	4.3	<b>32.9</b>	12.2
Republic of Altai	<b>15.5</b>	34.1	<b>11.5</b>	38.7	<b>4.0</b>	25.3
Republic of Buryatia	<b>246.5</b>	24.2	<b>208.4</b>	21.7	<b>38.1</b>	64.5
Republic of Tuva	<b>4.1</b>	7.1	<b>0.005</b>	0.01	<b>4.0</b>	97.6
Republic of Khakassia	<b>129.3</b>	7.3	<b>86.3</b>	5.6	<b>43.0</b>	17.2
Tomsk Region	<b>85.3</b>	17.4	<b>61.5</b>	26.7	<b>23.8</b>	9.2

\* Shares of foreign trade turnover in the Russian regions that are part of the Far Eastern Federal District and the Siberian Federal District, calculated on the basis of each region's trade turnover, rather than the district as a whole.

Based on data from the Far Eastern and Siberian sections of the Federal Customs Service of Russia

(<http://dvtu.customs.ru>, <http://stu.customs.ru>).

Russia–China interregional cooperation is guided by the governments both countries. To carry out intergovernmental cooperation, they have established the Council of Cooperation between the Upper and Middle Reaches of the Yangtze River and the Volga Federal District and the Council for Cooperation between the Far East and the Northeast of China.

A number of important decisions were made in 2016 to encourage cross-border cooperation, including an agreement to establish the Intergovernmental Commission on Cooperation and Development of the Russian Far East and Baikal Region and Northeast China in the framework of regular meetings between the heads of government of the two countries.<sup>169</sup>

On the whole, the Russian Far East has seen intensive efforts aimed at creating new mechanisms for investment support since 2015, including the Free Port of Vladivostok and the Priority Development Areas (PDAs).<sup>170</sup>

Priority Development Areas are sections of the territory of constituent entities of the Russian Federation where a special legal regime has been established for an extendable term of 70 years to conduct entrepreneurial or other types of activity based on deregulation and large-scale fiscal incentives in order to raise investment from specific (anchor) investors, including from the People’s Republic of China.<sup>171</sup> The PDAs are different from special economic zones and territorial development zones in that they offer longer term and more favourable conditions for doing business<sup>172</sup>.

#### Conditions for PDA and Free Port of Vladivostok Residents

	Free Port of Vladivostok		Priority Development Areas	
	For residents	For non-residents	For residents	For non-residents
<b>Financial exemptions</b>				
Insurance premiums	7.6% for a period of 10 years.	30%	7.6% for a period of 10 years.	30%
Profit tax	0% for an initial period of 5 years (12% over the next 5	20%	0% for an initial period of 5 years (12% over the next 5	20%

<sup>169</sup> <http://government.ru/info/25224/>

<sup>170</sup> Federal Law No. 212-FZ “On the Free Port of Vladivostok” came into force on October 12, 2015. The Free Port of Vladivostok area originally included all the key ports in the southern Far East from Zarubino to Nakhodka, as well as Vladivostok International Airport. In June 2016, the Federation Council of the Russian Federation approved amendments to the Federal Laws on Advanced Development Territories and the Free Port of Vladivostok, expanding the free port regime to include key Far Eastern ports: Vanino District in Khabarovsk Krai, Korsakovskiy District in Sakhalin Region, Petropavlovsk-Kamchatskiy in Kamchatka Krai, Pevek in the Chukotka Autonomous Region and Lazovskiy District in Primorsky Krai (<http://primamedia.ru/news/515460/>, <http://erdc.ru/>, <http://www.kremlin.ru/acts/bank/39906>).

<sup>171</sup> For more details, visit: <http://erdc.ru/local/tp1/docs/473.docx>

<sup>172</sup> See: Kashina, N. V. Advanced Development Territories: A New Instrument for Attracting Investments to the Russian Far East // *Economy of the Region*. 2016, vol. 12, issue 2, pp. 569–585.

	years).		years).	
Property tax	0% for a period of the initial 5 years (0.5% over the next 5 years).	2.2%	0% for an initial period of 5 years (1.1% over the next 5 years).	n/a
Land tax	0% for an initial period of 5 years.	0.3–1.5%	0% for an initial period of 3 years.	1.5%
Accelerated VAT refund	-	-	10 days	-
<b>Administrative preferences</b>	<ul style="list-style-type: none"> <li>• Right to lease land lots at cadastre value without auctions</li> <li>• Foreign worker permits: up to 20% for all residents, above 20% at supervisory board's discretion, exempted from quotas</li> <li>• Shortened regular inspections (15 days maximum)</li> <li>• Shortened non-scheduled inspections (15 days maximum)</li> <li>• Partial exclusion from Rosselkhozna dzor (the agency in</li> </ul>	-	<ul style="list-style-type: none"> <li>• “One stop shop” for investors</li> <li>• Ready infrastructure</li> <li>• Shortened inspection periods</li> <li>• Customer-oriented government administration</li> <li>• Management company has the right to defend residents in a court of law.</li> </ul>	

	charge of agriculture supervision) and Rospotrebnadzor (consumer rights protection) regulation, in a departure from existing practices. <sup>173</sup>			
<b>Customs preferences</b>	Free customs zone regime. <sup>174</sup>	-	Free customs zone regime.	-
<b>Simplified visa regime</b>	Right to visit Russian territory for up to 8 days without a visa provided foreign citizens arrive in Russia via border crossings located in the Free Port of Vladivostok territory.	-		-

The table above is based on the official website of the Far East Development Corporation, which is the PDA operator and Free Port of Vladivostok special entrepreneurial regime implementation and development agent (<http://erdc.ru>).

The Far East had 13 Priority Development Areas as of the end of 2016,<sup>175</sup> with their numbers expected to reach 17 or 18 by the end of 2017.<sup>176</sup>

The PDAs and the Free Port of Vladivostok are vehicles for raising foreign direct investment into the region, which has never been a large recipient of investment from abroad, with China being the largest contributor by far. Chinese companies are carrying out a total of 23 projects in these territories.<sup>177</sup> The combined financing of the projects is \$2.4 billion (141 billion roubles).<sup>178</sup>

<sup>173</sup> <http://www.eastrussia.ru/material/zelenyy-svet-mtk/>

<sup>174</sup> A Free Customs Zone (FCZ) is a customs procedure that allows goods to be stored and used within all or part of territory of a special economic zone without paying customs duties, and without non-tariff regulation measures with regard to foreign goods being imposed or prohibitions or restrictions with regard to Customs Union goods being applied (<http://erdc.ru>).

<sup>175</sup> On February 17, 2017, the decision was made to establish the Neftekhimichesky ADT (in Primorsky Krai) to support the Eastern Petrochemical Complex, with Rosneft as the project operator. Talks are underway for ChemChina to buy an equity stake. The establishment of the Svobodny ADT (Amur Region) has also been announced. ([http://www.minvostokrazvitiya.ru/press-center/news\\_minvostok/?ELEMENT\\_ID=5028](http://www.minvostokrazvitiya.ru/press-center/news_minvostok/?ELEMENT_ID=5028)).

<sup>176</sup> <http://www.eastrussia.ru/material/effekt-tormnozheniya/>

<sup>177</sup> [http://russian.news.cn/2016-12/28/c\\_135938333.htm](http://russian.news.cn/2016-12/28/c_135938333.htm)

<sup>178</sup> <http://erdc.ru/>

Chinese capital is tied up in projects in the Russian Far East in areas such as energy, agriculture, manufacturing, tourism and transport.<sup>179</sup> Specifically, Primorsky Krai – the leader among Russia’s Far Eastern regions in terms of trade with China – has established four Priority Development Areas: the Nadezhdinskaya, Mikhailovsky, Bolshoi Kamen and Neftekhimichesky, the latter being approved by the Russian government in early 2017. Two projects with Chinese investments are under way in the Nadezhdinskaya PDA: the SATO textiles company, and the paper mill and paper products manufacturer Aptamil Far East Rus.

Free Port of Vladivostok residents include six companies with Chinese investments. Corporation Prim Hunchun is building a vegetable, fish and seafood processing and storage plant, as well as a frog-breeding farm in the Ussuriysky District.<sup>180</sup> In addition, investors from China are planning to mine ores and precious metals in Primorsky Krai with Maritime Gold Ore Company, and build housing with Vladstroy.<sup>181</sup>

**Foreign investment in the Priority Development Areas and the Free Port of Vladivostok, million dollars.**

	<b>PDA</b> s	<b>FPV</b>
Total	2738.8	17.5
including		
China	2422.2	17.3
Australia	183.4	-
Italia	46.7	-
Kazakhstan	43.3	-
Japan	31.1	0.2
Singapore	12.1	-

Calculated based on the official website of the Far East Development Corporation. URL: <http://erdc.ru/>. Official exchange rates were used.

Cooperation in transportation and infrastructure is also growing. In 2016, the Government of the Russian Federation approved a set of measures to establish and upgrade the infrastructure facilities of the Primorye-1 and Primorye-2 international transport corridors (ITC) that link China’s north-eastern provinces to ports in Russia’s southern Far East.<sup>182</sup> Since the northeast of China is land-locked, Russian ports may become important freight transit outlets on routes to and

<sup>179</sup> For more details, visit: <https://rg.ru/2017/02/27/v-ekonomiku-dfo-uvelichat-pritok-kitajskih-investicij.html>

<sup>180</sup> <https://rg.ru/2017/02/27/v-ekonomiku-dfo-uvelichat-pritok-kitajskih-investicij.html>

<sup>181</sup> <http://www.primorsky.ru/news/125439/>

<sup>182</sup> Primorye-1 ITC: Harbin–Mudanjiang–Suifenhe/Pogranichny; Suifenhe/Grodekovo; Dongning/Poltavka–Ussuriysk– the ports of Vladivostok/Vostochny/Nakhodka – on to sea shipping lines. Primorye-2 ITC: Changchun–Jilin–Hunchun/Kraskino–Hunchun–Makhalino (Kamyshovo) – port of Zarubino – on to sea shipping lines. (<http://government.ru/news/25953/>; <https://rg.ru/2016/09/22/reg-dfo/kak-integrirovat-mtk-primore-1-v-ekonomiku-atr.html>)

from China,<sup>183</sup> and help take some pressure off of the ports of Tianjin and Dalian in China.<sup>184</sup> The Primorye-1 and Primorye-2 ITCs are expected to carry 45 million tonnes of grain and container shipments by 2030;<sup>185</sup> additional revenues of port operators and transportation companies are estimated at around \$1.6 billion (91 billion roubles) annually.<sup>186</sup> Transport corridors could save Chinese shippers up to \$700 million a year thanks to shorter routes.<sup>187</sup> Despite the geographic proximity, transit via Russian ports currently takes more time because of sub-optimal processing at border crossings.

### Cost of Road and Rail Freight Shipments

Route from China's northern provinces to:	Grain, \$/tonne		Containers, \$/TEU	
	Rail	Road vehicle	Rail	Road vehicle
<b>Dalian (China)</b>	55	95	1185	1645
<b>Zarubino</b>	35	55	870	1050
<b>Vladivostok</b>	60	75	1350	1210
<b>Nakhodka</b>	65	90	1530	1400

Source: <http://www.vedomosti.ru/economics/articles/2016/03/24/634897-sozdanie-transportnih-koridorov-kitai-primore-otsenili-315-mlrd-rublei>

The majority of the financing for ITC-related infrastructure facilities is expected to come from Chinese companies and banks, at 80 per cent, with the Russian side picking up the remaining 20 per cent.<sup>188</sup> According to McKinsey analysts hired to adapt old projects to modern realities, investments in ITCs should break even in ten years' time and yield an APR of 10 per cent.<sup>189</sup>

Other important infrastructure projects in the region include the construction of a highway bridge across the Amur River that will cost around \$2.8 billion,<sup>190</sup> and which is expected to link Blagoveshchensk and Heihe in 2019.<sup>191</sup> What is more, work has started on the Russian portion of a railway bridge across the river at the Nizhneleninskoye–Tongjiang

<sup>183</sup> <http://www.primorsky.ru/news/125439/>

<sup>184</sup> <http://www.vedomosti.ru/economics/articles/2016/03/24/634897-sozdanie-transportnih-koridorov-kitai-primore-otsenili-315-mlrd-rublei>

<sup>185</sup> 23 million tons of grain and 22 million tons of container freight, 1.8 million. (Ibid)

<sup>186</sup> Including expected additional revenue of ports at \$701.8 million (RUB 40 billion) and of rail and truck transportation at \$894.8 million (RUB 51 billion). ([http://minvr.ru/press-center/news\\_minvostok/?ELEMENT\\_ID=4937](http://minvr.ru/press-center/news_minvostok/?ELEMENT_ID=4937))

<sup>187</sup> <http://www.eastrussia.ru/material/zelenyy-svet-mtk/>

<sup>188</sup> <http://www.eastrussia.ru/material/zelenyy-svet-mtk/>

<sup>189</sup> <https://rg.ru/2016/03/23/primore-prolozhit-novyj-put-dlia-kitaia.html>

<sup>190</sup> <http://www.eastrussia.ru/material/priamure-v-2016-m-starje-problemy-i-novye-ozhidaniya>

<sup>191</sup> <http://tass.ru/ekonomika/3903231>

crossing.<sup>192</sup> The Chinese side has already completed its part of the joint project; the Russian side has not. The bridge contract is valued at around \$1.3 billion.<sup>193</sup>

According to expert estimates, key areas for investment in infrastructure development over the coming years will include high-ROI “bottlenecks,” such as the construction of highways, container terminals and approach infrastructure, as well as containers and rolling stock with relatively short payback periods (three to four years).<sup>194</sup>

As far as agriculture in the border regions is concerned, the Russian-Chinese Fund for Agro-Industrial Development signed its first contracts in 2016.<sup>195</sup> The Fund was set up to promote export-oriented agricultural projects in Russia’s Far East using affordable long-term financing from the Asia-Pacific. Some of its output is destined for China.<sup>196</sup>

### Trade and Investment Regimes. Market Openness

2016 saw the multi-faceted development of trade and economic cooperation between Russia and China, with substantial achievements in the areas of trade, investment and regional relations being made. At the same time, both parties were more interested in large-scale projects, setting out promising areas for bilateral cooperation, including at the regional level. Carrying out such projects requires corresponding trade and investment regimes.

