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Russian-Chinese Relations Today: Views from Moscow

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Introduction

The Russian-Chinese “comprehensive partnership and strategic interaction of the new era” represent a key element of the emerging multipolar world order. Moscow and Beijing’s mutual support in the international arena, growing trade turnover in the face of sanctions, strengthening humanitarian ties, and people-to-people cooperation represent a unique example of the constructive dialogue taking place between these two truly sovereign states. Further confirming this dynamic was Russian President Vladimir Putin’s visit to China on May 16–17, 2024.

Moscow and Beijing relations managed to move beyond historical grievances, political differences and territorial disputes, entering a new responsible stage of building a new type of partnership that is based on mutual respect, as well as mutual benefit. The development of Russian-Chinese cooperation is expected to cause concern among Western nations and their allies in the Asia-Pacific, as they perceive it as a threat to the regional balance of power that used to exist in the world.

Russia and China are increasing their interaction by tackling mutual issues and, at the same time, are guided by their national interests in their approaches to pressing issues on the international agenda, demonstrating the maturity of today’s interstate dialogue between the parties. Finding

a way to transform diversity into complementarity remains a key challenge for Moscow today. Its solution seems to be based on an audit of its own needs and capabilities, as well as supporting communication with a partner that is aimed at developing a common understanding and a shared vision of their future relations.

The following policy brief presents key topics that are a part of the Russia – China dialogue that deserve to be prioritized and addressed both at the intra-Russian and bilateral levels. The first section of this policy brief considers the current external conditions of Russia’s policy towards China, which in many respects act as an independent source for differences between the countries. The second section is devoted to reviewing the challenges facing Moscow – Beijing economic cooperation and identify what Russia could do to smooth out dialogue disparities. The sections contain thematic recommendations for overcoming the highlighted problems.

The following policy brief has been prepared against the backdrop of the Russian International Affairs Council’s Ninth International Conference, “Russia and China: Cooperation in a New Era” of March 2024. Russian experts on state political and economic cooperation, as well as the development of the world order have actively participated in the making of this material.

Section 1: The Global Dimension of the Russia – China Partnership: Russia’s Policy Towards China in the Context of the New World Order Formation

One of the key structural factors influencing the formation of Russia’s position on China is the transformation of the world order.

There is an aspiration of both individual and groups of states to transform the world order in accordance with their normative values. The presence of such aspirations confirms the continuing relevance of political liberalism; it illustrates the viability of democratic peace theory where “democracies do not fight amongst themselves”, supports economic and cultural interdependence as a guarantee for peace, recognizes modernization and “soft” power as tools to influence societies and bring them to a common standard of development, even if these ideas are implicitly manifested in the policies of the states practicing them without consciously linking it to international relations theory.

Russia and China are actively developing their own projects to structure both the entire international political architecture and those regional and macro-regional spaces that are of highest interest to them. Since the mid-1990s, Russia’s foreign policy doctrine has been based on the idea of multipolarity — a world order built on the principle of equality and mutual respect between some sovereign centers of power. It is indicative that Beijing has supported Moscow’s aspiration for multipolarity from the very beginning, as is reflected in the 1997 Russian-Chinese Joint Declaration on a Multipolar World and the Formation of a New International Order.¹

Since the mid-2000s and early 2010s, BRICS has been one of Russia’s projects promoting multipolarity while also illustrating the attractiveness of this idea to other countries. The promotion of this format as a platform for securing the interests of the “global majority” in the international arena acts as a telling sign of the formation of multipolarity. In parallel, Moscow is developing the Greater Eurasian Partnership project to streamline relations with key partners in Eurasia, as well as increase regional connectivity. At the same time, Russian foreign policy concepts are

put forward not with the aim of achieving leadership per se, but in the interests of creating more favorable conditions for practical activities in the international arena.

China’s foreign policy doctrine was actively formalized in 2013 when the concept of building a “community of common destiny for all mankind” was formulated and the Belt and Road Initiative — based on that very concept — was put forward. In 2021–2023, the concept was supplemented by three other global initiatives pertaining to development, security and civilization. The desire for conceptual leadership is embedded in Chinese culture and represents the development of China’s ancient belief that an ensuing global “cultural transformation” would welcome Chinese models and experiences. It is to be expected that Beijing will actively promote its developments via all available channels — both political and economic.

Meanwhile, the world is striving for diversity, distancing itself from universalist ideas to the extent that the globalized world economy and digital environment bolster this drive. Regionalization is increasingly becoming the main megatrend of global development.

There are several perspectives on how globalization and regionalization are correlated: these processes are interpreted as mutually exclusive, complementary and parallel. The trends of the early 2020s are most consistent with the third view, as they indicate the simultaneous emergence of several distinct regional centers. It can be assumed that, if this process continues, the new multipolar world order will be a re-creation of the Westphalian system of international relations, but regional subsystems will replace nation states as the key elements of the emerging new order. For the leaders of regional subsystems, therefore, there is an urgent need not only for foreign policy creativity and the development of ideas on the basis of which an intra-regional identity can be formed, but also for the power to ensure the stability of such spaces. Often, several

¹ Russian-Chinese Joint Declaration on the Multipolar World and the Formation of a New International Order // Electronic Fund of Legal, Regulatory and Technical Documents of legal and normative-technical documents. URL: <https://docs.cntd.ru/document/1902155>

centers of power claim leadership in the same space. Here, the regional division of the world may be done on a functional basis — depending on their attitude to the changes taking place in the world order.

