

China-Russia Relations:  
**The Russian-Chinese Oil Politik**

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The specter of oil is haunting the world. The battle of oil, however, is not just being waged by oilmen from Texas and done with “shock-and-awe” in the era of preemption. Nor does it have anything to do with the billion-dollar contract awarded to the U.S. firm Halliburton for the reconstruction of postwar Iraq. This time, oil, or lack of it, is clogging the geostrategic pipeline between the world’s second largest oil producer (Russia) and second largest oil importing state (China) as they haggle over the future destination of Siberia’s vast oil reserves.

To be sure, the “oil politik” between Moscow and Beijing is far from a full-blown crisis. Indeed, China-Russia relations during the third quarter were marked by dynamic interactions and close coordination over multilateral issues of postwar Iraq, the Korean nuclear crisis, and institution building for the SCO (Shanghai Cooperation Organization).

Russia’s energy realpolitik, however, has led to such a psychological point that for the first time, a generally linear, decade-long emerging Russian-Chinese strategic partnership, or honeymoon, seems arrested and is being replaced by a routine, boring, or even jolting marriage of necessity in which quarrels and conflicts are part normal.

**Business still as Usual**

Unlike the more turbulent and/or spectacular second quarter, the post-Iraq and post-SARS (severe acute respiratory syndrome) third quarter seemed normal for Russia and China, at least on the surface. All border checkpoints were reopened with busier transactions to make up for the losses suffered during the SARS epidemic. Regular flights between the two countries resumed. Despite the impact of SARS, bilateral trade increased by 20 percent for the first seven months and is expected to reach \$13-\$14 billion vs. \$12 billion last year. High-level contacts continued, and joint working groups for policy cooperation/coordination by the two bureaucracies kept expanding and deepening.

Prior to the eighth prime-ministerial meeting in Beijing in late September, eight out of the nine sub-commissions (the energy sub-commission, which was supposed to meet Aug. 25 was canceled by the Russian side) between the two governments – trade, science and technology, transportation, nuclear energy, space, banking, communication and information technology, and humanitarian (education, culture, health, sport, and tourism)



– routinely met to prepare for the two prime ministers’ annual gathering. By the time Russian Prime Minister Mikhail Kasyanov found himself in Beijing, six documents – including a joint communiqué and a unspecified protocol on improving trade of “sensitive products” – were ready to be inked by the two heads of government.

In early August, Sergei Mironov, speaker of the Russian Federation Council (Upper House of the Russian Parliament), paid an official visit to China. In late August, the “Week of China” unfolded in St. Petersburg where a 300-member Chinese delegation provided Russia’s “cultural capital” (and Putin’s hometown) with a Chinese cultural extravaganza of folk music shows, acrobatic performances, model shows, photo exhibitions, and other types of cultural activities.

### **Friendship and Friendly Deal?**

Notwithstanding the growing interactions, by the time of the eight prime-ministerial meeting, it became clear, particularly for China, that there would be another delay of Russia’s decision on the oil pipeline to China. Prime Minister Kasyanov and his Chinese counterpart Wen Jiabao tried to be upbeat for the photos and the signing of lucrative commercial deals. Russia’s indecision on the oil pipeline to China, unfortunately, remained the real concern and dominant theme for the premiers’ talks.

Part of the problems derived from Russia’s protracted feasibility study of a 2,400 kilometer, \$2.5 billion oil pipeline from Russia’s Siberia city Angarsk to Daqing in northeastern China (Manchuria). The project was initiated by former Russian President Boris Yeltsin in 1994 when the two neighbors started to adjust to each other’s domestic developments and to a rather chilly post-Cold War world increasingly dominated by the United States.

During a near-decade long feasibility study of the pipeline, Russia, particularly under Putin, has largely recovered from the post-Soviet free-fall in its economy, thanks to its growing oil exports. Meanwhile, China reversed its status: it is no longer an oil exporting country but is a net importer. By 2002, a quarter of China’s oil consumption (200 million tons) came from foreign sources; China had surpassed Japan to become the second largest oil importing nation in the world. A stable, close, and reasonably priced oil supply from Russia is paramount for China’s future development. It is reasonable, at least according to Beijing, that such a mutually beneficial deal would be facilitated by a strategic partnership jointly cultivated by two generations of Russian and Chinese leaders (Yeltsin-Jiang and Putin-Hu) since the early 1990s.