*Streamlining trade procedures.* China ranked 61<sup>st</sup> in the World Economic Forum’s (WEF) Global Enabling Trade Report 2016, while Russia ranked 111<sup>th</sup>.<sup>197</sup> According to the World Bank’s Doing Business 2017 report, Russia and China ranked 40<sup>th</sup> and 78<sup>th</sup> on the Ease of Doing Business ranking, respectively, both above average.<sup>198</sup> Yet on the Trading across Borders ranking, Russia and China placed below average (140<sup>th</sup> and 96<sup>th</sup>, respectively). Export and

<sup>192</sup> <http://www.eastrussia.ru/material/rubikon-perekhodit-k-stykovke/>

<sup>193</sup> The Far East and Baikal Region Development Fund is financing 25 per cent of the project, with the remaining 75% being provided by the Russian Direct Investment Fund (RDIF) through the Russia–China Investment Fund. The investment will be recouped via bridge toll in 10 to 15 years. (<http://eaomedia.ru/news/amp/528818/>).

<sup>194</sup> <http://www.vedomosti.ru/business/articles/2016/12/13/669337-rossiya-viezzhaet>

<sup>195</sup> 51 per cent of its equity is owned by the Far East Development Fund (a subsidiary of Vnesheconombank), with 49 per cent belonging to the Chinese side. The establishment agreement was signed as part of a 2015 meeting between Prime Minister of the Russian Federation Dmitry Medvedev and Premier of China Li Keqiang. (<https://rg.ru/2016/03/18/rf-i-kr-investiruiut-v-apk-dalnego-vostoka-bolee-10-mlrd-dollarov.html>)

<sup>196</sup> Ownership rights to land lots under joint projects in Russia must belong to Russian companies. The maximum quota for foreign workers is 20 per cent. Russian companies will be given priority when selecting construction contractors and equipment vendors for the Fund’s projects. If none are available, the terms and conditions for the localization and transfer of foreign manufacturing facilities to the Russian Far East will be offered. The Fund’s initial capital was 13 billion roubles. What is more, under the agreement signed during the St. Petersburg International Economic Forum, the parties committed to the “non-depletive use of Russian land”. (<https://rg.ru/2016/09/01/reg-dfo/start-10-selskohoziastvennyh-proektov-obsudiat-na-ekonomicheskome-forume.html>).

<sup>197</sup> <http://reports.weforum.org/global-enabling-trade-report-2016/enabling-trade-rankings/>

<sup>198</sup> [http://russian.doingbusiness.org/~/\\_/media/WBG/DoingBusiness/Documents/Annual-Reports/English/DB17-Full-Report.pdf](http://russian.doingbusiness.org/~/_/media/WBG/DoingBusiness/Documents/Annual-Reports/English/DB17-Full-Report.pdf)

import clearing procedures take eight days on average in Russia and around four days in China. Inspection times increase as cross-border documentation becomes increasingly complex. Burdensome cross-border procedures raise costs associated with bilateral trade, with costs on the Russian side being 40 per cent higher than in China by on imports, and 26 per cent higher on exports. These factors constitute a substantial roadblock for the development of bilateral trade and have a direct impact on the business climates of both nations.

*Market openness.* Russia and China rank 133<sup>rd</sup> and 126<sup>th</sup>, respectively, on the market access measure in the WEF Global Enabling Trade Report 2016. By the level of tariffs, both nations place below 100 other countries, with high tariffs representing one of the biggest obstacles to the development of bilateral trade. China's high entry threshold for foreign investment placed it at the 127<sup>th</sup> spot; while Russia ranks 125<sup>th</sup> because of the low level of openness of its domestic market. Insufficient development of Russia's domestic financial markets leads to the low availability of trade finance in Russia (106<sup>th</sup> place in 2014). Complicated hiring procedures for foreigners also raise the cost of investing in Russia (ranked 85<sup>th</sup>, as opposed to China in 38<sup>th</sup> place). Lifting these barriers is important for the expansion of mutual investments.

*Investment climate.* Russia's investment climate has been adversely affected by the fall in energy prices and the economic sanctions imposed by western countries. China has also expressed dissatisfaction with the practices of the Russian government bodies. Factors raising the cost of doing business in Russia include: the insufficient protection of property rights and intellectual property; the complicated procedures for accessing financial services; the insufficient level of law enforcement; and the threat of terrorism.

**Table 1. Russia's Investment Climate Indicators (2014 | 2016)**

Country	Logistic competitiveness	Protection of property	Property rights	Protection of intellectual property	Compliance with government regulations	Accessibility of financial services	Reliability of law enforcement agencies	Costs to entrepreneurial activity caused by terrorism
China	35   27	46   51	48   49	48   61	14   -	66   -	55   54	89   81
Russia	79   73	119   119	124   121	105	110   -	86   -	112	102   99

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Russia and China should strive to ensure solid institutional guarantees for the sustainable development of trade and economic cooperation and eliminate trade and investment barriers that restrict and reduce the level of cooperation.

To ease trade formalities, it would be wise to utilize the mechanism of regular meetings between the heads of government to simplify customs clearing procedures. Medium-term and long-term action plans should be discussed and regular performance reviews of the simplification of procedures should be carried out. It would also be advisable to implement the “one stop shop” model in the customs inspection system, create an innovative and effective border control system, and use electronic customs declarations to improve the efficiency of customs clearing. The development of trade procedures would also benefit from the facilitation of cross-border road and trail freight. This could include simplifying international shipping bills, using of universal transport documents, etc.

Russia and China should increase the rate at which they are opening up their markets. China believes it would be wise to consider establishing a free trade zone (FTZ) between the two countries. According to Chinese experts, the creation of an FTZ could provide important institutional guarantees for the growth of trade turnover and the optimization of the trade structure. It will also help improve the investment climate by lowering the market access threshold, while at the same time creating a favourable environment for the expansion of mutual investments. The two countries also need to deepen mutual trust and reach a consensus on this matter, as well as to develop a joint feasibility study for the gradual advancement of negotiations on a Russia–China FTZ agreement.

Russia and China should increase the role of the market mechanism in the promotion of bilateral trade and economic cooperation and regional interaction. The governments of both countries should actively promote the process of approving and implementing trade and investment regime regulations. Specifically, Russia and China should ensure compliance with the treaties on the promotion and mutual protection of investments, as well as on the elimination of double taxation. The level of protection of trade links and investments should be raised and a joint web platform for data exchanges between companies for the purpose of establishing direct economic links should be created. What is more, the two sides should strive to cut costs and consider the possibility of creating a mechanism for preventing investment risks. The development of investment could also benefit from the following measures: the introduction of a regional investment guide; the promotion of innovative formats for financial cooperation; and using public-private partnership mechanisms, funds and other models for commercial financing that facilitate the development of all kinds of direct investments, including cross-border mergers and acquisitions.

## Eurasia as a Region for Cooperation between Russia and China

### The Alignment of the Eurasian Economic Union and the Silk Road Economic Belt

Discussing the possibilities for various countries – primarily China’s neighbours – to participate in the One Belt, One Road initiative is becoming an important substantive part of China’s bilateral relationships with virtually all Eurasian countries. In 2016, China’s Ambassador to the Russian Federation Li Hui said that Russia, as the largest neighbour and strategic partner of China, is an essential participant of the initiative to build the Silk Road, for which it enjoys substantial benefits.<sup>199</sup> As a result, the problem of aligning (linking) of the Eurasian Economic Union (EEU) and the Silk Road Economic Belt announced by the administrations of Russia and China in 2015 became one of the most frequently discussed issues both in the media and at the level of state officials and analysts in 2016 and early 2017.<sup>200</sup>

Priority tasks within the framework of these alignment efforts include: the creation of a series of free trade areas; the promotion of investments; the simplification of trade procedures; and the construction of cross-border parks. However, according to some experts, there are differences in the priorities of the two countries in terms of how to go about the task of aligning the EEU and the Silk Road Economic Belt. China prioritizes the simplification of a trade and investment regime between the parties, whereas the Eurasian Economic Commission (EEC) wants to develop cooperation with China and work to align the two projects in three main areas: 1) the construction of new, and the modernization of existing, transport corridors in Eurasia; 2) the conclusion of a comprehensive agreement on trade and economic cooperation between the EEU and China; 3) the development of a roadmap incorporating specific projects and events to align the economic interests of the EEU and China.

The EEU is interested in at least six transport routes on the Silk Road Economic Belt: 1) the Beijing–Moscow high-speed railway corridor anticipated by Russia and China; 2) the China–Mongolia–Russia link; 3) the China–Central Asia–Western Asia route; 4) the China–Indo-China route; 5) the China–Pakistan route; and 6) the Bangladesh–China–India–Myanmar route.

Although Russian and Chinese researchers have identified alternative routes,<sup>201</sup> the overall concept of the routes coincides in the two countries. Moreover, in China, the network has already been conceptualized in the formula “Stabilize in the East – Strengthen in the North –

<sup>199</sup> <https://ria.ru/world/20160119/1361667155.html>

<sup>200</sup> Joint declaration of the Russian Federation and the People’s Republic of China concerning the alignment of the development of SREB and the EEU dated May 8, 2015: <http://www.kremlin.ru/supplement/4969>

<sup>201</sup> S. G. Luzyanin, S.L. Sazonov. The Silk Road Economic Belt: 2015 Model // Observer/ No.5 (304). May 2015. P. 40–43.

Descend in the South – Advance in the West” (东稳北强南下西进). The doctrine can be regarded as China’s long-term stratagem for having transport access beyond its borders, which has been actively implemented by President Xi Jinping. For Moscow, the Strengthen in the North component seems to be most relevant. This is most likely because of Beijing’s willingness to establish – gradually and for a long period of time – transport and logistics centres in (the north of) Russia and invest in infrastructure projects, which is in line with Russia’s interests.

On June 25, 2016, the EEC and Ministry of Commerce of China signed a joint statement on the launch of the negotiation process to draft a comprehensive agreement on trade and economic cooperation between the EEU and the People’s Republic of China.<sup>202</sup> The main provisions of the agreement include customs, technical, sanitary, veterinary and phytosanitary regulation, the protection of intellectual property and competition, and e-trade. The parties also plan to establish “institutions of integrated interaction.” In agriculture, industry, power engineering, transport and communications and infrastructure, “common formats for projects of joint interest” are expected to emerge.<sup>203</sup> According to the then Chairman of the EEC Board Tigran Sarkisian, negotiations between the two parties were quite intense. Following the coordination of joint approaches to the alignment of the EEU and the Silk Road Economic Belt, Beijing hosted the first round of negotiations in August 2016. Respective meetings will be organized once every two months at the working group under the direction of EEC Minister in Charge of Trade Veronika Nikishina.<sup>204</sup>

During the first phase, the possibility of a non-preferential agreement will be considered. Such an agreement would not only cover trade facilitation and the regulatory framework, but also inter-industry cooperation. Subsequently, a preferential agreement may be possible. According to a statement by Veronika Nikishina, a narrow non-preferential agreement is possible in the near future (within 24 months).<sup>205</sup>

Russia believes that, in addition to the negotiations on trade and economic cooperation, which should address issues regulated by the EEC, another track for negotiations concerning non-tariff regulation measures should be launched. The governments of the EEU member states are not currently vested with the powers to discuss these matters in the EEC. Russia is also ready to negotiate tariff regulation measures within the framework of drafting an agreement on trade

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<sup>202</sup> <http://www.eurasiancommission.org/ru/nae/news/Pages/25-08-2016-1.aspx>

<sup>203</sup> [kommersant.ru/doc/3023535](http://kommersant.ru/doc/3023535)

<sup>204</sup> <http://www.eurasiancommission.org/ru/nae/news/Pages/25-08-2016-1.aspx>

<sup>205</sup> <http://www.stanradar.com/news/full/20200-dogovor-obedinenija-eaes-i-shelkovogo-puti-mogut-podpisat-za-2-goda.html>

and economic cooperation, which should conclude in the creation of a free trade area, and believes this process can be completed by 2030–2035.

China points to the fact that the EEU is still evolving as an international entity: while the EEU member states have agreed the key issues of trade in commodities, there are no uniform rules as to investments. Because of the various levels of openness among the EEU countries to foreign investments, China sees difficulties in achieving an agreement with the EEU on an investment regime. Furthermore, there are encumbrances in China–EEU relations concerning the trade regime. The EEU sees major projects as its priority; however, in order to effectively implement these projects, institutional guarantees are required, and trade and investment barriers must be removed. Specifically, the low effectiveness and insufficient transparency of border control procedures is an obstacle to the promotion of regional trade and increased investment inflows. In the EEU member states, the preparation of the requisite foreign trade documents and compliance with border control procedures require considerable time and financial expenses. Cooperation should focus on simplifying customs, quarantine and inspection procedures, promoting cross-border transport, and e-commerce. The WTO Trade Facilitation Agreement may serve as a foundation for interaction between China and the EEU in this area.