To replace the outdated division of the Global North and Global South, a differentiation can be proposed between the states of the collective West (in a broad sense, without geographical reference to the Euro-Atlantic region) and those part of the “global majority”. Some articulately seek a revision of the Western-centric, “rules-based” order, while others take a wait-and-see approach as they watch the changes taking place and seek to avoid choosing one of the parties in the intensifying great power standoff.

At the same time, differences in positions towards the West are not an insurmountable obstacle to group interactions, as they do not prevent its constituent member states from making joint attempts to improve the system of global governance. For example, such inclusive multilateral platforms include the already mentioned BRICS and the BRICS New Development Bank, the Shanghai Cooperation Organization, and the G20. Russian regional projects like the Eurasian Economic Union and the Greater Eurasian Partnership, as well as China’s Asian Infrastructure Investment Bank and the Belt and Road Initiative provide ample opportunities for open participation. Though these formats are facing serious challenges related to the creation of autonomous financial settlement systems, promoting innovative technologies, etc., the very fact that they have emerged indicates the existence of projects that can play a unifying role for the countries of global majority and increase their potential in establishing a more equitable world order.

The possibility of cooperation within a group of states whose positions differ in nuance and subtleties is confirmed by the evolution of Russia’s and China’s attitudes towards the West. Moscow and Beijing have long followed a similar path, expecting to find a compromise between the benefits of economic cooperation and political independence. Also, before the conflict in Ukraine escalated in 2022, Moscow and Beijing had equally sought to differentiate their policies towards the United States and the European Union in hopes of building a collective security

system in Eurasia. However, Russia’s position subsequently changed, as developed economic ties did not prevent a crisis of the security architecture in Europe. Now Moscow perceives the US, UK and EU nations as a single antagonistic bloc, which also includes US allies in Asia: Japan, New Zealand, Australia, South Korea. As a result, Russia has become the leader of resistance to the Western-centered world order.

China, in turn, maintains a differentiated approach and continues to show interest in maintaining its relations with the EU. Since the mid-1990s, China sees the development of an economic partnership and political interaction with Brussels as an integral element of building multipolarity. Beijing is trying to take steps to preserve constructive elements in its relations with Brussels, backing the idea of the EU’s “strategic autonomy.” The specific nature of the integration association allows China to be an international player and pursue its policy simultaneously at two levels — the pan-European or national. In case of difficulties with pan-European institutions, China focuses their bilateral interaction with individual EU nations. Today, this trend is visible, for example, in China’s relations with Germany, France, Hungary and Greece. EU institutions, in turn, actively oppose the development of bilateral partnerships between member states and China, and are working to implement common protective mechanisms aimed at restricting the access of Chinese capital and goods to European markets.

China’s position towards the United States is more critical, but even in this area, confrontational tendencies are not as pronounced as in the interaction between Russia and the United States. Washington tends to initiate hostility, looking for ways to reduce the share of Chinese products on world markets, while Beijing retains hope for stabilizing relations and acts reactively. China cannot make concessions on fundamental issues, which means that there is every reason to believe that China–US relations will deteriorate in the medium term, while technological and economic rivalry will stiffen.

The most visible manifestation of current global transformations is the potential redistribution of power and regional subsystem border struggles, as well as leadership support. Changes to order and the final distribution of the new balance of

power have traditionally occurred as a result of major armed clashes or conflicts, and the current international and political conditions do not allow us to exclude such a scenario from consideration.

The conflict between Russia and the West, which has switched to an acute phase in 2022, is of fundamental importance for the future world order, as is the deepening structural confrontation between the West and China. For the moment, Russia and NATO member states have shown some strategic restraint, as they have enough material resources and internal cohesion for protracted confrontation, but the risks of a direct clash remain extremely high. Similarly, the risks associated with a potential conflict between China and the US are increasing — not only around Taiwan, but also in the South China Sea or East China Sea. China's intensified military training and rearmament of the PLA may indirectly evidence China's awareness of this threat. That said, the escalation of both the US–Russia and potential US – China conflict to a nuclear faceoff cannot be completely ruled out. In this regard, the outcome of the ongoing Ukrainian crisis is of particular importance, including for the development of Russian-Chinese military cooperation.

Understandably, the growing conflict potential in US-Russian and US-Chinese relations affect the interests of many other nations. India, for example, is not interested in the formation of a Russian-Chinese alliance, believing that this would change the strategic balance of power in Asia. It is against this background that the dialogue between New Delhi and Washington is developing, which makes it impossible to predict the convergence of India's position with those of Russia and China on the transformation of the world order in the short and medium term.

Recommendations for Shaping Russia's Policies on China with Global Development Trends

Russia is capable of acting as an independent creative force in the international arena. In this regard, the above-mentioned update on China's foreign policy doctrine requires a thorough study of the partner's initiatives and improvement of its own foreign policy's innovative component. Russia – China dialogue on conceptual

foreign policy issues should not aim to develop a unified or common approach to the transformation of the world order or its constituent parts, but deepen the understanding of each other's positions, clarifying the differences, and creating conditions for exchanging views on the basis of mutual respect. For example, it is already evident that Russian and Chinese approaches to international law differ, but emphasizing those differences may never lead to a common denominator. On the contrary, the search for common grounds rather than differences can make a notable contribution to the further management of areas with common interest. Russia's most important task is to elaborate the content of key concepts for foreign policy discourse, such as multipolarity, the rule of law and a just world order, as well as their correlation with each other. China already uses the entire existing set of universal values, which should be embraced: peace, development, justice (in the sense of equality), and even freedom and democracy.

