

Is the Conflict Inevitable? Not at All.

How Reasonable Are Western Expectations of a Russia-China Confrontation?

Vassily B. Kashin

Russian-Chinese relations in the last 20 years are a story of slow but steady progress. Both Moscow and Beijing have made multiple attempts to radically accelerate this progress, generally ending in failure. That being said, neither the breakdown of individual projects, nor the short-term rapprochement between Russia and the United States after September 11, nor the economic crises of 2009 and 2014 could stop the development of bilateral relations.

With every year, China accounts for an increasingly growing share of Russia's foreign trade. Each year, the two countries move slightly forward in their military and political cooperation. Now China is Russia's second largest trading partner after the European Union. It is also Russia's most trusted partner among major powers in the fields of defense and security.

Starting in the late 1990s, the Western approach to Russian-Chinese relations was to ignore the significance of this partnership in principle. The relationship was described as a naïve tactical move

Vassily B. Kashin, Ph.D. in Political Science, is a senior research fellow at the Center for Comprehensive European and International Studies at the National Research University–Higher School of Economics. He is also a leading research fellow at the Institute of the Russian Far East.

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by Moscow and Beijing in the hope of strengthening their positions in dialogue with the United States. Their partnership was said to lack a solid basis, especially economically.

It is now clear that ignoring the nascent Russian-Chinese partnership was not the best strategy for the United States even in the mid-to-late 1990s. While the volume of Russian-Chinese trade was insignificant, Russia during that period helped China make an unprecedented military-industrial breakthrough, leapfrogging one or even two generations in military equipment.

As a result, the early 2010s saw China's rebirth as a great military power. Recognizing this fact, U.S. military and defense industry planning had to turn predominantly anti-Chinese in orientation. Russian-Chinese defense industry cooperation played an important role in the alignment of forces in Asia and in the world, which was Moscow's greatest contribution to the development of a real multipolar order.

By the 2010s, it was no longer possible to ignore the significance of Russian-Chinese relations. So, denial gave way to recognition of the partnership between Moscow and Beijing as a fact of life, but still nothing to worry about as it would not last long. "I see little in the long term that aligns Russia and China," U.S. Secretary of Defense James Mattis said.

Sooner or later, such factors as "Chinese economic and demographic expansion into Siberia and the Russian Far East," "rivalry in Central Asia" and, finally, the fact that the two neighboring countries "would probably see each other as a threat," especially considering the "burdensome historical legacy of bilateral relations," were expected to lead to conflicts and a collapse of relations.

The threat of China's demographic expansion has never materialized—in fact, the Chinese are leaving their own northeastern provinces for the thriving metropolitan areas in southern China. After the devaluation of the ruble in 2009 and 2014 against the U.S. dollar and the yuan, the idea of mass Chinese migration to Russia became an obvious economic absurdity. The presence of Chinese business in some Russian regions is noticeable, but it does not have dominant positions; Russian authorities' inability to attract Chinese investment is seen as a bigger problem.

True, there is economic competition in Central Asia, but it is limited, since Russia and China are present in different sectors of local economies: for those countries, China is the main destination for commodities exports, while Russia is the main destination for the export of labor and a source of imports.

The regional countries are more interested in pursuing a careful policy of balancing between major powers, while Russia and China are also trying to keep their competition under control. The so-called historical baggage in bilateral relations is not too heavy either. Since the establishment of relations in the 17th century, Russia and China have fought rarely and sparingly, those conflicts being incomparable in scale with Russia's wars with most of the major European countries or China's conflicts with Japan, the United States or Great Britain. The conflict between the Communist parties of Russia and China in the 1960s-1980s was an unpleasant but relatively short episode in the history of relations.

The last stage of denial about Russia-China relations is the idea of Russia becoming China's "junior partner," forced to follow in the wake of Chinese politics and "play second fiddle." Such a position would sooner or later become unbearable for Russia, which has been a great power throughout its history, and would lead to a collapse of the partnership. All they have to do to bring this about is remind Russia as often as possible that it is a "junior partner" now.

There is one small problem with this approach—it is impossible to justify it. All the evidence sounds naïve and childish and largely irrelevant to the essence of the matter: Chinese GDP is seven times larger than Russia's; China accounts for about 15 percent of Russian foreign trade, and Russia, for less than 2 percent of China's, etc.