Another essential area for cooperation with a view to increasing the level of trade and economic cooperation is the removal of tariff barriers. The creation of a free trade area will allow existing tariff barriers to be eliminated and non-tariff barriers to be reduced, which will ensure positive results not only for Chinese companies, but also for companies based in the EEU member states. And in the long term, it boost the GDP of both China and the EEU.

When promoting interaction between China and the EEU, Chinese experts suggest building on China's experience negotiating with the ASEAN and the EU concerning trade and investment regimes and rules. The focus of the negotiations between China and the ASEAN is free-trade area agreements. The comprehensive strategic partnership with the EU includes negotiations on a bilateral investment agreement and the development of feasibility studies for the establishment of a free-trade area between China and the EU. The parties have approved priority areas for cooperation: simplification of trade procedures; cooperation in finance, industry, transport, science and technology, IT, etc. The EU and China have agreed mechanisms and principles of cooperation and are discussing and implementing specific projects at the bilateral level. This scheme has produced positive results and may be taken into account in the course of aligning the EEU and Silk Road Economic Belt.

**Forming a roadmap that incorporates specific projects and events aimed at aligning economic interests of the EEU and China.** The main source of this roadmap will be the

medium- and long-term economic development plans of the states involved in the initiative. At the same time, these countries should promote the joint planning of the alignment process and introduce operational action plans as soon as possible. In order to promote alignment, Russia and China should create transnational research groups and develop academic exchanges and joint research projects into related issues, which should be capable of providing expert support and a high level of processing.

On August 24, 2016, the Chinese initiative to establish a joint database of upcoming and existing projects of the People's Republic of China and the EEU member states that are involved in the process of tying together the EEU and the Silk Road Economic Belt was approved at a meeting between Chairman of the EEC Board Tigran Sarkisian and Vice Premier of China Zhang Gaoli. Work to establish the database is already under way.<sup>206</sup> In March 2017, the EEC announced that it had prepared a list of priority infrastructure projects that would be implemented in the EEU and “support the formation” of the Silk Road Economic Belt.<sup>207</sup>

China and the EEU member states have already created a robust system of bilateral contacts, in which national development projects are aligned within the framework of the construction of the Silk Road Economic Belt. This work encompasses the alignment of the Silk Road Economic Belt with Kazakhstan's “Nurly Zhol – The Path to the Future” programme and the China–Kazakhstan Programme of Industrial and Investment Cooperation. The China–Belarus Great Stone Industrial Park special economic zone is a Silk Road Economic Belt demonstration project. Projects within the framework of these programmes are already under way, and China believes that they should not be included in lists of projects for alignment. Otherwise, coordinating processes at the regional and bilateral levels will be mixed, which will reduce the effectiveness of cooperation. Moreover, alignment should focus on the areas in which EEU member states have already reached common agreement, because alignment processes at the bilateral and regional levels take various routes. These moves will allow even greater synergy. However, the approach may not be completely supported by Russia, since Moscow would like the EEC to act as a priority negotiating partner, asserting the national interests of all EEU member states.

Both Russia and China believe that tying the EEU and the Silk Road Economic Belt together is not the only format for interaction for creating a new environment for sustainable

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<sup>206</sup> <http://www.eurasiancommission.org/ru/nae/news/Pages/25-08-2016-1.aspx>

<sup>207</sup> SREB–EEU Alignment Acquires Real Framework: List of Infrastructure Projects Approved // Official website of the Eurasian Economic Commission. March 1, 2017. URL: <http://www.eurasiancommission.org/ru/nae/news/Pages/2-03-2017-1.aspx>

Eurasian development. The development of the region can be promoted by implementing the Greater Eurasian Area initiative proposed by Russia.

### The Greater Eurasian Partnership

The idea to build the Greater Eurasian Partnership was voiced on December 3, 2015, when Vladimir Putin, in his Presidential Address to the Federal Assembly, suggested opening consultations concerning the formation of an economic partnership between the member states of the EEU, the ASEAN and the SCO, as well candidate states to the SCO.<sup>208</sup> Throughout 2016, the concept was repeatedly voiced at various multilateral platforms and essentially became a flagship Russian initiative to promote Eurasian integration.<sup>209</sup>

The initiative was to a great extent prompted by Russia's concern over the decreasing authority of the World Trade Organization (WTO) and the establishment of "closed" regional trade associations.<sup>210</sup> The proposed response involves the harmonization of various regional economic formats subject to strict compliance with the principles of equality and openness. President Putin cited the positive experience of the EEU and negotiations over its alignment with China's Silk Road Economic Belt project, which in the long run may facilitate the creation of the Greater Eurasian Partnership open to interaction with China, Vietnam, Japan, India, Pakistan, Iran, the SCO and ASEAN member states, as well as other concerned countries and associations.<sup>211</sup> The ultimate goal is to assert the EEU as the central uniting structure in the network of Eurasian regional integration.

Official statements invariably note that the initiative is not a closed or confrontational project. First, work to build the Greater Eurasian Partnership will be based upon the principles of openness that rule out the transformation of the partnership under development into a closed trade and economic bloc; second, the partnership will operate based upon WTO standards – the principles of transparency and respect for the rights of all parties involved.<sup>212</sup> Russia calls for the logic of "indivisibility" to be applied, not only to security, but also to the global economic space.<sup>213</sup>

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<sup>208</sup> <http://kremlin.ru/events/president/news/50864>

<sup>209</sup> <http://kremlin.ru/events/president/news/52178> <http://kremlin.ru/events/president/news/51953>

<sup>210</sup> <http://special.kremlin.ru/events/president/news/52819>

<sup>211</sup> <http://www.kremlin.ru/events/president/news/52819>; <http://kremlin.ru/events/president/news/52178>

<sup>212</sup> <http://special.kremlin.ru/events/president/news/52819>

<sup>213</sup> <https://ria.ru/world/20160428/1422026395.html>

During the initial phase, the partnership could focus on investment protection, streamlining the procedures for the movement of goods across borders, the joint development of technical standards for next generation technology products, and the mutual opening of markets for services and capital based upon the principles of equality and consideration for the mutual interests of all parties concerned.<sup>214</sup> The formation of the partnership could begin with the simplification and unification of regulations in industrial cooperation and investments, as well as non-tariff, technical and phytosanitary regulation measures, customs administration, protection of intellectual property rights and the subsequent movement towards the reduction, and ultimately the cancellation, of tariff restrictions. At the same time, the network of bilateral and multilateral trade agreements with varying depths, speeds and levels of interaction and market openness could be used as the foundation, depending on the readiness of national economies for such joint work, as well as agreements on joint projects in science, education and high technologies.<sup>215</sup>

Some experts believe that Russia put forward the idea of the Greater Eurasian Partnership as a form of regional economic integration in response to the U.S. initiative to establish the Trans-Pacific Partnership (TPP) and China's Silk Road Economic Belt programme. At the same time, the Greater Eurasian Partnership concept indicates the significance of consolidating relations between Russia and Asia, and can become a strategy for the Asian dimension of the country's development efforts. For Russia, the new partnership will create fundamentally new possibilities for increasing supplies of food, energy, engineering, educational, medical and travel services to the Asia-Pacific Region. It will allow the state to play a leading part in the formation of new technology markets and turn major global trade flows towards Russia.<sup>216</sup> The Greater Eurasian Partnership enables Russia to diversify and ensure a more balanced system of external ties, consolidating cooperation with the ASEAN, Japan, India, Vietnam and other countries, in addition to China. Nevertheless, the economic partnership between Russia and China will play a crucial role in the Greater Eurasian Partnership, given the positions of the two countries in the Eurasian region.

The Russian project received the support of China during President Putin's visit to Beijing on May 25, 2016. The concluding document of the summit indicates that Russia and China favour of the creation of a comprehensive Eurasian partnership based upon the principles

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<sup>214</sup> <http://kremlin.ru/events/president/news/50864>

<sup>215</sup> V.V. Putin's Address at the Plenary Session of the St. Petersburg International Economic Forum, <http://www.kremlin.ru/events/president/news/52178>

<sup>216</sup> Address of the President to the Federal Assembly. December 3, 2015, <http://www.kremlin.ru/events/president/news/50864>

of openness, transparency and consideration of mutual interests, including with the possible integration of the member states of the EEU, the SCO and the ASEAN.<sup>217</sup>

China supports the idea of cooperation within the framework of the Greater Eurasia macro-region because it builds on the concept of comprehensive partnership and the idea of openness, including openness towards China. Furthermore, in strengthening its relations with Eurasia, China is guided by ideas of coexistence and joint development, rather than the idea of its exclusivity. China believes Russia to be a strategic partner in the Eurasian region and hopes to pursue cooperation with Moscow for the comprehensive promotion of ties in Eurasia.

According to the Chinese side, the concepts of the Greater Eurasian Partnership and the Silk Road Economic Belt are closely intertwined and can be regarded as partner initiatives. The Silk Road Economic Belt and the Greater Eurasian Partnership correlate in terms of their substance and ideas; however, the Silk Road Economic Belt does not aim to create a free trade area between the EEU and the ASEAN, whereas the Greater Eurasian Partnership has no ambition to include the five development priorities of the One Belt, One Road initiative: political convergence, infrastructure cooperation, free trade, free capital movement and humanitarian relations.

The Greater Eurasian Partnership concept is currently under development, and there is still no consensus on its substance and scope. At the current phase, the formation of a single cooperation mechanism within Greater Eurasia is not a priority task and is highly improbable in the current environment. Greater Eurasia is too vast and includes a multitude of countries with significant differences, which makes it impossible to work out a uniform framework for cooperation. However, in the long run, the Greater Eurasian Partnership can become a comprehensive concept incorporating multilevel interaction with various mechanisms and forms.

#### Development of the Agenda of the Shanghai Cooperation Organization (SCO)

In June 2017, Astana will host the 16<sup>th</sup> Summit of the Shanghai Cooperation Organisation (SCO), where the participants will complete the intricate process of accepting India and Pakistan as new permanent members, and also a range of issues related to regional security.

The 15<sup>th</sup> jubilee Summit of the organization took place in June 2016 and was an important landmark in terms of the accession of new members (India and Pakistan) to the organization, but as well as in terms of recognizing the current trend in contemporary

<sup>217</sup> <http://kremlin.ru/supplement/5100/print>

international relations to try and tackle regional challenges posed by regimes that harbour weapons of mass destruction (WMD), especially nuclear weapons, at the political and diplomatic level.<sup>218</sup>

Compliance with international non-proliferation regimes has become a fundamental criterion for membership of the SCO. The fact that India and Pakistan, which are de facto nuclear states, have not acceded to the Treaty on the Non-Proliferation of Nuclear Weapons, still remains an obstacle to their full membership in the SCO.<sup>219</sup>

The approaches of India and Pakistan to the current nuclear non-proliferation regime mostly coincide: both countries consider the Treaty on the Non-Proliferation of Nuclear Weapons (NPT) to be “inequitable,” arguing that it ensures nuclear monopoly for a small group of “chosen” countries. India and Pakistan are ready to consider joining the NPT only as internationally recognized nuclear nations. However, this remains unacceptable for the international community, including Russia and China, the founders of the SCO, which are the NPT depositary states and therefore have special responsibility for compliance with, and the consolidation of, the treaty. It is for this reason that the Declaration adopted following the SCO summit in Tashkent explicitly states that the member states call for strict observance of the provisions of the Treaty on the Non-Proliferation of Nuclear Weapons, as well as of the comprehensive and consistent promotion of all goals and principles reflected in the Treaty.<sup>220</sup>

On the sidelines of the Tashkent Summit, India and Pakistan signed memorandums of commitment with a view to receiving the status of SCO member states. There may be a compromise that enables both India and Pakistan to join the SCO without completely abandoning their positions on nuclear energy, and this is by way of an official declaration by the two countries of their commitment to the goals and principles of nuclear non-proliferation regimes, but without reference to the NPT.

The matter is further complicated by the fact that India insists on being made part of the Nuclear Suppliers Group, which China, quite reasonably, opposes, citing the rule that only the officially recognized nuclear powers that are signatories to the NPT can be included in the group. Russia has adopted a position of compromise, believing that India – with an enormous population that is facing substantial economic difficulties and energy and national security challenges – cannot be equated to other countries. Russia’s approach comes down to the need to

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<sup>218</sup> <https://interaffairs.ru/jauthor/material/1707>

<sup>219</sup> <https://interaffairs.ru/jauthor/material/1707>

<sup>220</sup> Tashkent Declaration following the 15<sup>th</sup> Anniversary of the Shanghai Cooperation Organization, June 24, 2016  
<http://kremlin.ru/supplement/5094>

act in accordance with international law while at the same time looking for possibilities to assert India's interests. Russia is willing to have an open discussion with China and is ready to take concerns of all stakeholders into account in order to effectively settle all issues.<sup>221</sup>

The accession of India and Pakistan to the SCO will to a great extent open up the organization's potential, increase its significance internationally and create a multilateral mechanism for addressing important regional issues and ensuring stability and sustainable development in the region. However, the expansion of the SCO also gives rise to many new challenges.

The expansion of the organization raises an important issue – will this move contribute to the construction of a new configuration of the SCO? Or will it lead to the deconstruction of the existing structure? Once India and Pakistan have been accepted as members, the SCO will transform into an organization that covers a huge area: from Russia in the North, across Central Asia (including China) and spanning South Asia. The international status of the organization will be upgraded, but the move towards expansion may make its structure less stable. Therefore, the SCO has an important task to address, namely, to prevent the weakening of its organizational structure.