Eurasia is becoming the main space where Russian and Chinese regional construction projects should find some common ground. However, the joint construction of a non-confrontational regional order is becoming increasingly challenging as small and medium-sized countries in the region attempt to increment their resources through multidirectional policies, which provokes competition between Moscow and Beijing. At the political level, Russia must formulate principles of governance and development that are unique to the region, and which require a clearer articulation of the Greater Eurasian Space project by defining its material foundations, boundaries, functioning mechanisms and foundational values. Once the Greater Eurasian Partnership development strategy is finalized, it is important to deepen China's understanding of the project's advantages and form a mutually beneficial vision of this regional space.

As China has no plans to abandon constructive engagement with the collective West, it is important to develop a common position towards this entity. Interaction issued with the US and the EU should be considered separately, but not as part of an overall package. In terms of Europe, recent interaction experiences can illustrate the danger of overestimating the "strategic autonomy" of the EU integration association. The unfriendly nature of the EU's policy of "risk reduction" with

China already indicates that in the event of an escalation of a conflict in the Asia-Pacific region, the economic interdependence of Brussels and Beijing may not be enough to maintain neutral relations. Considering Russia's recent experiences, attempts to build bilateral cooperation with individual EU nations, including Germany and Hungary, do not guarantee security in case of a sharp degradation of relations with Europe as a whole. As for the US, dissatisfaction over their actions further unite Russia and China. This dissatisfaction can be used both to strengthen the bilateral partnership and to overall boost constructive trends in the Asia – Pacific region. Since Russia's principal regional objective is to preserve room for maneuvering, an important topic for Russian-Chinese dialogue is elaborating the

concept of cooperation within the framework of RIC (Russia – India – China). Sino-Indian relations have extremely complex internal dynamics, but their harmonization is of key importance for the regional and global balance of power.

Given the prospect of further conflict escalation between Russia and the West, maintaining cooperation with China remains a priority, including deepening military and political cooperation while diversifying areas of economic interaction. In the meantime, the alliance with China should not be rigid, as it does not meet the long-term interests of either Moscow or Beijing and limits their freedom to maneuver, including within the framework of regional construction in the post-conflict period.

Section 2: Deepening Economic Cooperation Between Russia and China: Opportunities and Limitations

Economic cooperation is largely derived from the political dialogue between Russia and China. Its actual goals were formulated at the highest level — in the Joint Statement of the Russian Federation and the People's Republic of China on Deepening Comprehensive Partnership and Strategic Cooperation Entering a New Era of March 21, 2023², as well as the Joint Statement of the Russian Federation and the People's Republic of China on Deepening Comprehensive Partnership and Strategic Cooperation Entering a New Era during the 75th anniversary of the establishment of diplomatic relations between the two nations.³ Having reached the trade turnover of USD 200 billion⁴ planned for 2024 ahead of schedule, the two sides raised the bar to an ambitious USD 300 billion.⁵

In the meantime, trade relations with China, as well as China's relations with other major partners, are characterized by a deficit as Chinese exports to Russia significantly exceed imports. In 2023 alone, the former grew by 46.9%, while the latter rose only 12.7%.⁶ However, Moscow is hardly capable of direct competition with Beijing in terms of economic growth rates and production volumes needed to correct this imbalance. Moreover, it is not in Russia's interests; exports of some product categories and supply chains have been reoriented from Western markets to China and companies that have left the Russian market have been replaced by Chinese suppliers with viable alternatives. Under these circumstances, Russia's priority should be to deepen its competitive advantages with China, diversify its exports, and form a balanced policy to ensure and keep bilateral economic cooperation mutually beneficial. This requires analyzing needs that cannot be met without China's support in the short and medium term, as well as the areas whose export

potential has not been fully reached.

Currently, a key structural factor in the development of Russian-Chinese economic cooperation is Western sanctions. Back in 2014, after the first restrictive measures were imposed against Russia, China's requirements for Russian company interaction were tightened. Since 2022, Chinese companies have faced direct risks of losing access to Western markets when doing business in Russia, becoming increasingly cautious in complying with sanctions. The list of Chinese banks that have restricted transactions with Russian counterparties for fear of secondary sanctions continues to grow.⁷

Sanctions also limit the inflow of direct investment into Russia. The scale of Russia's investment cooperation with China today is assessed as insufficient: according to the Bank of Russia, China's FDI in Russia amounted to USD 3 billion in 2022, equivalent to 0.7% of all accumulated FDI. In turn, the volume of investment from Russia to China was equal to USD 10 billion, amounting to 0.4% of all accumulated FDI in China.⁸ The majority of Chinese investment is concentrated in large state-backed projects, such as the energy sector. In a comparatively smaller volume, China finances wood processing enterprises, invests in real estate and creates Chinese industrial facilities in Russia. This being said, China does not localize its production facilities, but implements certain stages in the manufacturing of goods, such as assembly, painting, etc., thus minimizing its risks.

