

Russia and China

Partners of choice and necessity?

Ian Bond

Стой! Граница.
Проход запрещён!
Stop! Border.
The passage is forbidden!
停下！边防检查区。
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We regard European integration as largely beneficial but recognise that in many respects the Union does not work well. We also think that the EU should take on more responsibilities globally, on issues ranging from climate change to security. The CER aims to promote an open, outward-looking and effective European Union.

About the author

Ian Bond has been director of foreign policy at the Centre for European Reform since April 2013. Prior to that, he was a member of the British diplomatic service for 28 years. He served in the UK Delegation to NATO, in Moscow, in the UK Delegation to the Organisation for Security and Co-operation in Europe (OSCE) and as Ambassador to Latvia. His final posting was in the British Embassy, Washington. During his Foreign Office career he focused on Russia and the former Soviet Union, transatlantic relations and defence, and EU foreign and security policy.

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Summary

Russia and China are often bracketed together as the West's most important adversaries. But the differences between them are significant. It would be an error for the West to pursue policies that force them together unnecessarily. The EU and US are more important economic partners for Russia and China than the latter are for each other. And China has been careful not to become dependent on Russia for energy to the same extent that Europe is.

Russia is an important arms supplier for China; but Moscow also supplies Beijing's regional rivals, especially India and Vietnam. Indeed, even as the political relationship between Russia and China has warmed, arms sales to India have been higher than those to China. Russia and China conduct some military exercises together; but some Russian national exercises imply that the military still see a Chinese invasion in the Far East as possible.

In Central Asia, China and Russia have competing economic visions: China's 'Silk Road Economic Belt' is designed to link China to Europe, whereas Russia's Eurasian Economic Union is an attempt to bring a number of former Soviet states into a single economic space. Though Presidents Vladimir Putin and Xi Jinping agreed in 2015 that the two initiatives should be brought together, there seems to have been little practical progress so far.

Despite the rhetoric of 'strategic partnership', China has not recognised Russia's annexation of Crimea, and Russia has given only partial support to China over the South China Sea. In the UN Security Council, China and Russia usually work together; but they have parted company over Crimea and Syria. In the UN Human Rights Council they almost invariably vote together. And both are working to tighten state control over the internet – both in relation to its international governance, and through censorship and other steps to limit their citizens' access to information.

In the International Financial Institutions (IFIs), China's economic strength gives it much more influence than Russia; Beijing has sought

both to increase its role in the IFIs to reflect its financial heft, and to set up financial institutions such as the Asian Infrastructure Investment Bank which offer an alternative to Western-dominated institutions.

Western powers have four options for dealing with China and Russia:

- ★ Oppose both Russia and China
- ★ Oppose China, seek partnership with Russia
- ★ Oppose Russia, seek partnership with China
- ★ Seek partnership with both Russia and China

None of the options is perfect. But in the short term at least, the West can find more common ground with China, which benefits from stability, than with Russia, which benefits from disruption.

The US and its allies should look again at a possible 'Conference on Security and Co-operation in Asia', on the model of the Conference on Security and Co-operation in Europe which helped to bring about the end of the Cold War, as a means to defuse tension with China. Confrontation between a rising China and the West can be avoided, and the problems posed by a declining Russia can be managed co-operatively.

Introduction

Russia and China have been rivals more often than allies in the last 150 years. No country took more territory from China in the 19th century than Russia did. Yet as Moscow's relations with the West deteriorated in the wake of its military intervention in Ukraine in 2014, Russia suggested that it was turning to Asia (though not turning its back on Europe), and China seemed eager to show that it too wanted a close partnership with Russia.

For the European Union and the West more generally, this friendliness posed dilemmas. The West had been trying for a decade to get China to see itself as a stakeholder in the existing liberal international order; yet now China was aligning itself with Russia – a country which by annexing Crimea had done more than any other in recent times to undermine that order. At the same time, European countries had spent two decades trying (however ineffectually) to create the conditions for Russia and other former Soviet states to 'converge' with the rest of Europe on the basis of the EU's rules-based approach to international relations. But in the end, the Russian authorities chose instead to define their country as non-European. Putin and those around him are more comfortable with the political system and governing philosophy of autocratic China than those of the democracies of Europe.

For America also the new relationship between Moscow and Beijing was a challenge. For almost 40 years, China had risen peacefully. Its economy had benefited from US trade and investment; it had every incentive to keep the partnership on an even keel. Now, however, the Americans saw China asserting itself in the waters off Asia which the US had dominated for the last 70 years; they saw it working more closely with Russia, the only country with a nuclear arsenal that could threaten US survival; and they saw Russia selling China advanced military technology of a kind that no other major defence supplier would provide.