The second challenge of the expansion of the SCO lies in the choice of how the member states want it to develop: will the SCO continue to position itself as a regional organization? Or will it seek the status of an organization with Greater Eurasia in its sphere of influence? Since its inception, the SCO has focused its efforts on Central Asia, despite the fact that it spans from Eastern Europe to East Asia. The accession of India and Pakistan will force the SCO to choose whether the organization is regional or global in nature. According to the Russian position, politically, the membership of India and Pakistan will “transform the SCO into a rapidly emerging centre of power in a multipolar world” and a crucial geopolitical instrument that challenges the global order led by the West. One of the inevitable results will be the further expansion of the SCO into South Asia. As for China, it regards the SCO primarily as a regional organization with Central Asia being its main area of responsibility. China thus seeks to achieve the necessary stability and security near its western borders. At the same time, following the launch of the Silk Road Economic Belt, the SCO has become a key platform for the implementation of the initiative, with its coverage going well beyond the Central Asian region.

Russia focuses on the fact that the expansion of the organization should not be perceived in the context of a possible rivalry between Russia and China within the SCO. The nuances in the

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<sup>221</sup> Meeting with Heads of International News Agencies, <http://www.kremlin.ru/events/president/news/52183>

approaches of Moscow and Beijing to the definition of the nature of the organization (global vs. regional) should not have a decisive influence on the interests of Russia and China in this unique international mechanism. Central Asian countries are equally interested in both the globalization and regionalization of the SCO. This seems to be the basis for the consensus on the SCO within its new borders.

The expansion of the SCO also raises the question of reformatting relationships within the organization. Since its foundation, the member states have maintained a stable level of partnership relations. Because India and Pakistan are regional powers, the SCO will look increasingly like a “club of powers” after they are admitted into the organization, in which the links that exist between Russia, China and India will dominate. This may result in a marked decrease in the attention paid to Central Asian states.

A priority dimension for interaction within the SCO – regional economic cooperation and regional security assurance – also calls for a definition in the context of the expansion of the SCO. Two spheres represent pivots for interaction within the SCO. As key members of the organization, Russia and China enjoy advantages in both areas. Currently, the development of multilateral economic cooperation and regional integration within the SCO is moving forward very slowly. Back in 2003, China put forward the concept for establishing an SCO free trade area, and in 2011, it officially suggested launching a joint study of the proposed FTA; however, other member states are less interested in interaction in this area. The mechanism of regional economic cooperation in the SCO has not yet been shaped, and this places the establishment of a free trade area within the organization under question. The slow development of multilateral economic cooperation is caused by many factors, one of the most important of which being the difference in how Russia and China view the development and positioning of the SCO. Despite the fact that a political agreement has been achieved between Russia and China on the alignment of the EEU and Silk Road Economic Belt, the issue of the practical implementation of this process from the economic perspective remains. After the inclusion of India and Pakistan, the SCO may focus on the functional delineation of cooperation in security and regional economic collaboration. Furthermore, additional difficulties may emerge concerning the multilateral partnership. Economically, the SCO may risk of “running idle.”

The challenges of the expansion of the SCO are also associated with the possible reduction of the effectiveness of its decision-making procedures. The SCO Charter stipulates that decisions within the SCO are taken by approval without a vote, and any member-state is entitled to voice its point of view regarding various aspects and/or specific issues of decisions to be taken. In the course of the real operation of the SCO, decisions are taken on the basis of a

“consensus,” whereas the issues on which member states disagree are not excluded from the agenda, but extended for a longer period of the organizational agenda, or frozen. It is understood that if controversial issues are mentioned in declarations, this does not mean that decisions can be specifically developed in reality. One example is the drawn-out decision on the establishment of the SCO Bank. Although the principle of consensus presumes political equality, its implementation can have a dramatic impact on the effectiveness of the decision-making process: the more countries the organization includes, the harder it is for it to ensure a consensus. The SCO decision-making procedure may thus become irrational once India and Pakistan join the organization.

Disagreements between India and Pakistan may affect the operation and integrity of the SCO. The SCO does not resemble the EU, with its deep “European idea.” Nor does it resemble the ASEAN, with its relatively strong “ASEAN spirit.” The complexity of combining the practical interests of the SCO member states, as well as the historical and cultural diversity, plurality of civilizational values, complicate the establishment of the organization’s collective identity. The accession of India and Pakistan may substantially complicate the process. So far, the degree to which contradictions in the relationship between India and Pakistan influence economic and security cooperation in the SCO remains vague. Furthermore, it is not clear whether the inclusion of India and Pakistan will create a situation whereby the other member states will have to take sides. As a result, differences may arise between Russia and China. These factors may lead to the emergence of two factions within the SCO.

*China and Pakistan.* In the long run, Islamabad may try to use the SCO cautiously to internationalize the Kashmir conflict and expand the number of participants of the discussion. India will oppose such a move, as it believes that the issue is exclusively a bilateral matter. It would be advisable for the SCO to isolate itself from this discourse and discourage the inclusion of any sensitive issues of bilateral relations in agendas for discussion in a multilateral format, while keeping the balance of interests and the collective approach.

*China and India.* Although both countries are members of such formats as BRICS and RIC, the integration of India into the SCO may cause latent rivalry within the organization. The prospects for the preservation of stability are complicated by the Pakistan factor. In this framework, the developed and balanced Russia–India–China format may become an effective instrument to further balance out and smooth discrepancies between China and India, and maintain common (collective) interests once India joins the SCO. As soon as India’s permanent membership has been finalized, the Russia–India–China format will be institutionalized within the organization. The positive experience of trilateral cooperation accumulated since the

inception of the format can and must be successfully incorporated in the current SCO agenda for 2017 and beyond.

In the context of the organization's expansion, the member states must avoid the hypothetical strengthening of separate informal pairings: China–Pakistan; Russia–India, etc. It appears that such “diversification” / “polarization” is not beneficial to the organization as a whole, nor is it in the interests of individual states. Both new (India, Pakistan) and permanent members need to rethink traditional political orientations. The organization will develop only if all of its member states work on equal terms, free from historical biases and within the framework of the Shanghai spirit of collectivism and equality.

The challenges of the expansion of the SCO are also associated with the vagueness of the development of relations with the United States and other western states. The United States remains cautious about the SCO. It has voiced its concerns that the expansion of the organization's influence may weaken the global political and economic order and the country's dominant role in the Central Asian region. The United States has been focusing on Central Asia for quite a long time now; the main aim of its policy in the region is to encourage Central Asian states to move away from the Commonwealth of Independent States (CIS), the Collective Security Treaty Organization (CSTO) and the SCO. Furthermore, there are considerable differences between the new concept of international relations of the SCO and the current conceptual policy of the United States. The SCO speaks out against the imposition “democratic human rights” system on Central Asian countries. It is highly likely that the expansion of the SCO, which supports the independent development of Central Asian countries, will complicate relations with the United States. The development of cooperation with United States and other western countries has become a priority task for the SCO.

Discussions about the possible expansion of the Shanghai Cooperation Organisation space and the analysis of procedural complications are becoming less relevant now. The political decision has been made at the highest level, with the accession of India and Pakistan being approved by the leaders of the six permanent member states of the organization. Putting off the real involvement of India and Pakistan in the work of the SCO will be a serious blow to the organization's authority, whatever the reason for the delays. In order for the SCO to continue to work effectively, all the parties involved (including new members) must be responsible and demonstrate a desire for compromise. The full-scale interaction of India and Pakistan in the near future will confirm the effectiveness and openness of the SCO. On the other hand, the lengthy “transition syndrome” may serve as evidence of the inevitable extinction of the organization. However difficult the relations between India and Pakistan may be, their participation in the

Shanghai Cooperation Organisation will enrich its operation. But the principles established during the creation of the SCO must remain in place.<sup>222</sup>

**Cooperation in security.** Security is the least developed aspect of cooperation within the SCO, and it is in this area that the most serious risks may arise – risks that are associated not only with the uncertainty around the future of Afghanistan, extremist activity in the region, drug trafficking and cross-border crime, but also with the complicated relations among the countries in the region and the political instability in a number of them.<sup>223</sup>

These bottlenecks are often disregarded, although a single glance at the transport corridor routes that cross virtually the entire continent, including Central Asia and the Middle East, is enough to see that risk management should be the primary concern of the authors of the project.<sup>224</sup> The main terrorist threat originates from the Islamic State of Iraq and the Levant (ISIS), and tensions are growing in the Middle East, which creates a fertile environment for the development of terrorism as a whole.<sup>225</sup>

There is a long-felt need for the cautious military and political evolution of the SCO. All of the member states would benefit from strengthening the power component of the organization. The development of existing institutions (the Regional Anti-Terrorist Structure [RATS] of the Shanghai Cooperation Organisation, the Russia–China Peace Mission military exercises, and meetings of defence ministers), as well as the creation of new formats (the peacekeeping contingent, the military cooperation committee) makes it possible to build up the potential for cooperation within the organization. It would be advisable to preserve the current two-tier regional security structure amid the promotion of cooperation between the SCO and the CSTO. This model must be built exclusively on the doctrine of defence and the pre-emption of foreign threats to the security and territorial integrity of the SCO member states.

In January 2017, China released a white paper outlining its Policies on Asia-Pacific Security Cooperation. The document notes that the system of regional security must be multilevel, integrated and diversified and appreciates China's strategic cooperation with Russia.<sup>226</sup> However, the SCO is the second-to-last priority security mechanism for Beijing, and the RATS is not mentioned there at all. The new antiterrorist mechanism involving China,

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<sup>222</sup> [http://www.vestnik.mgimo.ru/sites/default/files/pdf/010\\_mp\\_denisovie\\_safranchukia\\_1.pdf](http://www.vestnik.mgimo.ru/sites/default/files/pdf/010_mp_denisovie_safranchukia_1.pdf)

<sup>223</sup> I.E. Denisov. Beijing to Walk out of Shadow on Silk Road. <http://www.globalaffairs.ru/number/Puteshestvie-na-zapad-17315>

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<sup>225</sup> Li Wei. The International Fight against Terrorism Must become More Effective / People's Daily online. January 11, 2016.

<sup>226</sup> [http://russian.news.cn/2017-01/11/c\\_135974257.htm](http://russian.news.cn/2017-01/11/c_135974257.htm)

Afghanistan, Pakistan and Tajikistan is placed higher on the list, although it does not involve Russia and is not connected with the SCO. China may not believe in the effectiveness of the SCO and is looking for new high priority instruments of stabilization in the region. This, or it seeks to impose its own rules of the game in regional security.<sup>227</sup>

The fact that numerous security institutions and mechanisms exist is not a negative thing. However, it sets regional players serious tasks: they need to liquidate and prevent the emergence of “grey areas” in the Eurasian region, consolidate coordination of security building mechanisms, and use an integrated approach that encompasses economic security and the protection of key commercial facilities, and also ensures a real contribution to the stabilization of the situation in the region, mitigating its conflict potential, and reflecting the entire range of threats in conventional and nonconventional security. In Central Asia, such reputable and time-tested organizations as the SCO and the OSCE remain irreplaceable.

**Trade and economic cooperation.** An important topic of the SCO Summit in Tashkent was the discussion of trade and economic cooperation issues in the context of the Silk Road Economic Belt initiative and the project of the Greater Eurasian Partnership suggested by Russia.

Specifically, the heads of the SCO member states confirmed China’s initiative to create the Silk Road Economic Belt as an instrument for creating favourable conditions for the promotion of regional economic cooperation, and said that they would seek alignment of national development strategies and promote the coordination of their trade and economic programmes.

The concluding document of the Tashkent Summit envisages the adoption of measures to provide sustainable socioeconomic growth, improve welfare and living standards, and build cooperation in trade, manufacturing, finance, investment, agriculture, customs, telecoms and other sectors. Special attention will be paid to the introduction of innovative technologies, the promotion of a favourable investment and business climate, the implementation of long-term mutually beneficial projects in priority areas of cooperation, and infrastructure development. The SCO member states will advance multilateral cooperation in transport, facilitate the formation of international transport corridors, implement joint infrastructure projects, and seek to use the entire potential of the SCO Business Council and SCO Interbank Association. In order to ensure financial support for project documentation, the member states will consider establishing the SCO Development Bank and SCO Development Fund (Special Account).<sup>228</sup>

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<sup>227</sup> <http://www.kommersant.ru/doc/3188700>

<sup>228</sup> Tashkent Declaration of the Fifteenth Anniversary of the Shanghai Cooperation Organization, pp. 8–9. [file:///C:/Users/%D0%92%D0%BB%D0%B0%D0%B4%D0%B8%D0%BC%D0%B8%D1%80/Downloads/%D0%A2%D0%B0%D1%88%D0%BA%D0%B5%D0%BD%D1%82%D1%81%D0%BA%D0%B0%D1%8F\\_%D0%B4](file:///C:/Users/%D0%92%D0%BB%D0%B0%D0%B4%D0%B8%D0%BC%D0%B8%D1%80/Downloads/%D0%A2%D0%B0%D1%88%D0%BA%D0%B5%D0%BD%D1%82%D1%81%D0%BA%D0%B0%D1%8F_%D0%B4)

Therefore, the relatively new challenges and risks associated with the expansion of the organization and traditional challenges remain relevant on the SCO agenda for 2017:

- 1) Searching for effective mechanisms of multilateral trade, economic, investment and transport cooperation, which lags considerably behind bilateral political interaction formats.
- 2) Strengthening cooperation in regional security in the light of regional security and the withdrawal of western coalition troops from Afghanistan. The growing Afghan challenge and the spread of the threat of ISIS.
- 3) Establishing the Development Bank and Development Fund, as well as alternatives for the integration of China's banking capital in the Eurasian Development Bank.