However, even under the sanctions, the indicators of economic cooperation, as noted earlier, are growing. In 2023, the trade turnover between Russia and China, according to Chinese customs

² Joint Statement of the Russian Federation and the People's Republic of China on Deepening Comprehensive Partnership and Strategic Cooperation in the New Era // President of Russia. 23.03.2023. URL: <http://www.kremlin.ru/supplement/5920>

³ Joint Statement of the Russian Federation and the People's Republic of China on deepening relations of comprehensive partnership and strategic cooperation entering a new era in the context of the 75th anniversary of the establishment of diplomatic relations between the two countries // President of Russia. 16.05.2024. URL: <http://www.kremlin.ru/supplement/6132>

⁴ Putin said that Russia and China have reached a trade turnover of \$200 billion // TASS. 18.10.2023. URL: <https://tass.ru/ekonomika/19045767?ysclid=lw3ouwnuz2986458611>

⁵ Chernyshenko announced plans to increase Russian trade turnover with China up to USD 300 billion // Izvestiya. 18.12.2023. URL: <https://iz.ru/1622357/2023-12-18/chernyshenko-zaiavil-o-planakh-uvlicheniia-tovarooborota-rf-s-kitaem-do-300-mlrd>

⁶ Turnover with the East // Kommersant. 15.01.2024. URL: <https://www.kommersant.ru/doc/6453370?ysclid=lw3p79rmy6605546311>

⁷ China Reduced Supplies to Russia for the First Time Since 2022 // Lenta.ru. 17.04.2023. URL: <https://lenta.ru/news/2024/04/17/sokratil/>

⁸ Foreign Sector Statistics // Bank of Russia. URL: https://cbr.ru/statistics/macro_itm/svs/

statistics, reached a record USD 240 billion.⁹ At the end of the year, Russia became China's sixth largest trading partner next only to the United States, Japan, South Korea, Hong Kong and Taiwan, whereas in 2022 Russia ranked only tenth.¹⁰ The rapid growth was due to parallel processes such as China filling the trade gaps vacated after the withdrawal of Western companies from the Russian market and the reorientation of Russian exports, primarily energy, to China. On the one hand, Beijing still has opportunities to expand its presence in the Russian market and is actively exploring the prospects for deepening cooperation, including by creating secure mechanisms for bilateral financial settlements. On the other hand, the process of replacing European companies with Chinese ones is not endless and in the near future the probability of a slowdown in the growth rate of Chinese exports to Russia or even their reduction remains high.

Moreover, observed indicator growth, as well as China's desire to compensate Russia for lost product categories following the exodus of Western companies does not necessarily indicate the preferential nature of relations between the two countries. China is ramping up trade with other non-Western nations, particularly Brazil and India, even if insignificant. The volume of trade with major Western partners, namely the US, the EU, and Japan, is declining,¹¹ despite China's continued interest in entering these markets. The change in the structure of trade relations can be attributed to China's policy of diversifying its foreign trade portfolio and so-called "friend-shoring", which helps minimize potential economic risks in case of deteriorating political relations.¹²

Accordingly, to maintain the volume of bilateral trade, Moscow and Beijing must find new mechanisms for trade and economic interaction as well as monetary and financial exchange. Increasing trade turnover requires new solutions — first off, from Moscow. In particular, it is necessary to find new categories that would allow increasing Russian export flows to China.

Today, Russia still has not developed a document outlining the priorities and directions for increasing its foreign economic competitive ability that indicates specific categories of goods which could ensure this breakthrough. The preparation of export support measures by relevant government agencies and their subordinate structures is hampered by the absence of a unified list of strategic socio-economic objectives at the upper level, which as a consequence complicates the work on training the necessary personnel, accumulating resource reserves, commercializing innovations, etc. For example, the new Strategy for Scientific and Technological Development of the Russian Federation is not fully harmonized with the existing sectoral strategies.¹³

Priorities are indicated there without any reference to the main spheres of Russia's industries and their needs, whereas the role of foreign and domestic sources of uncertainty and challenges are not assessed.¹⁴

Accordingly, no systematic approach has been developed to meet the needs of the Russian economy after 2022 or build up its export potential. In terms of China, the latter is obviously not fully realized. In 2023, the volume of imports

⁹ Thus, the goal set by heads of state in 2022 to increase the volume of bilateral trade to USD 200 billion by 2024 was achieved ahead of schedule. See: Putin: Russia and China Will Reach a trade turnover of USD 200 billion before 2024 // Rossiyskaya Gazeta. 22.02.2022. URL: <https://rg.ru/2023/02/22/putin-rf-i-knr-dostignut-tovarooborota-v-200-mlrd-dollarov-ranshe-2024-goda.html?ysclid=lv5wrrw09l200934460>

¹⁰ Russia has Strengthened its Position in Trade with China // CGTN. 03.03.2023. URL: <https://russian.cgtn.com/news/2023-03-03/1631531634856800257/index.html>

¹¹ China reported a 6.5% decrease in the country's foreign trade turnover in January-August // TASS. 07.09.2023. URL: <https://tass.ru/ekonomika/18675193?ysclid=lv3q3qhp9e974538223>

¹² Geoeconomic Fragmentation and the Future of Multilateralism // International Monetary Fund. 15.01.2023. URL: <https://www.imf.org/en/Publications/Staff-Discussion-Notes/Issues/2023/01/11/Geo-Economic-Fragmentation-and-the-Future-of-Multilateralism-527266>