At a minimum, the issue is one of credibility. In the past decade, numerous documents were signed at various bilateral interactions – summit communiqués, bureaucracy papers, oil companies, etc., including the two most recent summits (Putin-Jiang in December 2002 and Putin-Hu in May 2003). All reaffirmed the intention and willingness, though

not necessarily binding or final, of both sides to proceed with the construction of the pipeline with an annual capacity of 20-30 million tons of oil from resource rich Russia to energy thirsty China.

### **Between Credibility and Interests**

Over time, however, the pipeline deal with China has become less urgent and less attractive for Russia as the former communist military superpower turned itself into an oil super dealer. In April 2002, some Russian officials started to question whether the pipeline deal with China was in Russia's strategic interests. As the era of preemption is increasingly and even irreversibly influenced by the control of oil, Russia's vast petroleum deposits quickly assumed a strategic dimension, or became a strategic instrument in the pursuit of Russia's strategic goals.

It was against this backdrop that Japan's sudden and intense lobbying for a Russian pipeline to Russia's Pacific-coast city of Nakhodka started to lure Russia away from China. Beginning in late 2002, scores of Japanese VIPs frequented Moscow and Russia's Far East cities, offering billions of dollars of Japanese credit and other incentives, including offers to renovate entire cities along the proposed Angarsk-Nakhodka oil pipeline (3,700 kilometers). Prime Minister Koizumi Junichiro traveled twice to Russia in five months (January and May) to win over Russia.

For some in Russia, the Angarsk-Nakhodka pipeline has several advantages, including total Russian control, numerous jobs for port and shipping businesses and flexibility in accessing a larger market (China, Japan, South Korea, U.S., etc.). Perhaps the most attractive is the \$5 billion Japanese financing offer for the construction of the pipeline, plus \$1 billion for renovating Russian cities along the pipeline leading to Nakhodka. For many poverty-ridden Russian cities in Siberia and along the Pacific coast, Japan's offer is extremely appealing. Further, Japan offered another \$7.5 billion for oil exploitation in East Siberia.

In contrast, earlier documents signed with China (before July 2003) required each side to construct its own portion of the pipeline (1,452 and 920 kilometers for Russia and China, respectively). Accordingly, Russia would have to find \$1.7 billion for constructing its portion of the Angarsk-Daqing line. And Russia would have only one end user (China).

This one end user, however, is Russia's largest neighbor with whom it shares a 4,000 kilometer border and a bumpy history. China's strategic tilt toward the West during the last two decades of the Cold War contributed, at least partially, to the weakening and final collapse of the Soviet system. The current normalcy and stability in bilateral relations, therefore, has strategic implications for Russia's long-term interests.

Despite the extremely hard choice between being "strategically correct" (staying with China) and "economically sound" (switching to Japan), Russian elites were determined to

have their cake and eat it, too. A compromise third route was proposed by the Russian government in March 2003. A branch line would run to China's Daqing from the middle of the Angarsk-Nakhodka line to the Pacific coast. The proposal, however, was rejected by Japan. At the technical level, the compromise proposal, which was designed to reach out to both Japan and China, may not even work because east Siberia may not be able to produce enough oil for the two.

### **Oiling Russian Politics**

Japan's latest intervention into Russian-Chinese oil politics, however, is by no means the only reason for Russia's indecision. Nor does oil only affect war and peace in world politics. In post-Soviet Russia, oil, perhaps more than any other single economic item, is deeply entangled with Russian domestic politics.

Even a strongman like Vladimir Putin had to assure the business tycoons, after assuming the presidency in 2000, that he would not reverse the scandal-ridden privatization that enriched the few and deprived many. The condition was that the new Russian business elite would take their hands off politics. The deal, however, has had a hard time working in Russia as the market and politics never really were separate. The latest episode was the arrest in early July of Platon Lebedev, the chairman of Menatep, the financial group that owns 61 percent of Yakos. Publicly, the arrest was on fraud and embezzlement charges. It also happens that Yakos is not only the largest, and only private, oil company in Russia, but also the lone champion for the China pipeline route.