The implementation of the agenda for 2017–2018 will take place in the context of the further aggravation of contradictions of modern world. For Russia, the SCO has acquired special significance. At the same time, the updated agenda for the enlarged SCO in 2017 contains opportunities for the development of cooperation potential with a view to partially renewing the cooperative relations with the West. The resources and capacity of the organization, especially in regional security, transport, investment and energy cooperation, correspond to the mission of restoring constructive dialogue with the “American world.”

## Humanitarian Dialogue between Russia and China

### The Development of Cooperation in Education and Culture

In 2016, Russia and China pursued active cooperation in student exchanges and educational, scientific and cultural interaction.

Around 28,000 Chinese citizens currently study in Russia, and more than 16,000 Russians are enrolled in educational programmes in China. The governments of the two countries have set themselves the ambitious task of increasing the combined number of students studying in higher education institutions of the partner country to 100,000 people.<sup>229</sup>

On May 6, 2016, the foundation stone was laid in the campus of the first Russian–Chinese University, which is expected to soon in the southern Chinese city of Shenzhen (the university was founded by Moscow State University [MSU] and Beijing Institute of Technology [BIT]).<sup>230</sup> The ceremony was attended by Chairman of the State Duma of the Russian Federation Sergey Naryshkin and Vice Premier of the People’s Republic of China Liu Yandong. For a few years now, this joint Russian–Chinese university has been considered to be a priority of cooperation efforts in education and science between Russia and China. The project is supported at the highest level, although there have been obvious difficulties setting up the university, with long delays in terms of finalizing requisite documents. The MSU administration had noted earlier that the new joint university would open its doors on September 1, 2016, but that deadline has been shifted.<sup>231</sup> So far, only the temporary block has been completed (a revamped manufacturing facility), while the main buildings of the campus are still in the planning stages. On February 3, 2017, the website of the Joint MSU–BIT University officially went online.<sup>232</sup>

In Shenzhen – an important centre of the electronics and IT industries – the Chinese side is establishing a powerful cluster of scientific and educational cooperation with leading global universities. Joint universities already exist in the region, and talks with universities from the United States, the United Kingdom, Australia, Denmark, and other countries are under way.<sup>233</sup> The first joint university in the history of bilateral Russia–China relations is expected to showcase both the highest level of education and the partners’ capacity to understand each other completely. The fate of similar projects of other Russian and Chinese universities might depend

<sup>229</sup> <http://xn--80abucjiibhv9a.xn--p1ai/%D0%BD%D0%BE%D0%B2%D0%BE%D1%81%D1%82%D0%B8/8527>

<sup>230</sup> <http://www.msu.ru/news/dan-start-stroitelstvu-glavnogo-kompleksa-zdaniy-universiteta-mgu-ppi-v-shenchzhene.html>

<sup>231</sup> <http://360tv.ru/news/sovместnyj-rossijskokitajskij-universitet-otkroetsja-v-2016-godu-28458/>

<sup>232</sup> In Russian: <http://msuinchina.org/>; in Chinese: <http://szmsubit.edu.cn/>

<sup>233</sup> <https://rg.ru/2015/07/03/universitet.html>

on the success of MSU–BIT. Currently, the founders of the joint university are focusing on teaching prospective students Russian and are holding events to popularize the Russian language and culture.

The dedicated effort to support the studies of the Russian and Chinese languages is what distinguishes the current development phase of bilateral contacts in education. In Russia, increasing numbers of people are showing an interest in the Chinese language: 37,000 people study Chinese in Russia.<sup>234</sup> So far, 22 Confucius Institutes have been opened in Russia (including Confucius classes), while 22 Russian language centres operate in China.<sup>235</sup> Russia and China will continue to facilitate the creation and operation of centres or classes to support the study of the Russian language in China and promote Confucius Institutes in Russia.

Another modern trend is the creation of specialized associations of Russian and Chinese universities by industry. On July 5, 2016, an agreement was signed in Moscow within the framework of the Forum of University Rectors from Russia and China on the creation of the Association of Classical Universities of Russia and China. Paving the way in this new organization will be MSU and Peking University. One of the priorities of the new association is to build an independent university rating system.<sup>236</sup>

Together with the previously established specialized associations of Russian and Chinese universities, there are now around 12 such organizations. The most successful of these is the Association of Technical Universities of Russia and China (ATURC) established by Bauman Moscow State Technical University and Harbin Institute of Technology. The association has accumulated significant experience and has moved on to implementing a series of specific projects. For example, on January 24, 2016, the city of Xi'an in China hosted a meeting of experts from 10 Russian and Chinese technical universities (members of the ATURC) dedicated to the creation of smaller satellite groups of the association.<sup>237</sup> The programme for the creation and launch of joint small satellite groups is a direct result of the Qingdao Declaration signed in 2013 by leading technical universities in Russia and China. The launch of the first satellites developed by the ATURC members is projected to take place by 2020.

At a later phase, the parties should focus their efforts on fleshing out the cooperation programmes of specialized associations of universities. The impact of such events within the framework of such associations is often insignificant, because a significant portion of efforts in

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<sup>234</sup> Ibid.

<sup>235</sup> <http://минобрнауки.рф/новости/8527>

<sup>236</sup> <http://xn--80abucjiibhv9a.xn--p1ai/%D0%BD%D0%BE%D0%B2%D0%BE%D1%81%D1%82%D0%B8/8526>

<sup>237</sup> <http://www.bmstu.ru/plain/news/?newsid=3206>

this area is directed towards mutual trips of rectors, student “friendship trains,” amateur art concerts and other activities. The parties need to develop criteria for assessing the effectiveness of these events and make full use of the potential offered by inter-university cooperation.

Discussions are also under way with regard to the model of operation of the so-called “network universities” – the SCO University and BRICS University. Despite the optimism of some rectors, these projects have yet to prove their advantages as against the traditional formats of international educational cooperation.

On the whole, according to the Ministry of Education of the Russian Federation, around 200 Russian and 600 Chinese universities have already established partnership relations in strategically important areas, with 900 direct agreements being reached.<sup>238</sup>

Contacts are developing in youth exchanges as well. On July 6–16, 2016, Sochi hosted the World Choir Games, in which up to 1,500 Chinese artists participated.<sup>239</sup> A series of events was organized in summer 2016: Barnaul hosted the First Russian-Chinese Youth Tourist Forum;<sup>240</sup> Ryazan hosted the Russia–China Forum of Youth Leaders;<sup>241</sup> and Khabarovsk became the venue of the First Russia–China Congress of Young Entrepreneurs.<sup>242</sup>

Khabarovsk also hosted the opening of the Russian-Chinese student business incubator. The project was initiated by the Russian Union of Youth, the Sino-Russian Committee for Friendship, Peace and Development, and the All-China Youth Federation. Pacific National University became a co-founder of the business incubator and a primary platform for its activities. If this experience proves positive, the project will be implemented at other Russian and Chinese universities.<sup>243</sup>

Russian people are becoming increasingly familiar with various aspects of Chinese culture. In April 2016, Mayor of Moscow Sergey Sobyenin opened the Moscow Wushu Palace.<sup>244</sup> The facility will operate at the Moscow Experimental School (MES) of the Moscow Sports Committee. Furthermore, MES is implementing a general education programme with a focus on Chinese and English, as well as the history and culture of China.

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<sup>238</sup> <http://xn--80abucjiihbv9a.xn--p1ai/%D0%BD%D0%BE%D0%B2%D0%BE%D1%81%D1%82%D0%B8/8526>

<sup>239</sup> <http://www.interkultur.com/ru/events/world-choir-games/sochi-2016/>

<sup>240</sup> <http://www.altspu.ru/main/20146-v-altgpu-nachal-svoyu-rabotu-pervyy-rossiysko-kitayskiy-molodezhnyy-turisticheskiy-forum.html>

<sup>241</sup> <http://www.ryazan-v.ru/news/49331>

<sup>242</sup> [http://pnu.edu.ru/ru/news/2016-06-30-International\\_congress/](http://pnu.edu.ru/ru/news/2016-06-30-International_congress/)

<sup>243</sup> <http://минобрнауки.рф/новости/8551>

<sup>244</sup> [http://www.trud.ru/article/13-04-2016/1336432\\_mer\\_moskvy\\_otkryl\\_krupnejshij\\_v\\_rossii\\_tsentr\\_vostoch\\_nyx\\_edinoborstv.html](http://www.trud.ru/article/13-04-2016/1336432_mer_moskvy_otkryl_krupnejshij_v_rossii_tsentr_vostoch_nyx_edinoborstv.html)

Television channels in the two countries are also exploring new formats of interaction. Specifically, China's JSBC purchased the rights from Russia's TNT channel to produce its own version of the *Interns* sitcom. JSBC will adapt the series for Beijing Nesound International Media Corp.<sup>245</sup> It is the first deal of its kind between the two countries. Russian movies have also proved to be successful on the Chinese market. The movie *On – Drakon* ("He's a Dragon") had an impressive opening day in Chinese theatres, earning 18.2 million yuan, the best among non-Chinese films.<sup>246</sup>

These achievements showcase the efforts of the two countries to expand areas in which they already have experience of successful cooperation and develop the most effective mechanism for intensifying cultural and humanitarian interaction in the new conditions.

On July 4, 2016, Moscow hosted the 17<sup>th</sup> meeting of the Russian-Chinese Commission on Humanitarian Cooperation. As part of the meeting, the parties addressed cooperation in education, culture, healthcare, sports, tourism, media, cinema, archive-keeping and youth policy. The meeting also addressed the project to restore the venue of the 6<sup>th</sup> Congress of the Communist Party of China in the Moscow District. Russia and China also outlined a series of new topics for cooperation. For instance, a contract was signed for the Chinese ice hockey team Kunlun Red Star to play in the Kontinental Hockey League (KHL).<sup>247</sup> Deputy Prime Minister of the Russian Federation Olga Golodets and Vice Premier of the People's Republic of China Liu Yandong voiced their appreciation of the level and pace of cooperation between Russia and China in physical culture and sports. The parties supported the joint organization of the Russia–China Winter Youth Games and the Silk Road International Rally, which are expected to contribute to the consolidation of sports and tourist exchanges between the two countries. Olga Golodets also said that she hoped the Russia–China Winter Youth Games and the Silk Road International Rally would be held on a regular basis.<sup>248</sup>

Despite success in the promotion of humanitarian cooperation between Russia and China in 2016, certain difficulties remain in the interaction between the two countries in education and culture. These difficulties include the unbalanced functions of humanitarian cooperation entities. Humanitarian contacts between Russia and China encompass governmental institutions, companies, NGOs and individuals. However, the roles of the various entities remain unbalanced: humanitarian cooperation between Russia and China mostly relies on state institutions. Central and local authorities, as a rule, initiate and participate in cultural exchanges, whereas NGOs

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<sup>245</sup> <http://www.kommersant.ru/doc/2974872>

<sup>246</sup> <https://rg.ru/2016/09/12/kitajcy-vysoko-ocenili-filmy-on-drakon-i-ekipazh.html>

<sup>247</sup> <http://www.khl.ru/news/2016/06/25/308625.html>

<sup>248</sup> <http://government.ru/news/23605/>

perform secondary and auxiliary roles, which limits the capacity for cooperation. Humanitarian cooperation calls for support and direction by the state. But it is the peoples of the two countries that should become the locomotive of interaction with a view to consolidating friendship between Russia and China.

Furthermore, humanitarian ties between the two countries also span limited areas: intensive exchanges are typical of border areas, as well as of Beijing, Shanghai, Moscow, St. Petersburg and other major cities. The expansion of humanitarian cooperation between other districts is very slow.

Even in areas of intensive exchanges, young people are not sufficiently involved in cooperation initiatives. This is particularly evident in higher education: although the number of students involved in exchange programmes between Russia and China has increased, cooperation in this area is still less attractive for students than interaction with the United States and the European Union.

A priority task for cultural contacts between Russia and China is to spread Chinese culture in Russia and vice versa, as this will promote understanding between the two countries. Nevertheless, the limited humanitarian cooperation within the framework of bilateral cooperation does not contribute to its effective development. In the contemporary international framework, the promotion of a positive state image of Russia and China and the advancement of interaction in international “voting right,” which is still underdeveloped, are crucial common tasks.

It is important to increase activity and ensure the growing importance of numerous actors, primarily NGOs – universities, think tanks and humanitarian non-commercial organizations. The Russian and Chinese governments should adopt, direct, support and monitor respective policies and rules, and provide the requisite resources to do so, in order to promote the involvement of public organizations and companies in cultural exchanges. Subjectivity needs to be returned to humanitarian cooperation. Engagement in this area must not be used only as an instrument to assert one’s interests.

A long-term action plan for furthering humanitarian cooperation should be developed as part of a permanent large-scale project. It is necessary to manage the status of cultural contacts and conscientiously implement practical tasks at each phase of the project. In order to develop humanitarian cooperation, long-term cooperation is required, and a humanitarian cooperation fund should be established.