¹³ Particularly, sectoral industrial documents such as the Consolidated Strategy for the Development of Manufacturing Industries in the Russian Federation for 2035, as well as the Energy Strategy of the Russian Federation for 2035 outline the general task of using the STR achievements without noting specific directions of their implementation. However, the need for an accelerated technological development of manufacturing and processing enterprises, as well as structural diversification focusing on the export of technologies, equipment and services in the energy sector are noted. On the contrary, the Strategy for the Development of Agro-Industrial and Fishery Complexes of the Russian Federation for 2030 contains a limited list of relevant measures in the field of breeding and genetics. Only the introduction of digital technologies into the industry is mentioned as a common objective for the above thrusts. See: Order of the Government of the Russian Federation No. 1512-r dated June 6, 2020 "On Approval of the Consolidated Strategy for the Development of Manufacturing Industries of the Russian Federation in 2024 and for the period until 2035" // Garant.ru. 02.05.2020. URL: <https://www.garant.ru/products/ipo/prime/doc/74142592/?ysclid=lv0ze9yswm962863268>; Order of the Government of the Russian Federation dated 09.06.2020 № 1523-r (ed. from 28.02.2024) "On Approval of the Energy Strategy of the Russian Federation for the period up to 2035" // ConsultantPlus. 09.06.2020. URL: https://www.consultant.ru/document/cons_doc_LAW_354840/d6f20f5fdbee2bf9d4e11e67b77a307fee59f158/; Order of the Government of the Russian Federation dated 08.09.2022 № 2567-r (ed. from 23.11.2023) "On Approval of the Strategy for Development of Agro-Industrial and Fishery Complexes of the Russian Federation for the period up to 2030" // ConsultantPlus. 08.09.2022. URL: https://www.consultant.ru/document/cons_doc_LAW_426435/?ysclid=lvnt8o13ar396009933

¹⁴ Decree of the President of the Russian Federation dated 28.02.2024 No. 145. "On the Strategy of Scientific-Technological Development of the Russian Federation" // ConsultantPlus. URL: https://www.consultant.ru/document/cons_doc_LAW_470973/44971b2fc507a421c18239105497251e1e68df41/

from China exceeded the value of imported goods from the EU in previous years.¹⁵ However, Russian exports to China turned out to be lower than the earlier traditional volumes of supplies to Europe.¹⁶

For Moscow, energy remains the main export category. Until the 2000s, the Chinese market had been of secondary importance for the Russian energy sector. The lack of appropriate transportation and logistical conditions also hindered the build-up of supplies. In 2003, the Energy Strategy for the period up to 2000¹⁷ gave a new impetus to the partnership: implementation of projects such as the construction of the Eastern Siberia – Pacific Ocean oil pipeline (ESPO–1) and the construction of the Tianjin oil refinery. The Intergovernmental Russian-Chinese Commission on Energy Cooperation and the Russian-Chinese Energy Business Forum started their proceedings. The active stage of cooperation commenced after 2014, when the parties signed long-term contracts for the supply of oil, gas, coal and electricity.¹⁸ Since then, the volume of Russian supplies to the Chinese market has been systematically increasing.

Russian energy exports to China can continue to increase, provided that the delivery capacity of the transportation and energy infrastructure, oil and gas pipelines, as well as the area of supply terminals is ramped up. However, the main problem is the extent to which China is willing to expand energy cooperation with Russia.

First, even state-owned energy companies in China, which until recently were the main lobbyists for energy cooperation, are not ready to deepen cooperation for fear of secondary sanctions. As a consequence, the implementation of mammoth infrastructure projects, such as the

construction of the Power of Siberia–2 gas pipeline, is slowing down.¹⁹

Second, Beijing has traditionally sought to diversify its energy purchases. Russia surpassed Saudi Arabia in becoming the main oil exporter to the Chinese market only after Riyadh raised the price of hydrocarbons.²⁰ If the Saudis revise their pricing policy, Moscow could again fall back to second place. China is also developing energy cooperation with Central Asian states, even though the latter cannot always fulfill their contractual obligations. For example, Uzbekistan recently faced a shortage of energy resources to meet the needs of its national economy and could not export the contracted amount of energy to China.²¹ The deficit was compensated by purchasing from Russia and redirecting Russian energy resources to China.²²

Thirdly, China is taking progressive steps towards energy transition and introducing elements of a green economy, which implies a gradual phase-out of traditional energy sources. Beijing is likely to remain the main buyer of Russian energy resources until 2030. Stable demand for particularly Russian natural gas will be facilitated by China's implementation of a program for digitalizing the national economy. Information and cloud storage will require a developed server infrastructure, which means a significant amount of electric power, which will be impossible to generate without leveraging the traditional sources. Subsequently, the demand for them will be steadily waning. The necessary financial and legislative support for the development of a green economy at the state level has already been provided.