For Europe and America, the sight of China and Russia working together in international organisations reinforced the fear that the two aimed to create a new, illiberal international order and to shut out Western influence from their regional spheres of influence. Ever since

the end of the Cold War, the West had striven to promote its own values of democracy, human rights and the free market of goods and ideas. Until the economic crisis of 2008-09 struck, even countries like Russia and China seemed in their own way to be moving towards accepting these values. Now, they seemed to be trying to create an alternative model of their own, based on authoritarian government, state capitalist economies and nationalism; and even some Western allies like Hungary were attracted to it.

“Russia and China have seen that rapid growth in their economies may not be sustainable.”

Speaking to foreign experts at the Valdai International Discussion Club in 2014, President Vladimir Putin set Russia’s increased interest in Asia in the context of a shift of economic and political power to

the East.¹ After meeting the Chinese president, Xi Jinping, in May 2015, Putin described China as “our strategic key partner”. Developments since then have shown that the West is right to be concerned about the implications of the two working together. But they have also shown that the substance of the relationship may not match the rhetoric. Both Russia and China have seen that rapid growth in their economies may not be sustainable; and that it depends more than they would like on the success of their Western partners.

The aim of this report is to examine the Russia-China relationship in a number of key areas: trade and investment co-operation; the military sphere, including arms sales; diplomatic co-ordination in dealing with regional conflicts; and efforts to reshape the international order in their own interests. It looks at whether the relationship is as close as it appears, and whether the two countries share long-term interests and objectives, or are only tactically aligned with each other. It considers how Western governments can best mitigate the risks that arise from the partnership between Beijing and Moscow; whether the election of Donald Trump as US president will make a united Western approach harder; and whether there are any opportunities for influencing the behaviour of the two countries positively.

¹: ‘Meeting of the Valdai International Discussion Club’, kremlin.ru, October 24th 2014.



Chapter 1

Economic partnership and its limits

There are obvious reasons for Russia and China to work together economically. They are geographically contiguous, and their economies are generally complementary. Russia's economy is dominated by raw material production, in particular hydrocarbons; it imports many of its manufactured goods. China, by contrast, imports huge quantities of raw materials and exports manufactured goods.

Despite that, trade between the two is relatively low. Russian exports of hydrocarbons to China are dwarfed by its exports to Europe: in 2015 it sold almost three and a half times as much coal to the EU as to China; almost four times the oil; and about 800 times as much gas. Perhaps even more striking is the fact that in 2015 China imported more natural gas from America than it did from Russia (see Chart 1).

In May 2014, Putin told Chinese journalists that the two countries would "try to increase trade turnover to \$100 billion by 2015 and up to \$200 billion by 2020". That target is far out of reach. Between 2014 and 2015, the value of Russia's trade with the world fell by 33 per cent. Its trade with the EU contracted by 40 per cent (reflecting both low prices for oil and gas, EU sanctions against Russia and Russian counter-sanctions against the EU), but its trade with China also followed the general trend, shrinking by almost 30 per cent from \$88 billion to \$64 billion (see Chart 2).

China's imports from Russia are limited by a number of factors. The first is geography: the infrastructure that Russia inherited from the Soviet Union was designed to carry oil and gas to Europe from the main oil and gas producing areas in Western Siberia. China's main interest is in undeveloped fields in Eastern Siberia and the Russian Far East which are closer to its main industrial areas, and which would be served by the new 'Power of Siberia' pipeline. Russia would like to have the option of shifting exports from existing Western Siberian fields to China and

away from Europe; but Russia and China have not been able to agree on terms for building a gas pipeline from Western Siberia to Western China.

The second constraint was Russian suspicion of China in the initial post-Soviet period: Moscow worried about Chinese penetration of Siberia and the Russian Far East, and deliberately favoured Western and even Japanese investment in the oil and gas deposits in those areas, rather than allowing China to have a significant stake. That reticence has largely gone, and in recent years Russia has actively sought Chinese investment in costly projects to open up remote deposits in Eastern Siberia and the High North (like the massive Vankor field).