But, whenever we talk about alliances, equal or unequal, we are dealing with political, not economic categories. It is more about one side of an unequal alliance having asymmetric leverage over the other's policies. That leverage can result from one of the parties' economic, political, military, or sometimes technological dependence on the other. A large GDP is not the same thing as political weight or influence. You cannot tell others, "Look at our huge GDP! Kneel, you scum!" This will not have the desired effect.

What asymmetric leverage does China have to pressure Russia? From an economic standpoint, this usually means debt. For example,

debt leverage turned the United States into an influential player in Europe even after the First World War and ensured its dominance after the Second World War. Relying on this leverage, the United States forced its real, rather than imaginary, junior partners in Europe to abandon the fight for their colonial empires.

China does not have any effective debt instruments to pressure Russia, and the Russian government is careful that China does not get any. Russia occupies one of the last places among large economies in terms of its public debt to GDP ratio. Russia's entire external public debt amounted to a modest \$51 billion as of April 2019, including \$11 billion in state guarantees for foreign currency loans, and \$38 billion in Eurobonds. Naturally, this debt structure precludes any serious debt dependence on China. Russia's total external debt (including corporate debt) is covered by Russian foreign exchange reserves, and China's share in it is also small. If we talk about the Russian banking sector's liabilities at the beginning of 2019, China accounted for only \$4.5 billion.

China acted as a major source of loans for Russian state-owned companies during the crisis of 2014-2015, but later on the net inflow of Chinese loans to the Russian economy dropped sharply: Russian businesses began to pay them off faster than they took out new ones. When the ruble fell sharply in December 2014, China offered financial assistance to Russia, but the Russian government declined.

The Russian leadership shows caution with joint projects with China whenever it suspects they might lead to additional strain on the budget or debt to Chinese partners. This is directly evidenced by Russia's participation in China's Belt and Road projects, despite the fact that, politically, Russia supports the Chinese initiative. At the end of March 2019, before attending the Belt and Road summit in China, President Vladimir Putin again decided to postpone the Moscow-Kazan high-speed highway project indefinitely, despite its considerable political importance for bilateral relations.

When analyzing the place that Russia and China occupy in each other's bilateral trade, there is an imbalance arising from the difference in the size of the two economies. But it is hard to think of a way China could use it to blackmail or pressure Russia. Fuel and energy resources dominate Russia's exports to China as well as Russian exports in general—fossil fuels accounted for 73 percent of

its 2018 supplies. Russia is one of the main suppliers of oil to China, competing for first place with Saudi Arabia.

This does not speak well of the structure of the modern Russian economy. But, from a political standpoint, all prior experience tells us that trade in energy products creates a strong interdependence between supplier and buyer. Unlike other types of goods, any pressure on energy exporters is always associated with immediate and significant losses for the importing country, so it is only used as a last resort in rare cases. The example of Russia-EU relations amid the Ukraine crisis should give major energy exporters confidence.

In the sphere of technology, Russia is still a prominent supplier of military and dual-use products and technologies to China that are important for ensuring national security. Even considering China's much larger supplies of civilian machinery and equipment to Russia, this is a matter of mutual dependence. Russia imports some components for its military equipment from China, but their volume is insignificant, and not comparable with Russian military supplies to China.

Finally, in the sphere of international politics, Russia generally remains a more active and influential player than China. Despite the declared transition to "great power diplomacy," the Chinese foreign policy system remains cumbersome and hardly capable of acting in conditions of risk and rapid change. Russia and China often have coordinated positions on international issues. But in this duo, China plays the leading role only on problems in the immediate vicinity of its own borders, such as the situation around North Korea. Russia's role is usually more significant and active in dealing with international issues in other parts of the world. The situation around Venezuela is indicative: although Russia's economic interests there are far smaller than China's, it plays a much more important political role in the diplomatic process. So, it looks like China is more dependent on cooperation with Russia on international matters than the other way around.

It would be wrong to idealize Russian-Chinese relations. Russia and China have their own points of contention, and there may be ups and downs in their cooperation. But it is clear that their relationship does not fit into artificial concepts based on simplistic ideas about Russia's politics and economy.