There are also internal constraints for ramping up Russian energy supplies to China, such as the

¹⁵ Import at Stake // Kommersant 28.02.2024. URL: <https://www.kommersant.ru/doc/6534510?ysclid=lw3r598dz3593192128>

¹⁶ Trade turnover between Russia and the EU in 2022 reached the maximum for eight years // Kommersant. 07.03.2023. URL: <https://www.kommersant.ru/doc/5863026?ysclid=lw3rc11ke205996375>

¹⁷ Order of the Government of the Russian Federation dated 28.08.2003 No. 1234-r (ed. From 15.06.2009) "On the Energy Strategy of Russia for the period up to 2020" // ConsultantPlus. 28.08.2003. URL: https://www.consultant.ru/document/cons_doc_LAW_87926/67a85f9e2b4e8015de2c5b72ee1c71c37a562946/?ysclid=lvqejnmxp93896804

¹⁸ Russia and China signed 17 documents, including on gas supplies via the "western route" // TASS. 09.10.2014. URL: <https://tass.ru/ekonomika/1560521?ysclid=lw3rhg8612609821976>

¹⁹ ET: Siberia-2 construction slows down due to disputes between Russia and China // TASS. 02.12.2023. URL: <https://www.kommersant.ru/doc/6378758?ysclid=lw3rkr5y9i43417381>

²⁰ Russia has become the main exporter of oil to China // Izvestiya. 20.01.2024. URL: <https://iz.ru/1637311/video/rossiya-stala-glavnym-eksporterom-nefti-v-kitai>

²¹ Uzbekistan ceases the export of natural gas amid its scarcity // RBC. 08.12.2022. URL: <https://www.rbc.ru/society/08/12/2022/6391ebd09a7947af61431159?ysclid=lw3rnm96s1308203420>

²² Russia to Enlarge Energy Supplies to Asia // Vedomosti. 11.10.2023. URL: https://www.vedomosti.ru/press_releases/2023/10/11/rossiya-budet-rasshiryat-postavki-energoresurov-v-aziyu

limited export capacity of Russian regions. For example, in 2023, due to the electricity shortage in the Far East, electric power supplies to China decreased by a third.²³ Despite the fact that Russia became the leading oil exporter to the Chinese market at the end of 2023, such disruptions are possible in the supply of oil and other energy carriers as well. In determining the prospects for the expansion of energy cooperation between Russia and China in the medium term, the need to meet domestic demand should therefore also be taken into account.

The agricultural sector is becoming an increasingly promising area for export buildup. At the end of 2023, trade in agricultural goods between Russia and China increased by 33.9%, reaching USD 11.1 billion.²⁴ The increase in trade turnover was facilitated by the redirection of oil and fat products previously supplied to Europe to the Chinese market as well as the lifting of anti-Covid restrictions on fish and seafood.²⁵ After China lifted the ban on Russian pork imports,²⁶ this commodity category also saw a slight growth.²⁷

Russia has an opportunity to build up agricultural exports to China, but it will be more difficult to keep the volume of supplies at a certain level to meet the needs of the Chinese market due to existing internal structural limitations and the conditions of manufacturing output. For example, in order to increase soybean production for export to the Chinese market, it is necessary to expand sown areas. The problem could be solved by attracting additional targeted Chinese investments, but the admission of foreign capital to the Russian food sector is assessed ambiguously because of possible risks to food security.

The potential of Russian-Chinese cooperation in technology and innovation remains untouched. The main factor determining the trajectory of bilateral partnership in the high-tech sector is the growing interest in expanding the exchange of sensitive technologies and developments,²⁸ as

well as the availability of effective interaction formats for the implementation of joint projects.²⁹

Thus, China is implementing a program to modernize the national economy by ramping up the manufacture of high-tech products. All areas of China's economic development, including the Belt and Road Initiative, are more or less subordinated to this task. For example, boosting the demand for electric cars is necessary not only to promote the "green" agenda, but also to create industries that require sophisticated electronics. To do this, China's industry needs to be put on an innovation track by moving low-margin production outside the country and focus on developing a knowledge-based economy.

Meanwhile, Beijing's willingness to build expensive industrial facilities for high-tech production in Russia remains low, despite the fact that Moscow often points to its developments in green technologies, aviation and nuclear industries. Further high-tech cooperation between Moscow and Beijing is limited by Russia's ability to increase the manufacture of relevant products at its own facilities. For example, China has a high demand for solar panels, but Russia can only produce the high-purity nickel used in their assembly. In order to scale up high-tech production for export purposes, Russia needs guarantees for the acquisition of such products from foreign partners. China, in turn, cannot provide stable demand for Russia's product offering, limited in terms of product categories, which dooms S&T interaction to a vicious circle.

Recommendations for Building Russia and China's Economic Dialogue

Despite existing and potential difficulties, maintaining and developing economic relations with China should remain a priority in Russia's foreign economic strategy. Other friendly states — representatives of the "global majority" — will not be able to fill the commodity gaps occupied by

²³ Exports to China know the measure // Kommersant. 15.01.2023. URL: <https://www.kommersant.ru/doc/6453319?ysclid=lw3rxnpxnv543512720>

²⁴ Chinese businesses see the high potential for the supply of Russian products // Interfax. 23.04.2024. URL: <https://www.interfax.ru/business/957327>

²⁵ Review: Russia increased exports of agro-industrial complex products to China 2.7 times in 8 months // Interfax. 09.10.2023. URL: <https://www.interfax.ru/business/924806>

²⁶ China permitted the supplies of Russian pork to its market // Interfax. 25.01.2023. URL: <https://www.interfax.ru/world/923159?ysclid=lw3sm8ef8135525516>

²⁷ Russian Agricultural Safety Watchdog: 143 pork batches have been formalized for supply to China // Rossiyskaya Gazeta. 08.05.2024. URL: <https://rg.ru/2024/05/08/rosselhoz nadzor-dlia-postavok-v-kitaj-oformleno-143-partii-svininy.html?ysclid=lw3siblt40487715462>