Third, Chinese policy has been to maintain diverse sources of energy supply and to avoid becoming dependent on any single country (as Europe is, to a significant extent, on Russia). Though the picture will change when gas starts to flow down the 'Power of Siberia' pipeline, as the two sides agreed in 2014, at present Russia is among China's top five suppliers of coal and oil, but not gas; Australia is among the top five suppliers of coal and gas, but not oil. The largest supplier of gas is Turkmenistan, through the Central Asia-China gas pipeline, built by China, which opened in 2009; but LNG from Qatar is in second place. China has positioned itself to play its suppliers off against each other to achieve the best price; and has maximised its resilience in case supplies are disrupted. China's confidence in its position is shown by its increasing willingness to buy gas from America, which was China's fourth most important supplier in 2015, up from 17th in 2013: China clearly believes that it can afford to buy American LNG if the price is right, but can replace US supplies if the political situation forces it to (which, given Trump's hostile campaign rhetoric on China, it may).² (See charts 3a, 3b & 3c).

Russia's position is much less secure: most of its oil and gas is exported through pipelines, and it is therefore more tied to particular purchasers, particularly in Europe. This is a mutual dependence: EU countries are as dependent on buying from Russia as Russia is on selling to them. But if Europe reduces its demand for Russian hydrocarbons, either by diversifying sources of supply or increasing its use of renewables, then the Russian state budget will be hit hard. The low oil and gas prices of the last three years have already forced Russia to eat into its two reserve funds: Reuters reported in July 2016 that by some point in 2017 the Finance Ministry expected to have emptied the first, which stood at \$87 billion at the start of 2014.

2: Data from World Bank World Integrated Trade Solution (WITS).

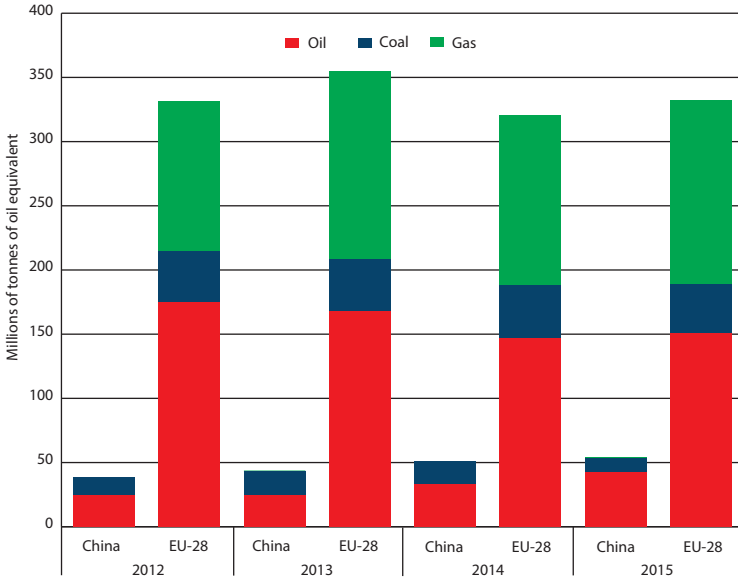


Chart 1:
Russian hydrocarbon exports to the EU and China, 2012-15.

Sources:
UN Comtrade,
Eurostat and BP
Statistical Review
of World Energy.

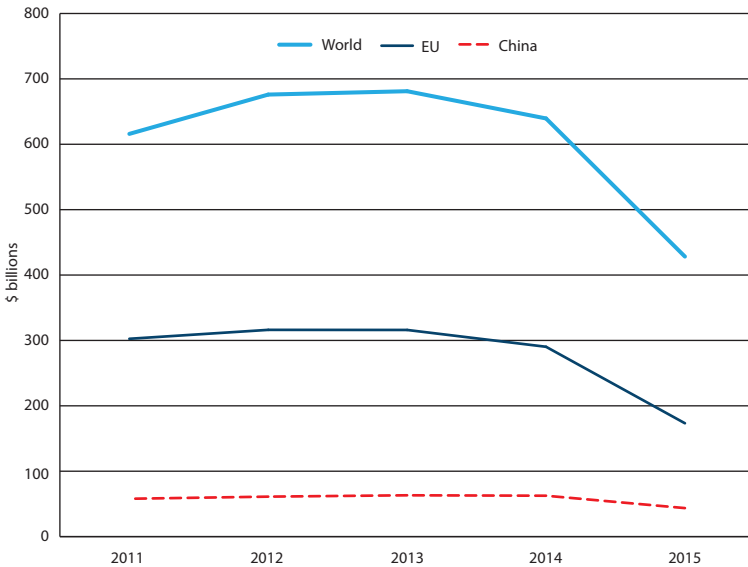


Chart 2:
Russia's trade with the world, the EU and China, 2011-15

Source:
World Bank World
Integrated Trade
Solution.

Chart 3a:
China's main suppliers of imported coal, 2015.

Sources:
World Bank World Integrated Trade Solution.