The cardinal sin of the Yakos oligarches was believed to be the company's invisible or potential role in shaping Russian politics prior to the December parliamentary election and the presidential ballot in March 2004. Curiously, major political parties in Russia have yet to produce their economic platforms. Maybe they are all torn by the business lobbies in Moscow, domestic or foreign, as are Prime Minister Kasyanov and even President Putin, warring over the big economic issues. Kasyanov's claim in Beijing that environmental concerns were the main cause of Russia's delayed decision on the pipeline is far from convincing. Nor was Kasyanov's insistence in Beijing that the Russian oil business was "95 percent privatized" and the government was simply unable to impose its will on the private sector. According to Sergei Grigoriev, vice president of Transneft, Russian oil firms, public or private, "simply wait for the government to pronounce its decision on the route ... Until the government makes its final decision, nobody can say what route will be chosen."

Both China and Japan may have to wait until next spring when Russia finishes its presidential election.

### **SCO: Keep Going and Growing**

Unlike the oil clog in bilateral relations, Moscow and Beijing worked closely in multilateral areas. The third quarter witnessed two major, specific developments in the

institution building of the Shanghai Cooperative Organization (SCO), the six-nation regional security network (Russia, China, Kazakhstan, Kyrgyzstan, Tajikistan, and Uzbekistan). In late August, SCO member states (without Uzbekistan) conducted antiterrorist military exercises in the border areas of Kazakhstan and China. The joint exercise, code-named "Interaction-2003," was approved by the SCO defense ministers meeting in Moscow in May with a goal of developing and testing the "military component" of SCO antiterrorist cooperation.

The two-stage exercise began in Kazakhstan on Aug. 6-8 when an airplane was intercepted and forced to land before the hostages were rescued and terrorists captured by 500 military servicemen (from Russia, Kazakhstan, and Kyrgyzstan). The second part of the drill was staged in northwestern China's Xinjiang-Uygur autonomous region on Aug. 11-12. A united staff made up of ranking Chinese, Russian, Kazakh, Kyrgyz, and Tajik officers commanded over 1,000 men (from China and Kyrgyzstan) in an operation to destroy a terrorist base. In both stages, mechanized units were closely coordinated with air power.

Although the drill did not necessarily mean that the SCO plans to create collective mobile forces on a permanent basis, the first SCO joint exercise was evidence of the regional security organization's deepening integration processes. Col. Gen. Alexander Baranov, commander of Russia's Volga-Urals Military District, led the Russian unit (one company). Chinese Defense Minister Cao Gangchuan observed the exercise.

In late September, the SCO got a further boost when the prime ministers of SCO states met in Beijing to finalize four accords (SCO's 2004 budget of \$3.8 million, staff and salary for SCO's institutions, and other technical issues for the initiation of permanent institutions) to establish the SCO Secretariat in Beijing and Antiterrorist Center in Tashkent by January 2004. After years of preparation, the SCO will finally set up permanent institutions.

The central task of the premiers meeting in Beijing, however, was to promote regional and multilateral economic cooperation among SCO member states for the final goal of forming a SCO free-trade zone, or a modern Silk Road, according to Wen Jiabao, China's premier. For this goal, the heads of the six governments signed the "Outline of Multilateral Economic and Trade Cooperation of the SCO" to facilitate economic transactions by gradually reducing and eliminating trade barriers, by standardizing transportation, border crossing, inspection and quarantine procedures, and by cooperating in the areas of transportation, energy, environmental protection, telecommunication, home electronics, and agriculture. Already, SCO states have set up regular ministerial meetings for economic/trade and transportation.

China's enthusiasm for shaping the SCO into a free trade zone was not equally shared by other member states, given China's fast growing economic weight in the region. The consensus, however, seemed to favor such a move into low-politics (meaning economic

cooperation) in order to expand and deepen their cooperation in the more sensitive geo-strategic and security areas. This new economic thrust would give the SCO a “well-rounded development” after its initial two-year development stage, according to the Chinese Foreign Ministry.

### **Living with Normalcy: Strategic Partnership and Pragmatic Bargaining**

At the end of the day, Russia may still tilt toward strategic correctness by choosing the Chinese route, as promised by Prime Minister Kasyanov in Beijing and his government would honor its commitment to the Russia-China oil-pipeline project. Meanwhile, Moscow and Beijing seemed to adjust to the post-honeymoon bilateral relations in which strategic maneuvering and serious bargaining are part of the routine.