²⁸ See: China bans the export of domestically developed processors to Russia // Alta Soft. 13.12.2023. URL: https://www.alta.ru/external_news/96029?ysclid=lvrt3w64958553473

²⁹ See: Factoring: Russia Excluded from the Program of Wide-Body Aircraft CR929? // Higher School of Economics. 17.07.2023. URL: <https://www.hse.ru/expertise/news/846967127.htm>

China. For this reason, when negotiating with China, it is not recommended to emphasize the risks of deepening interdependence, but on the contrary focus on the search for new opportunities to deepen the partnership and demonstrate the desire for rapprochement. At the same time, preferential cooperation development with China should not exclude the diversification of Russia's economic partners, as the external economic environment remains highly volatile. Like China, Russia should more actively develop interaction with countries of the "global majority", above all with India. Due to the volatility of the geopolitical situation and given the possibility of an open conflict between China and the West — discussed in the first section — when building trade and economic cooperation with China, Russia should focus primarily on the medium term, realizing the maximum number of opportunities currently available. It is important to determine the modality of the partnership in the next 7–10 years and choose a model based either on complex regulated interaction, for example, within the framework of a limited free trade zone between the EAEU and China, or on the principles of more flexible integration at the level of business, small and medium-sized enterprises in certain industries. Either model should be accompanied by the development of joint roadmaps, signing declarations, memorandums, agreements, etc. At the same time, it should be understood that flexible integration is carried out at a faster pace compared to institutionalized interaction within the framework of major trade agreements.³⁰ Developing relations with China does not cancel Russia's objective to build up domestic competitiveness and "stress resistance". The first step in addressing this task should be to identify the needs of the national economy. It is necessary to intensify work on updating Russia's socio-economic development strategy, which will include a revision of Moscow's needs and capabilities. The next step involves searching for potential areas to realize Russia's export offer

for its goods, including China. Bilateral dialogue on this issue will help Russia to partially equalize the disproportionate trade exchange with a significant predominance of Chinese exports and take a stronger position in the list of China's key partners. When preparing proposals for bilateral projects, it is important for Russia to also take into account the foreign economic restrictions that apply to China. For example, initiatives proposed by Russia could help China partially offset the negative effects of the sanctions imposed on the country in certain sectors of the high-tech industry. Guided by such an approach to build specialized cooperation, Moscow will be able to at least partially create incentives for a mutually beneficial partnership with Beijing and increase the latter's interest in joint projects.

At the bilateral level, the problem of ensuring the security of financial transactions under sanctions remains. The use of a third currency does not solve this problem, as it may also become subject to restrictions. The viability of the currently popular idea of developing a mechanism for financial transactions and the de-dollarization of mutual trade within BRICS is still under question, even by BRICS member states. Yet it seems that the very rhetoric reflecting readiness to systematically counter new sanctions, including by expanding trade in national currencies,³¹ may limit the desire of Western nations to impose them. Therefore, it is necessary to keep looking for new solutions in BRICS.

Currently, Russia has not developed a comprehensive investment strategy with respect to China. The preparation of such a document is a timely and necessary step, as China intends to become a middle-income country by 2035,³² which consequently will affect the structure of national demand and the country's development needs. Taking into account China's long-term priorities and goals to increase the share of the middle class will determine the extent to which Beijing will be interested in joint projects that require significant

³⁰ Heifets B.A. New model of economic integration. Moscow, Institute of Economics of the Russian Academy of Sciences, 2023. Pp. 15–20. URL: https://inecon.org/docs/2023/Kheyfets_paper_2023.pdf?ysclid=lv15tujc8c968345824

³¹ See: Ethiopian Ambassador Calls for Negotiations on the Use of National Currencies in Trade with Russia // Izvestiya. 03.03.2024. URL: <https://iz.ru/1659224/2024-03-03/posol-efiopii-prizval-k-peregovoram-ob-ispolzovanii-natcvaiut-v-torgovle-s-rossiei>; Russia and Iran Agree on the Need for Trade Roadmap // RIA Novosti. 05.12.2023. URL: <https://ria.ru/20231205/zavisimost-1913986485.html?ysclid=lq3k20vq7r933389824>; How Argentina Could Benefit from Transition to RMB in Trade Settlements with China // Rossiyskaya Gazeta. 27.04.2023. URL: <https://rg.ru/2023/04/27/chto-argentine-dast-perehod-na-iuani-v-torgovyh-raschetah-s-kitaem.html?ysclid=lvgstkmga622143230>; The UAE Central Bank Launches the Introduction of Digital Dirham // RBC. 23.03.2023. URL: <https://www.rbc.ru/crypto/news/641c3e509a7947726f487656?ysclid=lq3jylas3j741458104&from=copy>; For the First Time in 48 Years Saudi Arabia Will Reject the Dollar Monopoly in Trade // Rossiyskaya Gazeta. 21.01.2023. URL: <https://rg.ru/2023/01/21/saudovskaia-araviia-vpervye-za-48-let-otkazhetsia-ot-monopolii-dollar-v-torgovle.html?ysclid=lq3kbmp4oj296361493>; Egypt Intends to Give Up Pegging Its National Currency to USD // Kommersant. 24.10.2022. URL: <https://www.kommersant.ru/doc/5632242?ysclid=lvgsxl0lkn482942486>

³² Experts: the share of middle class in China by 2035 will grow to 50% of the population // TASS. 31.03.2024. URL: <https://tass.ru/ekonomika/20402621?ysclid=lv3sx7rcm3918808189>

investment. Attracting additional investment from China will require increasing the appeal of the Russian market and changing the model of industrial cooperation between the two countries. The current level of thematic cooperation between Russia and China is the result of previous investment policies. It is necessary to create conditions that could be used in the future to scale up joint production and deepen bilateral ties. Only then the volume of mutual investment might grow. One of the directions for deepening investment cooperation with China could be encouraging Chinese companies to expand production localization. This will require the development of appropriate regulatory and legal mechanisms that considers the interests of both sides.