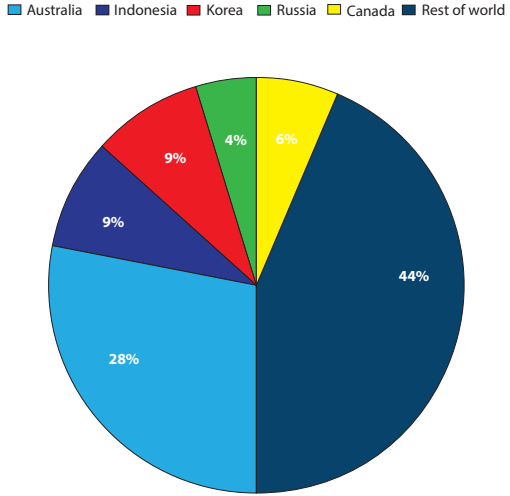
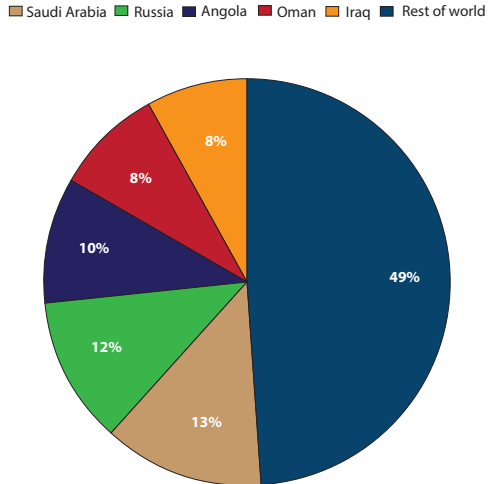


Chart 3b:
China's main suppliers of imported oil, 2015.

Source:
World Bank World Integrated Trade Solution.



For Russia, therefore, selling more oil and gas (and coal) to China is an important hedging strategy. In the aftermath of Russia's annexation of Crimea and invasion of Ukraine, when Western sanctions were imposed on Moscow, finding alternative sources of foreign investment also became essential. At the same time, Russia's interest in increasing its LNG exports suggests that Moscow does not want to end up exporting gas only through fixed pipelines to China and Europe: being dependent on two customers would not be much better than being dependent on one. It already has LNG facilities on Sakhalin and in Vladivostok, enabling it to supply Asian customers.³ It has also attracted foreign investment (including a 20 per cent stake for China's CNPC and a further 9.9 per cent for China's Silk Road Fund) for an LNG plant on the Yamal peninsula on the Arctic Ocean. China is the main intended customer for gas from Yamal, but Russia would have more flexibility to sell the gas elsewhere if necessary.

■ Turkmenistan ■ Qatar ■ UAE ■ Australia ■ USA ■ Russia ■ Rest of world

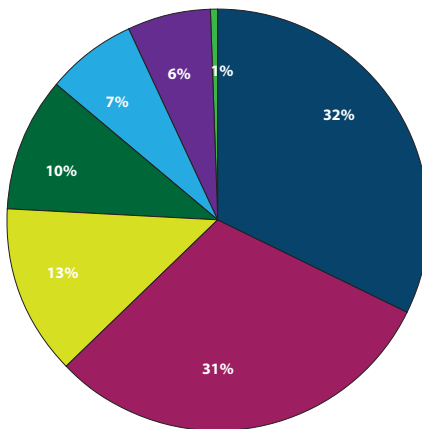


Chart 3c:
China's main
suppliers of
imported
gas, 2015.

Source:
*World Bank World
Integrated Trade
Solution.*

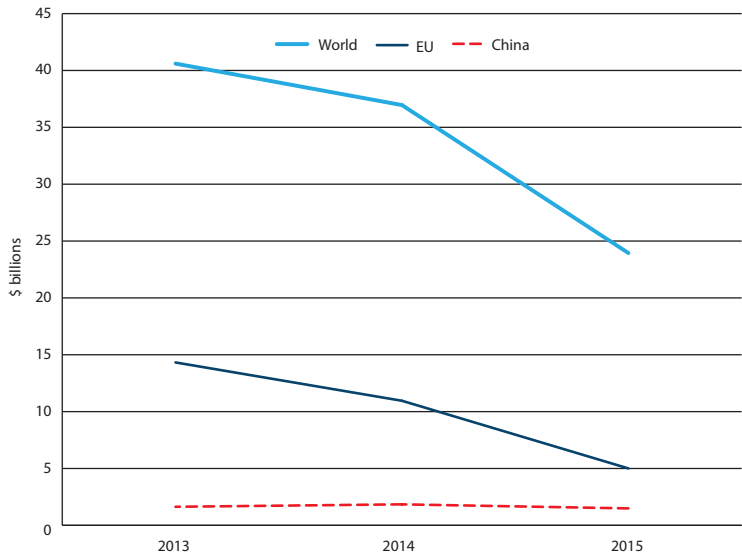
3: James Henderson and Tatiana Mitrova, 'Energy relations between Russia and China: Playing chess with the dragon', Oxford Institute for Energy Studies, August 2016.