Throughout the third quarter, the Russian side, including Prime Minister Kasyanov and Russia’s Upper House Speaker Seigei Mironov, expressed strong interest in selling to China finished products in the areas of machine-building, aircraft industry, space technology, and nuclear power generation. “Russia is interested in scaling down the volume of raw materials, semi-finished products and military products in its exports to China, and increasing the share of mechanical engineering, power engineering, civil aviation, and other high-tech branches,” said Mironov.

The Chinese side, however, did not seem equally concerned with the current trade structure and still believed that bilateral economic relations were largely complementary, and that there was nothing seriously wrong with the structure of trade in which Russia’s raw materials are main items. Nevertheless, Russia’s efforts seemed to be working, as the joint communiqué for the eighth prime ministerial meeting in Beijing prioritized these areas of cooperation as the most important (item #1) over the energy issue (item #6). A linkage strategy was apparently pursued by Russia to utilize the pipeline decision to force other economic concessions from China.

In the medium-term, Moscow hoped that China would facilitate Russia’s entry into the World Trade Organization, or at least China would refrain from putting forward additional conditions on Russia’s membership. In the longer run, Russian and Chinese officials no longer hide differing interpretations and expectations regarding their strategic partnership. China seems to still believe that strategic partnership should correlate with other areas of the relationship, at least without too much deviation. In this regard, a contract delayed is a contract denied. And such a delay should not occur between two strategic partners.

In his meeting with Kasyanov, Chinese Premier Wen stressed that the two sides “should cherish the strategic partnership of cooperation and make efforts to realize the bilateral cooperative goals set by the two governments.” This would “ensure the continued expansion of cooperation, mutual trust, and diverse cooperation,” adding that it complied with Russia’s strategic policies and the interests of the Russian government and people.

In a separate meeting with Kasyanov, Chinese President Hu echoed the strategic theme by stressing that deepening the China-Russia strategic partnership coincided with the fundamental interests of the two peoples. Hu stated that stronger and deeper strategic cooperation was the common choice and complied with the fundamental interests of the two peoples, which was conducive to regional and world peace, stability, and development. China would, according to Hu, strictly follow [emphasis added] the China-Russia Treaty of Good-Neighborliness, Friendship, and Cooperation, and other important documents, and join with Russia to push forward the strategic partnership.

For Russia, once the strategic relationship is forged, it should be stretched to its limit to ensure maximum freedom of action. According to Deputy Foreign Minister Alexander Losyukov in July, “the treaty did not mean a union, but expressed a mutual wish to develop very close, long-term relations.” Further, “the treaty does not exclude varied interests or differences between Russia and China, but its spirit implies the settlement of contradictions in a friendly way,” according to Losyukov.

In this regard, China certainly overreacted to (or politicized) a largely business and technical issue. For many, if not all, Russian officials, China’s displeasure over the pipeline delay was “quite groundless.” “It is necessary to discuss the Angarsk-Daqing oil pipeline project in a normal and calm atmosphere,” said a Russian official traveling with Prime Minister Kasyanov to Beijing. In the symposium on 10 years of Russian-Taiwan relations in early July in Moscow, a Russian scholar on Asian affairs (Vladimir Yakubovsky) strongly argued – in front of an audience of officials, businessmen, and academics from both sides – for Taiwan’s participation in the Japan pipeline route (Angarsk-Nakhodka line).

In China, there are more challenges to the view that insists on adhering to the strategic dimension of the bilateral relations. The growing interactions between the two societies also generated frictions of various kinds. A more liberal press under the Hu-Wen administration is less willing to censor the less glowing stories regarding China-Russian relations. In addition to rather saturated media coverage and internet chat room discussion on the pipeline issue, stories about racial discrimination, police arbitrariness and brutality, and growing crimes against Chinese nationals in Russia appeared regularly in the Chinese media, including official outlets. And the third quarter was full of such incidents.