The issue of Russian investments in China is no less acute. Like Russia, China is under foreign economic pressure and in need of additional financial support. Transferring some Russian production facilities to China might also find additional opportunities to partially offset the negative effects of sanctions. However, this initiative is likely to be supported only by state-owned companies, since switching over to the Chinese market is fraught with high risks and costs for private business representatives. It seems that the Moscow – Beijing dialogue within the framework of such a large interstate platform as the SCO can be used to address these problems. For example, China has already established the China – SCO zone of trade and economic cooperation in Qingdao (Shandong Province), which was supported in 2018 by Xi Jinping at the 18th Council of SCO Heads of State.³³ In the future, it could be used as a basis to work out the possibility of creating a Russian industrial hub in China.

When planning bilateral energy cooperation, Russia should consider the nature of China's policy and look for opportunities to further develop the partnership under an alternative scenario. It seems that the necessary prerequisites for such cooperation are already in place. Like China, Russia plans to achieve carbon neutrality by 2060.³⁴ In terms of the structure of electric power generation, Rus-

sia may be closer to this goal than China. While in 2023 coal-fired power plants in China produced more than 60% of electricity, hydroelectric power plants — 16%, nuclear power plants — 5%,³⁵ in Russia, the similar figures stood at 12–13%, 20% and 20% respectively.³⁶ Russia can try to join China's energy transition course if it seeks opportunities to export green energy and position itself as a country with large reserves of transitional energy resources such as gas and atomic power.

In the high-tech sector, Russia's priority should be to increase the capacity of its own market. The high demand for high-tech goods among Russian citizens may also create additional impulses to increase the supply of components from China or attract Chinese investments. To build confidence, it would also be advisable for the parties to deepen humanitarian cooperation, primarily within the framework of training and personnel exchange programs in high-tech. Such measures will help specialists improve their general level of qualification and enhance their understanding of market peculiarities, as well as cultural specifics of interacting partners.

The possibility of conflicting Moscow – Beijing economic interests in the markets of third countries, primarily in Central Asia, may also become a problematic aspect for their bilateral agenda. At the same time, China's expansion in the region does not limit Russia's ability to strengthen relations with Central Asian states; on the contrary, it creates additional impulses for this thrust. For example, investment interaction between China and regional states is mainly limited to the provision of tied loans, which are subsequently used to purchase Chinese goods and equipment, allowing Beijing to ensure the use of its own production capacity. In order to more effectively promote a dialogue with regional states, Russia should emphasize its own ability to channel high-quality direct investments in Central Asia. Moscow can use this investment partnership to make cooperation with Russia more attractive and position itself as an alternative to the Chinese economic interaction model.

³³ The logistics hub in Qingdao helps expanding business ties with SCO member states // Rossiyskaya Gazeta. 30.10.2023. URL: <https://rg.ru/2023/10/30/zona-nemestnogo-znachenii.html?ysclid=lv69njyvg450464675>

³⁴ Putin approves reaching carbon neutrality by 2060 in the new doctrine // Kommersant. 26.10.2023. URL: <https://www.kommersant.ru/doc/6298763?ysclid=lw3te83496978181083>

³⁵ Power Engineering of China. Results of 2023 // RenEn. 29.02.2024. URL: <https://renen.ru/elektroenergetika-kitaya-itogi-2023-goda/?ysclid=lw3u403pm1609409175>

³⁶ Russian Power System Operator: "The share of RES, HEPP and APS in energy generation in the Russian Federation will grow from 39.3% to 56.8% by 2050 // Peretok.ru. Energy in Russia and the World. 28.12.2022. URL: <https://peretok.ru/news/strategy/24512/>

Conclusion

Over the past few years, the previously established sound foundation for Russia-China cooperation has allowed the states to take their bilateral partnership to a qualitatively new level. The parties have been able to significantly increase the intensity of political dialogue and achieve unprecedented growth rates in their trade turnover. Nevertheless, the future of the relationship depends on the ability of Moscow and Beijing to compromise in an increasingly conflictual international political environment, persistent conceptual divergence, differences in foreign policy priorities and different economic development needs.

The analysis presented in this paper of the conditions in forming Russia's policy towards China aimed at developing recommendations for overcoming the existing limitations, while noting promising areas through which the two nations could expand bilateral cooperation.

The expert conclusions and proposals presented in this policy brief are scheduled for discussion at the Ninth International Conference of the Russian International Affairs Council (RIAC) and the Chinese Academy of Social Sciences (CASS) "Russia and China: Cooperation in a New Era", held in Moscow on May 30–31, 2024.



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