## Bilateral Cooperation in Mass Communications and Building Mutual Trust

2016 and 2017 have been declared Years of Media in Russia and China. More than 200 joint media projects were developed in 2016.<sup>249</sup> Interaction with the participation of news agencies, newspapers, radio, film studios, TV channels and internet media is implemented in a variety of formats and incorporates large-scale events, training of media representatives, and production cooperation.

In November 2016, Premier of the State Council of the People's Republic of China Li Keqiang noted that the media should serve as a bridge to bring souls of the two peoples together. It should also focus on tying together the One Belt, One Road project with the development of the EEU and other priority dimensions for cooperation.<sup>250</sup> However, the experience of 2016 showed that this endeavour requires an improvement in the quality of cooperation between Chinese and Russian media, rather than the sheer scope of formal events. To this end, the recommendations put forward by the Forum of Media Participants of the BRICS Member States in October 2015 could be useful, specifically: the development of the common media space; the provision of adequate representation and proportionate involvement in global information exchange; the consolidation of the strategic partnership in product development and distribution; the exchange of information and content; the mutual development of professional personnel; the organization of internships and youth exchanges; and the promotion of cooperation between schools of journalism and media studies.<sup>251</sup>

The high level of political trust between the two countries, in addition to the large-scale projects of economic cooperation, the favourable image of the partners in the eyes of the citizens of the two countries, ensure a unique framework for the development of media cooperation between Russia and China. At the same time, there are natural obstacles to close cooperation between Russian and Chinese media: the language barrier; the difference in the regulatory frameworks for mass communications; and differences in terms of genre and topic.

There are conservative trends as well, identified by the fact that cooperation is mostly supported by the efforts of leading state media in the two countries which focus primarily on issues that are of major political significance issues and remain the centre of attention of the two administrations. The standard coverage of such topics, in addition to the focus on politicized

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<sup>249</sup> <https://rg.ru/2016/11/06/premer-gossoveta-kr-li-kecian-u-nas-s-rossiej-shirokie-obschchie-interesy.html>

<sup>250</sup> <https://rg.ru/2016/11/06/premer-gossoveta-kr-li-kecian-u-nas-s-rossiej-shirokie-obschchie-interesy.html>

<sup>251</sup> Declaration of the Forum of the Heads of the BRICS Countries' Leading Media Outlets "Towards Creating a Common Information Space for the BRICS Countries." <http://www.brics2015.ru/program/20151008/540102.html>

formats and introduction of tacit (and official) taboos on “sensitive” materials do nothing to help strengthen the public base of the partnership between Russia and China.

The media of the two countries frequently report protocols of intentions, which are often never implemented. As a result, trust in the sources of information, as well as in trade and economic cooperation between the two countries, is compromised. The negative effect is further enhanced by abstract speculations about joint opposition to the West and the established “military union” of the two countries. Russian and Chinese media should provide more specific and detailed information why the parties refuse to form a bloc against third countries while at the same time promoting a strategic partnership. Narrowing the partnership between Russia and China down to primitive ideological patterns does not correspond to the current level of cooperation and misleads the public opinion of the two countries.

It would be wise to pursue joint projects that focus on key events in the history of the bilateral relationship, which sometimes evoke mixed estimates. The deepening of the Russia–China partnership calls for the historical experience of cooperation to be brought up; however, omissions, simplifications and distortions of history in Russian and Chinese media publications and fictional stories become sources of mistrust in relations between the two countries.

Furthermore, the interaction between Russian and Chinese media as components of the global information market must take into account global trends in mass media.

While focusing on the weak international “right to vote,” Russia and China should make use of the Years of Russian and Chinese Media to ensure favourable conditions for forming a new model of cooperation for the media and taking it to a new level in order for media outlets to spread positive information about the two states and the bilateral relations between them. Russian and Chinese media could jointly develop cultural products and promote them internationally. The two countries could benefit from cooperation among media outlets, as well as humanitarian exchanges and interaction among experts, governmental and other channels to promote the international agenda. They could also make efforts to foster public opinion in the interests of Russia and China in order to develop and deepen the relationship and further practical cooperation between the two countries.<sup>252</sup>

Moscow and Beijing should make use of bilateral exchanges in 2017 to create and develop an environment conducive to the exchange of ideas, which would allow misunderstandings connected with the theory of the “Chinese threat” and “paradoxes in the interests of Russia and China” to be discussed. Such phenomena emerge in the public opinion of

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<sup>252</sup> <https://ria.ru/interview/20160119/1361633810.html>

the two countries in connection with external and internal factors. Specifically, part of the population of both countries agrees with western media outlets that criticize the relations between Russia and China. As a result, ultranationalist rhetoric can be heard from both sides, which prevents the successful development of the bilateral relationship. The two countries need to prevent the negative influence of these factors on the favourable environment for bilateral relations.

### *Media Cooperation at the Regional Level*

The success of the Russia–China Media Forum held in St. Petersburg in July 2015 and Forum of the Heads of the BRICS Countries’ Leading Media Outlets in Moscow in October 2015 and Beijing in December 2015 paved the way for the Years of Russian and Chinese Media. Because these events were held for central nationwide print and electronic media outlets, it would be logical to build on their success and organize cooperation between Chinese and Russian media at the regional and local levels.

On June 29–30, 2016, the First Russian–Chinese Forum of Young Journalists was held in Ulyanovsk as part of the programme of events of the Years of Media.<sup>253</sup> A Forum of Young Chinese and Russian Journalists has also been proposed, and it could be extended to include journalists from Kazakhstan and other Central Asian countries within the framework of a youth forum that will be held on a regular basis starting in September 2016. It would be advisable to discuss coverage of the project to tie together the Silk Road Economic Belt and the EEU by journalists of the two countries as part of the forum.

In addition, a forum of Russian and Chinese media outlets from border regions has also been proposed, to address specific issues of cooperation (the joint production of media products, the mutual exchange of trainees, etc.). The forum could be held in one of the following cities:

- Khabarovsk (where the Russia–China Conference Marking the 70<sup>th</sup> Anniversary of the Chinese People’s Victory in the War of Resistance against Japan and the End of World War II was successfully held in September 2015);<sup>254</sup>
- Vladivostok (at the Confucius Institute of Far East Federal University);
- Chita – Manzhouli (at the emerging Daur Club involving representatives of China, Russia, Mongolia, Japan and Korea);

<sup>253</sup> <http://ulpressa.ru/2016/06/28/rossiysko-kitayskiy-forum-molodyih-zhurnalistov-vpervyie-proydyot-v-ulyanovskoy-oblasti/>

<sup>254</sup> [https://www.khabarovskadm.ru/news/index.php?ELEMENT\\_ID=155100&sphrase\\_id=696621](https://www.khabarovskadm.ru/news/index.php?ELEMENT_ID=155100&sphrase_id=696621)

- Blagoveshchensk – Heihe (at the Confucius Institute of Blagoveshchensk State Pedagogical University);
- Novosibirsk (at the Confucius Institute of Novosibirsk State Technical University, which will start organizing such a forum in autumn 2017).

## China–Russia Expert Dialogue

An expert dialogue involving representatives of political, business, academic and public circles could and should become an important reserve for the development of relations between the two countries.

The concept of the Russia–China expert forum suggested in 2013–2015 by the Russian International Affairs Council (RIAC) and the Institute of Far Eastern Studies at the Russian Academy of Sciences (RAS) was supported by the Chinese Academy of Social Sciences and successfully implemented when President Vladimir Putin visited China in June 2016. In particular, RIAC and the Chinese Academy of Social Sciences signed a Memorandum of Cooperation during his visit.<sup>255</sup>

Expert dialogue structures already exist in the Russia–China relations (the Russia–China Business Council, the Sino-Russian Committee for Friendship, Peace and Development, etc.), yet they have not become an indispensable element of the system of Russia–China relations in general.

The unique RIAC experience in concentrating expert knowledge in many areas and promptly using this knowledge to solve specific foreign policy tasks may help the Russia–China expert forum become a hub of expert knowledge as well as an expert and analytical part of the system of Russia–China intergovernmental commissions. The forum will include series of regular and strategic meetings, conferences and roundtables focused on open and pragmatic discussions and achieving specific results. Leading Russian and Chinese academics and experts, currently serving and retired politicians, diplomats, public figures and businesspeople could take part in regular meetings hosted by China and Russia on a rotating basis. It would be wise to

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<sup>255</sup> Joint Documents Signed during the Official Visit of President of the Russian Federation Vladimir Putin to China // Official network resource of the President of the Russian Federation, June 25, 2016, URL: <http://www.kremlin.ru/supplement/5101>

prepare special topic-based newsletters containing discussion bullet points and final reports on the results of each meeting, to be presented to the foreign-policy establishments and political leaders of both countries.

Acting as an expert and discussion platform enabling the sectoral expertise of the entire spectrum of bilateral relations in general, the forum may be granted official status equal to that of existing intergovernmental commissions. This requires mutual political will and awareness among government bodies (especially in Russia) of the need for a full-fledged assessment of decisions that are made.

In addition, the internet should become the medium that supports the dialogue between Russian and Chinese experts. It would be wise to create joint bilingual platforms to make the conclusions of Russian and Chinese experts available to the analytical community and the general public of both countries. By engaging social media, such platforms will be able to respond promptly to the most discussed topics on the internet. The availability of accurate and weighted expert estimations is the one and only way to combat distorted, inaccurate or incomplete information.

### Relaxing and Simplifying the Visa Regime

A relaxed and simplified visa regime will facilitate the development of Russia–China relations in cultural, humanitarian and other spheres. The Russian side has been taking important positive steps towards this goal of late.

In February 2017, Head of the Federal Agency for Tourism (Rosturizm) Oleg Safonov stated that, in order to boost inbound tourism, Russia will need to simplify border formalities. Specifically, Russia needs to drastically reduce the cost of entry visas, or make them free altogether. The inbound tourism development project submitted by Rosturizm to the Russian government includes, among other things, efforts to simplify visa, customs and border procedures, including the development of checkpoints and the improvement of the regulatory framework. Safonov believes that the main emphasis should be placed on simplifying visa procedures, rather than on visa-free travel, and that this mechanism will be in demand in different regions.<sup>256</sup>

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<sup>256</sup> <http://tourism.interfax.ru/ru/news/articles/39335/>

A bill was passed in March 2017 to simplify the entry of foreign tourists and investors to the Russian Far East.<sup>257</sup> The bill introduces a simplified procedure for foreign citizens that allows to visit five Far Eastern regions covered by the free port regime: Primorsky Krai, Khabarovsk Krai, Sakhalin Region, Chukotka and Kamchatka. In order to get a visa, foreign citizens will have to visit a special website and fill in a form. If the application is successful, the visa will be stamped in the passport on the Russian border, without any visa fee. The visa is valid for 30 days from the date of issue and allows the holder to stay in Russia for up to eight days.<sup>258</sup>

The fast-track entry procedure in the free port territory was set to be launched on January a, 2016, yet the relevant security agencies failed to prepare the regulatory framework and technologies needed for implementing this part of the bill in time. The introduction of the fast-track entry procedure was put off several times, initially to till July and then to September 2016.<sup>259</sup>

#### Tourism as a Tool for Strengthening Humanitarian Ties

International tourism is a complex socio-psychological process that enables foreigners to begin to better understand the specific features of the culture, history and way of thinking of the host country,<sup>260</sup> and become more tolerant of the religious and moral beliefs of its citizens.<sup>261</sup> It is, therefore, traditionally considered to be an important soft power tool and acts as a driver of development of the Russia–China partnership.

According to the Federal State Statistics Service (Rosstat), in January–September 2016, China retained its top position among non-CIS countries in terms of the number of tourists visiting Russia<sup>262</sup> (1.072 million people, an increase of 15 per cent).<sup>263</sup> In addition, the number of

<sup>257</sup> Federal Law No. 67439-7 “On Amending Certain Legislative Instruments of the Russian Federation Regarding to the Regulation of the Specifics of the Entry of Foreign Citizens to the Russian Federation through the Russian Federation Border Checkpoints Situated on the Territory of the Free Port of Vladivostok, their Stay in the Russian Federation and Exit from the Russian Federation.” URL: [http://asozd2.duma.gov.ru/main.nsf/\(Spravka\)?OpenAgent&RN=67439-7](http://asozd2.duma.gov.ru/main.nsf/(Spravka)?OpenAgent&RN=67439-7)

<sup>258</sup> [http://minvr.ru/press-center/news\\_minvostok/?ELEMENT\\_ID=5046](http://minvr.ru/press-center/news_minvostok/?ELEMENT_ID=5046)

<sup>259</sup> <http://www.news.vl.ru/vlad/2016/10/28/153014/#ixzz4YjoXz1qK>

<sup>260</sup> <http://www.odnako.org/blogs/turizm-kak-forma-myagkoy-sili-problemi-kitayskogo-puteshestvennika-v-rossii/>

<sup>261</sup> [http://www.mid.ru/foreign\\_policy/official\\_documents/-/asset\\_publisher/CptICk6BZ29/content/id/224550](http://www.mid.ru/foreign_policy/official_documents/-/asset_publisher/CptICk6BZ29/content/id/224550)

<sup>262</sup> According to Rosstat Order No. 510 dated August 12, 2014, an inbound tourism-related trip is defined as a trip to the Russian Federation made by a foreign citizen during the reporting period. The primary purpose of the visit can be anything (business trip, holiday or any other personal goal), with the exception of employment at a company registered in the Russian Federation or long-term study in the Russian Federation. Trips made by Foreign Service

trips made by Russian citizens to China grew after a four-year decline,<sup>264</sup> and China became the second most popular non-CIS destination country among Russian tourists (1.183 million people, an increase of 31 per cent).<sup>265</sup> The largest share<sup>266</sup> of the tourist flow is accounted for by organized short-term visa-free trips (up to 15 days) in groups of between five and 50 people made under the intergovernmental agreement.<sup>267</sup>

**Inbound and Outbound Tourism-Related Travel Statistics  
for January–September 2015 and 2016  
(by the five most popular non-CIS destinations)**

Number of tourism-related trips to the Russian Federation made by citizens from non-CIS countries						Number of tourism-related trips made by citizens of the Russian Federation to non-CIS countries					
	January–September 2015	Share in the number of inbound trips to Russia	January–September 2016	Share in the number of inbound trips to non-	Growth		January–September 2015	Share in the number of outbound trips from Russia to non-CIS	January–September 2016	Share in the number of outbound trips from Russia to non-CIS	Growth

personnel (crew/team) of public transport, diplomats, consular employees, servicemen and their 1 dependents do not qualify for the category of inbound tourism-related trips ([www.consultant.ru/document/cons\\_doc\\_LAW\\_167298](http://www.consultant.ru/document/cons_doc_LAW_167298)).