From April to July, Moscow authorities closed 10 of 30 “Chinese” apartment buildings, citing sanitary reasons during the SARS epidemic. Thousands of Chinese residents were either relocated or homeless, even if not a single SARS case was found. In July, a Chinese young woman from Hong Kong traveling through Moscow was murdered in the city’s outskirts. In August, the Chinese government and embassy in Moscow warned Chinese nationals traveling to or living in Russia to be on guard and prepared for any unexpected inspection by Russian police and growing random and/or racially motivated crimes against Asians. In late August, 50 Chinese passengers transiting Moscow from

Europe were stranded in the airport for 20 hours without any rearrangements by the Russian airline. Meanwhile European and Japanese passengers were reportedly quickly offered alternative flights. In mid-September, a Chinese military attaché in Moscow went as far as to request meetings with Moscow's internal security officials, urging them to take effective measures to reverse the ill treatment of Chinese nationals in Russia, particularly in Moscow's international airport.

On the eve of Prime Minister Kasyanov's September visit to Beijing, the website of the official Chinese *RMRB (People's Daily)* ran a story twice from the same author (Yi Aijun) regarding an edited book published in Germany describing how President Putin initiated and manipulated the second Chechen War for his own political needs. It remains to be seen how the two sides can manage their post-honeymoon bilateral relations, in which conflicts of interests and disparities in perceptions and policies are routine and even normal.

### **Chronology of China-Russia Relations July-September 2003**

**July 1, 2003:** Bilateral trade increased 25 percent in the first six months of 2003, reaching \$6.8 billion, with a \$2.6 billion surplus for Russia.

**July 3, 2003:** China's First Deputy Foreign Minister Dai Bingguo held consultations on the North Korean nuclear program in Moscow with Russian Deputy Foreign Minister Alexander Losyukov. Dai also met with Foreign Minister Igor Ivanov.

**July 6, 2003:** Chinese President Hu Jintao sent condolences to Russian President Vladimir Putin over the terrorist bombing incident on July 5 at Tushino Airport in Moscow. Hu reiterated China's firm opposition to terrorism.

**July 21-27, 2003:** The seventh meeting of the Russian-Chinese intergovernmental commission for nuclear issues was held in Moscow, chaired by Russian Atomic Energy Minister Alexander Rumyantsev and his counterpart Zhang Yuchuan, chairman of Chinese National Defense Science, Technology, and Industry Committee. The two sides discussed issues regarding cooperation in the peaceful use of nuclear energy, including in the areas of experimental fast reactor, nuclear power units for spacecraft, and floating nuclear power plants.

**July 28, 2003:** President Putin receives Deng Rong, deputy chairwoman of the China Association for International Friendly Contacts, deputy chairwoman of the China-Russian Committee for Friendship, Peace and Development, and daughter of the late Chinese leader Deng Xiaoping. She visited Moscow to present the Russian version of the second volume of her book: *My Father Deng Xiaoping in the Cultural Revolution – Years of Tests*.

**Aug. 4-6, 2003:** Russian Federation Council (Upper House) speaker Sergei Mironov

visits Beijing, at the invitation of Wu Bangguo, chairman of China's National People's Congress (NPC); meets President Hu and Premier Wen Jiabao.

**Aug. 6-12, 2003:** Five member states (Russia, China, Kazakhstan, Kyrgyzstan, and Tajikistan) of the Shanghai Cooperation Organization (SCO) conduct a joint antiterrorist military exercise "Interaction-2003." Uzbekistan did not take part. Col. Gen. Alexander Baranov, commander of Russia's Volga-Urals Military District and head of the Russian military delegation, visits Beijing after the exercise and meets with China's Defense Minister Cao Gangchuan.

**Aug. 11-15, 2003:** Chinese Minister of Commerce Lu Fuyuan visits Russia and holds talks with Russian Economic Development and Trade Minister German Gref.

**Aug. 18-27, 2003:** Russian military stage largest exercises in 15 years in the Far East under the leadership of Navy Commander in Chief Vladimir Kuroyedov. The exercises involve 70,400 servicemen and civilians, 61 ships, and 72 aircraft and helicopters to cope with crisis and conflict on the Korean Peninsula that results in a large number of Korean refugees to Russia. Japan, ROK, and U.S. ships and aircraft participated and China sent observers.

**Aug. 20-28, 2003:** China stages "Week of China" in St. Petersburg, a 300-member delegation offers Chinese folk music shows, acrobatic performance, model shows, photo exhibitions, and other cultural activities.

**Aug. 21, 2003:** FM Igor Ivanov talks by telephone with FM Li Zhaoxing on the Korean issue.

**Aug. 25, 2003:** Russian Energy Minister Igor Yusufov informs China that it will postpone the session of the subcommittee for energy cooperation of the intergovernmental commission scheduled to be held in Moscow Aug. 27-29. In mid-June, Prime Minister Kasyanov announces the decision regarding the Russian-China oil line would be made in September.

**Aug. 27, 2003:** Russian-China bilateral working commission on transportation meets in Shanghai. The sides deal with issues regarding automobile, ocean, river, rail, and air transport, including unifying the port charges for Russian and Chinese vessels in Amur River ports, opening a new transport corridor from China to Russia, and increasing licenses for Russian international auto carrier.

**Aug. 28, 2003:** The Russian-Chinese sub-commission on trade and economic cooperation meets Beijing. Russian Deputy Economic Development and Trade Minister Vladimir Karastin and China's Deputy Commerce Minister Liu Fuyuan chair the session.

**Aug. 29, 2003:** China and Russia hold fourth meeting of the astronavigation sub-

committee with the Joint Commission for the Regular Meetings of Heads of Government of China and Russia in Beijing; chaired by Luan Enjie, director general of the China National Space Administration, and Yuri N. Koptev, director general of the Russia National Aviation and Space Agency.

**Sept. 1-4, 2003:** The Russian Interior Ministry hosts a delegation of China's armed police, led by Lt. Gen. Chen Chuankuo, for a four-day visit.

**Sept. 4, 2003:** SCO foreign ministers meeting held in Tashkent, Uzbekistan.

**Sept. 10, 2003:** The fifth session of the Russian-Chinese Committee for Friendship, Peace and Development meets in Beijing and is co-chaired by Li Guixian, vice chairman of the National Committee of the Chinese People's Political Consultative Conference (CPPCC), and Russian President's Representative to the Siberian federal district Leonid Drachevsky.

**Sept. 11, 2003:** A high-level Chinese government delegation, led by Ma Kai, director of the National Development and Reform Commission, visits Russia to lobby for construction of the Angarsk-Daqing oil pipeline.

**Sept. 16, 2003:** Russian and Chinese Public Health Ministries sign a cooperation program in Beijing after the fourth Session of the China-Russia Cooperation Committee on Education, Culture, Health, and Sports co-chaired by the Russian Vice-Premier Galina Karelova and Chinese State Councilor Chen Zhili. Four agreements are signed including one regarding sharing virus samples to study infectious diseases such as SARS.

**Sept. 22-23, 2003:** Chinese Vice Premier Wu Yi and Russian Deputy PM Viktor Borisovich Khristenko hold seventh meeting of the Committee for the Regular Meeting of the Prime Ministers of China and Russia. They agree that Russia would export 4.5 million to 5.5 million tons of oil to China from 2004 to 2006.

**Sept. 23, 2003:** Russia Foreign Ministry decides not to issue an entry visa for the Dalai Lama for reasons of "national interests" and "international commitments," such as the Russia-China Treaty of Good-Neighborliness, Friendship, and Cooperation. The Dalai Lama visited Russia several times between 1982 and 1992 but was denied an entry visa in 2001 and 2002.

**Sept. 23, 2003:** SCO prime ministers meet in Beijing, where they sign six documents regarding economic cooperation, SCO budget for the year 2004, an agreement on the operation of the antiterrorism institution, and a joint communiqué.

**Sept. 24-5, 2003:** PM Kasyanov visits Beijing to attend the eighth regular meeting of heads of government of the two countries.

**Sept. 25, 2003:** China's Defense Minister Cao meets in Beijing with Mikhail Dmitriyev,

Russia's Deputy Defense Minister and head of the Russian Committee for Military and Technological Cooperation with Foreign Countries and PM Kasyanov.

**Sept. 25, 2003:** President Putin said in Columbia University speech that he would find “a mutually acceptable solution” to organize Dalai Lama's visit to Kalmykia (Russian constituent republic with a mainly Buddhist population).