<sup>263</sup>Only tourists from mainland China are taken into account in this case. <http://www.russiatourism.ru/%D0%92%D1%8A%D0%B5%D0%B7%D0%B4%20%D0%B8%D0%BD%D0%BE%D1%81%D1%82%D1%80%D0%B0%D0%BD%D0%BD%D1%8B%D1%85%20%D0%B3%D1%80%D0%B0%D0%B6%D0%B4%D0%B0%D0%BD%20%D0%B2%20%D0%A0%D0%A4%209%D0%BC2016%20%D0%B4%D0%B0%D0%BB%D1%8C%D0%BD%D0%B5%D0%B5%20%D0%B7%D0%B0%D1%80%D1%83%D0%B1.xls>

<sup>264</sup>[http://m.chinadaily.com.cn/en/2016-03/01/content\\_23694209.htm](http://m.chinadaily.com.cn/en/2016-03/01/content_23694209.htm)

<sup>265</sup>[www.russiatourism.ru/%D0%92%D1%8B%D0%B5%D0%B7%D0%B4%20%D0%B3%D1%80%D0%B0%D0%B6%D0%B4%D0%B0%D0%BD%20%D0%A0%D0%A4%209%D0%BC2016%20%D0%B4%D0%B0%D0%BB%D1%8C%D0%BD%D0%B5%D0%B5%20%D0%B7%D0%B0%D1%80%D1%83%D0%B1.xls](http://www.russiatourism.ru/%D0%92%D1%8B%D0%B5%D0%B7%D0%B4%20%D0%B3%D1%80%D0%B0%D0%B6%D0%B4%D0%B0%D0%BD%20%D0%A0%D0%A4%209%D0%BC2016%20%D0%B4%D0%B0%D0%BB%D1%8C%D0%BD%D0%B5%D0%B5%20%D0%B7%D0%B0%D1%80%D1%83%D0%B1.xls)

<sup>266</sup> According to data for January–September 2016, visa-free visits accounted for 62 per cent of the total number of tourism-related trips made by Chinese citizens to Russia. However, according to estimates by experts at Borderless World, if we exclude those who come to Russia on holiday, then the share of the visa-free exchange participants will grow to around 80 per cent (The author's estimates; <http://www.rbc.ru/newspaper/2016/10/14/57ffa7209a79472af90a284c>

<sup>267</sup><http://www.visit-russia.ru/soglashenie-mezhdu-pravitelstvom-rossiyskoy-federacii-i-pravitelstvom-kitayskoy-narodnoy-respubliki>

		from non- CIS count ries		CIS countri es				countri es		countri es	
	thousa nds	%	thousa nds	%	%		thousa nds	%	thousa nds	%	%
<b>Total</b>	<b>6,788.4</b>	<b>100</b>	<b>6,586.5 77</b>	<b>100</b>	<b>-3▼</b>	<b>Total</b>	16,639. 3	100	15,038. 4	100	- 10 ▼
including:						of them:					
<b>1. China</b> (including visa-free exchanges)	<b>929.8</b>	<b>13.7</b>	<b>1,072.6</b>	<b>16.3</b>	<b>15▲</b>	1. Finland	2,352.4	14.1	2,114.5	14.1	- 10 ▼
2. Finland	1,072.4	15.8	1,052.3	16.0	-2▼	<b>2. China</b> (includin g visa- free exchang es)	904.7	5.4	1,183.0	7.9	31 ▲
3. Poland	1,299.3	19.1	835.4	12.7	-36▼	3. Estonia	1,109.0	6.7	1,122.0	7.5	1▲
4. Germany	469.3	6.9	479.4	7.3	2▲	4. Poland	1,008.0	6.1	840.2	5.6	- 17 ▼
5. Mongolia	279.7	4.1	415.5	6.3	49▲	5. Germa ny	855.8	5.1	772.6	5.1	- 10 ▼

Sources: Rosstat, the author's calculations

(<http://www.russiatourism.ru/contents/statistika/statisticheskie-pokazateli-vzaimnykh-poezdok-grazhdan-rossiyskoy-federatsii-i-grazhdan-inostrannykh-gosudarstv/vyborochnaya-statisticheskaya-informatsiya-rasschitannaya-v-sootvetstvii-s-ofitsialnoy-statisticheskoy-metodologiyey-otsenki-chisla-vezdnykh-i-vyezdnykh-turistskikh-poezdok/>)

The 2016 increase in inbound tourism in Russia can be attributed to a number of factors. As the economy grows in China, incomes gradually increase. There is an emerging middle class, whose representatives show a great interest in foreign travel, as well as in purchasing luxury branded products. The devaluation of the rouble has turned Russia into a country where Chinese tourists may be introduced to the rich cultural and historical heritage and enjoy quality shopping at the same time.<sup>268</sup> The favourable political environment, guaranteed public security and the general pro-Russian sentiment, primarily among the older generations, also have a positive effect.

Tourism is gradually expanding in terms of the number of destinations people visit. Thus, there are traditionally two types of destination: the border areas of the Far East and European Russia.<sup>269</sup> Moscow and St. Petersburg are the top destinations,<sup>270</sup> accounting for 42 per cent and 47 percent of the visa-free tourist flow, respectively.<sup>271</sup> However, in the last few years, Russia has been proactively developing new routes, with the interests of Chinese tourists in mind. These initiatives help introduce them to the cultural diversity of Russian regions, show them a common history,<sup>272</sup> and unlock the potential of ecotourism.<sup>273</sup>

In addition, since 2015, upon the initiative of the Ulyanovsk Region, Russia has been implementing the Red Route federal project, which enables tourists from China familiarize

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<sup>268</sup>Chinese tourists' holiday spending exceeds that of visitors from other countries, and keeps growing. (<http://www.rbc.ru/newspaper/2016/10/14/57ffa7209a79472af90a284c>), [http://www.chinadaily.com.cn/business/2016-05/13/content\\_25253913.htm](http://www.chinadaily.com.cn/business/2016-05/13/content_25253913.htm))

<sup>269</sup> In Q1–Q3 2016, more than 286,000 tourists (up 48 per cent) visited the Primorsky, Khabarovsk and Zabaykalsky kraises and the Amur Oblast and the Jewish Autonomous Oblast ([http://travel.vesti.ru/article\\_23653](http://travel.vesti.ru/article_23653)). The region is especially popular among residents of the border provinces of China.

<sup>270</sup> According to Borderless World Foundation data, of the 670,000 visa-free tourists who visited Russia in January–September 2016, around 320,000 chose Moscow and St. Petersburg ([http://travel.vesti.ru/article\\_23653](http://travel.vesti.ru/article_23653)). These cities are generally visited within a single hop-on hop-off tour, or as part of trips to EU countries, as transit locations.

<sup>271</sup> [http://www.ng.ru/economics/2017-02-10/4\\_6926\\_china.html](http://www.ng.ru/economics/2017-02-10/4_6926_china.html)

<sup>272</sup> Attempts were made in 2016 to attract Chinese tourists to the North Caucasus. The developers of the route highlighted the distinctive culture of the region and its historical links to the Silk Road. A new brand, *The Eastern Ring of Russia*, is being developed for the positioning of the Far Eastern regions. In July 2016, China, Russia Federation and Mongolia chose the multilateral cooperation format to set up a tourist union, the Great Tea Road, which is also based on the common history of the participating countries (<http://tass.ru/spec/silkway>, <http://www.russiatourism.ru/news/11081/>, [http://russian.news.cn/2016-07/22/c\\_135533397.htm](http://russian.news.cn/2016-07/22/c_135533397.htm)).

<sup>273</sup> The number of Chinese tourists who visited Irkutsk Region and Lake Baikal (located in Irkutsk Region) in 2016 went up by 166 per cent ([http://travel.vesti.ru/article\\_23653](http://travel.vesti.ru/article_23653)).

themselves with the history of the communist movement. The project involves trips to Moscow and St. Petersburg, as well as to Ulyanovsk, the birthplace of Vladimir Lenin, and Kazan, where he attended university. According to China's Ambassador to the Russian Federation, the "red tourism" development is an integral part of the process of strengthening humanitarian cooperation.<sup>274</sup> The project is growing constantly. The Museum of the 6<sup>th</sup> Congress of the Communist Party of China (CPC), which was opened in New Moscow in 2016, is expected to become part of the sightseeing route. "Red tours" are also being developed in Sakhalin, where tourists arrive from Harbin by air. Given that 2017 will mark the 100<sup>th</sup> anniversary of the 1917 revolution, "red tourism" may grow in importance.

Other factors contributing to tourist exchange growth include the increase in the number of regular air routes linking the regions of Russia and China<sup>275</sup> (including from St. Petersburg<sup>276</sup> and Yekaterinburg<sup>277</sup>), and charter flights for tourist packages offered by Russian<sup>278</sup> and Chinese tour operators.<sup>279</sup>

What is more, Russia's major tourist hubs have made attempts to solve the language problem: advertising signs have been put up in Chinese; shops are now staffed by consultants who are also interpreters; arrival and departure boards at certain airports have been upgraded to support Chinese characters.

In order to improve the quality of services provided to Chinese tourists, Russia launched the China Friendly programme in 2014, which is targeted at bridging the language and cultural barriers that may be experienced by Chinese tourists in Russia.<sup>280</sup> The programme involves certifying tertiary industries (hotels, restaurants, places of interest, shopping malls and travel companies) which meet the criteria of Chinese tourists for enjoying a comfortable stay in Russia.

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<sup>274</sup> [http://www.ng.ru/economics/2016-05-18/4\\_pek.in.html](http://www.ng.ru/economics/2016-05-18/4_pek.in.html), <https://ria.ru/society/20160704/1458506109.html>, <http://www.visit-russia.ru/rossiysko-kitayskiy-turizm/krasnyy-marshrut>, <http://tass.ru/obschestvo/3774132>

<sup>275</sup> In 2016, visa-free tourists from China crossed the border in Bashkortostan, Tatarstan, and Yakutia for the first time (<http://visit-russia.ru/news/za-9-mesyacev-2016-goda-bezvizovyy-turpotok-iz-kitaya-vyros-na-40>). In 2017, direct flights between the Ulyanovsk Oblast and central Chinese provinces are expected to be launched under the auspices of the National Tourism Administration of The People's Republic of China (<http://inter.ulgov.ru/news/241.html>).

<sup>276</sup> <http://tass.ru/transport/3393608>

<sup>277</sup> <http://kommersant.ru/doc/3000792>

<sup>278</sup> <https://ria.ru/east/20160412/1408718998.html>

<sup>279</sup> <http://kommersant.ru/doc/2994215>

<sup>280</sup> <http://chinafriendly.ru/>

The availability of Chinese-speaking staff, UnionPay POS terminals, and unlimited access to hot drinking water are among the essential requirements.<sup>281</sup>

As far as China is concerned, the northern and north-eastern regions, as well as Hainan Island, are traditionally proactive in attracting Russian tourists.<sup>282</sup> Since 2016, the authorities in the province have employed a special marketing strategy on the Russian market, as Russians are not only interested in learning about the cultural and historical heritage, but also seek health resort therapy and beach holidays.<sup>283</sup> The Sanya resort has put up signposts and signs in Russian. Sanya healthcare centres have hired Russian-speaking translators, and the number of charter flights to the region has been increased. Russians ranked first in terms of foreign tourists at the resort at year end.<sup>284</sup>

In July 2016, the north-eastern province of Heilongjiang started an experimental procedure of refunding taxes on purchases made by foreign citizens (11 per cent) on departure from China, which is expected to motivate Russians tourists to return to the country.<sup>285</sup>

A similar experiment is set to start in Russia in 2017. The biggest high-end shopping malls (GUM, Petrovsky Passage, TSUM, etc.) are set to join in the experiment ahead of everyone else. The VAT refund will also apply to food products.<sup>286</sup> VAT will be refunded where the purchases made in the shop amount to at least 10,000 roubles, approximately \$170.<sup>287</sup>

In addition, the countries are gradually relaxing the visa regime. For instance, in 2016, citizens of the Russian Federation were allowed to transit visa-free for a total of 144 hours through the territory of Shanghai and the Zhejiang and Jiangsu provinces.<sup>288</sup> The 72-hour visa-free transit rules still apply to people transiting through Beijing, Guangzhou, Chengdu, Chongqing, Dalian, Shenyang, Xi'an, Guilin, Kunming, Wuhan, Xiamen, Tianjin, Harbin,

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<sup>281</sup> Within the framework of implementing the Memorandum of Understanding between the Federal Agency for Tourism and the operator of China's UnionPay International national payment system signed in December 2015, the number of facilities which accept the cards of the Chinese payment system is increasing (<http://www.russiatourism.ru/news/9963/>).

<sup>282</sup> <http://russian.cri.cn/1281/2016/04/12/1s578809.htm>, <http://tass.ru/obschestvo/3653856>

<sup>283</sup> For reference: among would-be tourists from the Republic of Korea, the same island is promoted as a good destination for golfers and honeymooners ([http://europe.chinadaily.com.cn/business/2016-04/20/content\\_24698944.htm](http://europe.chinadaily.com.cn/business/2016-04/20/content_24698944.htm)).

<sup>284</sup> <https://regnum.ru/news/economy/2235265.html>

<sup>285</sup> [http://www.ng.ru/economics/2016-05-18/4\\_pek.html](http://www.ng.ru/economics/2016-05-18/4_pek.html)

<sup>286</sup> <http://izvestia.ru/news/660315>

<sup>287</sup> <https://rg.ru/2017/02/16/minfin-rf-podgotovil-zakonoproekt-o-vvedenii-tax-free.html>

<sup>288</sup> The new rule applies to citizens of 51 countries and provides for transit through specified transport hubs: the Shanghai, Hangzhou and Nanjing airports, the Port of Shanghai, Shanghai Railway Station ([http://cnlegal.ru/china\\_visa\\_tourism/144\\_hours\\_visa\\_free\\_transit/](http://cnlegal.ru/china_visa_tourism/144_hours_visa_free_transit/)).

Qingdao and Changsha.<sup>289</sup> As for Russia, on March 7, 2017,<sup>290</sup> President Putin signed a law introducing a fast-track entry procedure in the territory of the Free Port of Vladivostok and several Far Eastern regions of the country.<sup>291</sup> When ready, this tool will contribute to the growth of tourist exchanges.

The lasting positive effect of the above measures will largely depend on the quality of the services offered, the experiences of foreign citizens when travelling to the other country, and development of a positive attitude in them towards the culture and people of the host country after the visit. Therefore, some aspects of the organization of tourist exchanges between Russia and China need further improvement.

Many countries around the world, including Russia, have adopted a special Chinese model for hosting tourists. The central role in this model is played by the diaspora whose representatives cooperate with Chinese travel agencies to offer a full range of services, such as accommodating guests at their own hotels, organizing sightseeing tours, taking tourists to special souvenir shops and restaurants which are frequently run for this purpose only. Sightseeing tours are often guided by uncertified guides – mainly Chinese students who do not have no right to work in Russia, according to the migration legislation of the Russian Federation.<sup>292</sup> Meanwhile, the Tourism Law of the People’s Republic of China states that only Chinese citizens may work as tour guides. Tourist groups of more than 15 people may not travel to the People’s Republic of China without a local guide.<sup>293</sup> Chinese guides frequently oust certified home-grown experts from the Russian market, provide false information about the country’s history and culture,<sup>294</sup> charge tourists high fees for the services that should be provided for free or at low rates,<sup>295</sup> and take them to shops that sell counterfeit goods at high prices.<sup>296</sup> At the same time, some Russian regions are in dire need of certified guides, while many travel agencies cannot endure China’s undercutting and only deal with paperwork connected with visa-free group travel.<sup>297</sup> Regional

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<sup>289</sup> <http://cnlegal.ru/china visa tourism/144 hours visa free transit/>

<sup>290</sup> See <http://publication.pravo.gov.ru/Document/View/0001201703070028?index=0&rangeSize=1>

<sup>291</sup> Primorsky Krai, Khabarovsk Krai, Sakhalin Region, Chukotka and Kamchatka (<https://ria.ru/economy/20170307/1489458882.html>).

<sup>292</sup> Dishonest Russian market players also hire such “employees” in an attempt to cut group service costs (<http://www.odnako.org/blogs/turizm-kak-forma-myagkoy-sili-problemi-kitayskogo-puteshestvennika-v-rossii/>).

<sup>294</sup> <http://www.kommersant.ru/doc/2944825>

<sup>294</sup> <http://www.kommersant.ru/doc/2944825>

<sup>295</sup> <http://www.vedomosti.ru/opinion/articles/2016/07/06/648112-turizm-krasnom-tereme>

<sup>296</sup> [https://lenta.ru/articles/2016/11/29/china\\_down/](https://lenta.ru/articles/2016/11/29/china_down/)

<sup>297</sup> Seventy Chinese-speaking specialists are listed on the website of the Russian Tourist Guides Association (<http://www.kommersant.ru/doc/2944825>, <http://www.agipe.ru/registry/chinese/>).

travel agencies also complain that their Chinese counterparts copy and sell the programmes of tours that they developed.<sup>298</sup>

What is more, there was a severe lack of tour buses in summer 2016, which just so happened to see an increase in the number of Chinese tourists. In addition, Moscow and St. Petersburg hotels did not have spare rooms.<sup>299</sup>

The China Friendly programme is still very limited in scope.<sup>300</sup> Though failing to meet the requirements, some facilities have been awarded the certificates.<sup>301</sup> There are often gross errors in ad translations in Chinese.<sup>302</sup>

Also, representatives of the diplomatic mission of the National Tourism Administration of the People's Republic of China in Russia point out that individual tourists have difficulties visiting the Russian Federation due to high visa processing fees: the visa application centre fee is approximately \$50, the same amount is charged by the consular section and middlemen, i.e., it costs around \$150 to apply for a visa.<sup>303</sup> Lack of signposts in Chinese has a negative effect too.

These factors contribute to the overall negative impression of tours among Chinese tourists. It is highly probable that they will not want to return to Russia. Nor will they want to advise their friends to go to the country. Many Chinese people share their travel experiences on popular social media networks, which means that the negative feedback about Russia will be seen by even more people.

It would be wise to consider the following measures:

1. The provisions of the migration legislation relating to illegal guides should be followed in Russia as strictly as they are in China. Legalizing tour guides is only possible if the People's Republic of China takes similar measures.

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<sup>298</sup> <http://www.sibtourport.ru/sti-info/news/sti/content/20175>

<sup>299</sup> <http://www.vm.ru/news/2016/12/01/kruglij-stol-podnebesnaya-stanovitsya-blizhe-cto-gotova-predlozhit-moskva-turistam-iz-kitaya-342143.html>; <http://tass.ru/obschestvo/3774132>

<sup>300</sup> According to the list posted on the programme's official website, only 50 facilities in 11 Russian regions have been certified. Most of these facilities are based in Moscow. See: <http://chinafriendly.ru/#participantscf>

<sup>301</sup> For example, the Fires of Murmansk Hotel received China Friendly status, even though its website information had been incorrectly translated into Chinese. The hotel later lost its status and was reinstated only after the translation errors had been corrected (<https://lenta.ru/articles/2017/01/23/soosweet/>, <http://chinafriendly.ru/#participantscf>).

<sup>302</sup> <https://lenta.ru/articles/2017/01/23/soosweet/>

<sup>303</sup> <http://www.rbc.ru/ratings/business/14/06/2016/575ad4af9a79470d9896571e>

2. Travel agencies should strictly observe border crossing requirements and the deadlines for submitting lists. They should also start using electronic document management systems to organize tourist exchanges.<sup>304</sup>
3. Russia and China should cooperate to ensure the transparency of the work of travel agencies on the market. To this end, it would be wise to introduce a system whereby tourists can rate the work of travel agencies. The company's rating can then be taken into account when granting the right to organize visa-free exchanges.
4. Russia as a whole, not just its separate regions, should be branded as an attractive destination for summer and winter holidays. It is also important to promote exchanges, not only at professional exhibitions and conferences, but also via traditional Chinese media, as well as new media, where the information should reach would-be tourists.<sup>305</sup> Attention should be paid to the localization of websites of hotels, shopping malls, museums and other important attractions to make them friendly for Chinese visitors.
5. As the major contingent of Chinese tourists to Russia is ageing, it would seem to be more promising to promote children and youth exchanges, as well as new travel destinations in Russia.
6. More attention should be paid to ensuring that Chinese and Russian tourists (travelling in groups and individually) enjoy comfortable stays when visiting the other country. This means ensuring a sufficient number of available rooms (primarily in the medium pricing category) and tour buses, simplifying logistics simpler and reducing their costs by organizing additional charter flights during peak season, expanding the geography of direct transport links between the countries' regions, lowering the minimum requirement for the number of members of an organized group for a visa-free stay on the territories of Russia and China,<sup>306</sup> monitoring and constantly improve the quality of services, and correcting the numerous errors on signposts and advertising texts in the Chinese language in Russia.
7. It would be advisable to introduce principles similar to China Friendly for Russian tourists in Chinese cities that are most popular among Russians.<sup>307</sup>
8. In addition, it would be useful to change the staff training system, which includes developing new programmes to train sinologists in tourism and the hotel business, adapting

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<sup>304</sup> <http://www.vm.ru/news/2016/12/01/kruglij-stol-podnebesnaya-stanovitsya-blizhe-cto-gotova-predlozhit-moskva-turistam-iz-kitaya-342143.html>

<sup>305</sup> Represented by Rosturizm, Russia is developing a strategy to promote the Russian tourism potential on the Chinese market via Chinese social media (Weibo, WeChat) in 2017. See <http://russiatourism.ru/news/11488/>

<sup>306</sup> The parties are considering relevant amendments to the intergovernmental agreements, which are aimed at reducing the minimum number of people per group to three and increasing the maximum period of stay from 15 to 21 days (<http://visit-russia.ru/news/za-9-mesyacev-2016-goda-bezvizovyy-turpotok-iz-kitaya-vyros-na-40>).

<sup>307</sup> Although the RussianFriendly programme exists, it does not cover Chinese facilities (<http://russian-friendly.com/>).

Chinese language courses to the modern needs of the interpreter–guide job,<sup>308</sup> starting to build talent pools in the regions, and establishing a system of interregional and international internship programmes for tourism workers for the purposes of exchanging experience.

9. Russian and Chinese travel agencies should be more focused on studying the interests and needs of would-be tourists. They should also invite local history experts who speak the relevant languages to create new routes and adapt existing ones for tourist exchanges.

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<sup>308</sup> [http://www.ng.ru/economics/2016-05-18/4\\_pek.in.html](http://www.ng.ru/economics/2016-05-18/4_pek.in.html)

### **Russian International Affairs Council (RIAC)**

Russian International Affairs Council (RIAC) is a non-profit international relations think-tank on a mission to provide policy recommendations for all of the Russian organizations involved in external affairs.

RIAC engages experts, statesmen and entrepreneurs in public discussions with an end to increase the efficiency of Russian foreign policy.

Along with research and analysis, the Russian Council is involved in educational activities to create a solid network of young global affairs and diplomacy experts. RIAC is a player on the second-track and public diplomacy arena, contributing the Russian view to international debate on the pending issues of global development.

Members of RIAC are the thought leaders of Russia's foreign affairs community – among them diplomats, businessmen, scholars, public leaders and journalists.

President of RIAC Igor Ivanov, Corresponding Member of the Russian Academy of Sciences, served as Minister of Foreign Affairs of the Russian Federation from 1998 to 2004 and Secretary of the Security Council from 2004 to 2007.

Director General of RIAC is Andrey Kortunov. From 1995 to 1997, Dr. Kortunov was Deputy Director of the Institute for US and Canadian Studies.

**RAS Institute of Far Eastern Studies**

The Institute of Far Eastern Studies (IFES) is a leading scientific research institution of the Russian Academy of Science. The institute conducts research work on fundamental problems and development of economy, history, foreign policy, philosophy and culture of China, Japan, Korea as well as international policy issues and economic integration in the Asia-Pacific Region. Since its establishment the IFES RAS has become one of the largest research centers conducting intergated studies on the Northeast Asia problems, situation on the Korean Peninsula and relationship between Russia and the countries of the region.

The Institute of Far Eastern Studies continues best of two hundred years' traditions of Russian oriental studies, Sinology in particular, that were established in XIX–XX centuries by distinguished scholars – members of the Academy of Sciences, N. Bichurin, V. Vasiliev, V. Alekseev, N. Konrad and others. Priority areas of its research activities are as follows: scientific support of a relationship program for our country and its Far Eastern neighbours, development and security issues of the Northeast and Central Asia, studies on history, modern life, social and economic development and spheres of life of China, Japan, Democratic People's Republic of Korea and Republic of Korea.

The Institute is headed by doctor of sciences (history), professor Sergey G. Luzyanin.

**Fudan University**

Fudan University was established in 1905 as Fudan Public School. It was the first institution of higher education to be founded by a Chinese person, renowned modern educator Ma Xiangbo. The school's name was chosen from the "Biography of Yuxia" in the Classic of History (《尚书大传 虞夏传》), where the two characters fù复 ("return") and dàn旦 ("dawn") are found in the famous lines "Brilliant are the sunshine and moonlight, again the morning glory after the night," signifying continuous self-renewal, and expressing the hope that China could become a country with a strong higher education system run by Chinese intellectuals. Fudan University was merged with Shanghai Medical University in 2000, forming a new, stronger Fudan University with a broader set of disciplines: medicine, sciences, and arts. As one of the first participants in the 211 and 985 Projects, Fudan has developed into a comprehensive research university, with Departments of Philosophy, Economics, Law, Education, Literature, History, Science, Engineering, Medicine, and Management.

Fudan University celebrated its 100th anniversary in 2005.