Chinese exports to Russia are limited (in part) by the size of the Russian market: with a population of 146 million and a GDP per capita of \$9,100 Russia cannot possibly consume as much of China's output as the EU, with a population of 508 million and a GDP per capita of \$34,300; or the US, with a population of 319 million and a GDP per capita of \$55,800. The fact that Russia shares a border with China is offset by the lack of transport infrastructure and the distance to Russia's major population centres, most of them beyond the Ural Mountains. In addition, the falls in the oil and gas price and in the value of the rouble since 2013 have led to a sharp drop in Russia's imports (from all sources). Exports from China, like the EU, have suffered from Russia's economic crisis.

The sanctions on Western food and agricultural goods which Russia imposed in 2014 in retaliation for Western sanctions linked to Russia's intervention in Ukraine have created opportunities for major agricultural exporting countries (as well as domestic producers); but China is not among them. Indeed Russia's imports of food and live animals from China fell slightly between 2013 and 2015, from \$1.6 billion to \$1.5 billion (see Chart 4).

Chart 4:
Russia
food and
agricultural
imports
from the EU,
China and
the world,
2013-15.

Source:
World Bank World
Integrated Trade
Solution.



Though there has been plenty of talk about Chinese investment in Russia and (to a lesser extent) Russian investment in China, the reality has yet to match up. Russia was not among the top ten foreign investors in China in 2015, according to the Chinese Ministry of Commerce. While it is impossible to know how much Russian investment reaches China indirectly, through offshore centres, figures from the Central Bank of Russia show that Russia's cumulative net investment in China between 2007 and the first quarter of 2016 was only \$287 million, less than 10 per cent of Russian investment in Italy over the same period. Chinese investment in Russia was just as anaemic: \$3.8 billion from 2007 to 2016, compared with \$24 billion from Germany.

While there is often a political component in Chinese foreign investment, financial aspects are also important. So far, China's involvement in the Russian economy has reflected this pragmatism. Russia's Eastern Economic Forum in Vladivostok in September 2016 was designed to attract foreign investors to the Russian Far East; but Xu Jin from the Institute of World Economics and Politics of the Chinese Academy of Social Sciences commented that to get Chinese investment "the people and local government of the Far East region need to open their mind and improve the law and investment framework to meet the foreign investors."⁴ In other words, Chinese investors, like their Western counterparts, are put off by corruption and legal unpredictability in Russia. Analysts in Beijing, speaking privately in 2015, said that investment conditions in Russia had always been bad, and they had not improved after the Ukraine crisis, despite encouraging statements from Russian leaders. Chinese firms would like to invest, but the risks were too high.

On the Russian side, one noticeable feature of the economic relationship with China is the involvement of those closest to Putin, including individuals sanctioned by the West since the Russian invasion of Ukraine.⁵ Gennadiy Timchenko, a long-standing friend and business associate of Putin, was placed under US sanctions in March 2014; in April 2014 Putin appointed him chair of the Russian-Chinese Business Council. Timchenko's company, Volga Group, has a large stake in Novatek, a gas producer which is the majority investor in the Yamal LNG project. Arkadiy Rotenberg, Putin's judo partner, was sanctioned by the EU when Timchenko was sanctioned by the US. His company, Stroigazmontazh, received contracts worth 198 billion rubles (£2.4 billion) to build the 'Power of Siberia' pipeline to China, without a public bidding process.

4: 'Eastern Economic Forum to attract foreign investment and strengthen Russia's ties With Asia-Pacific region – Analysis', *Penza News*, August 24th 2016.

5: Ian Bond and Rem Korteweg, 'Russia's gas deal with China: Business is business', CER insight, June 25th 2014.

By giving people in his circle a prominent role in the Russia-China relationship, Putin can underline his personal engagement in the partnership's success; but single-tender contracts are likely to push up the cost of getting Russian gas to the Chinese market. The Chinese authorities, however, will not want inflated project costs to be passed on to them.

Chapter 2

Arms sales and military co-operation

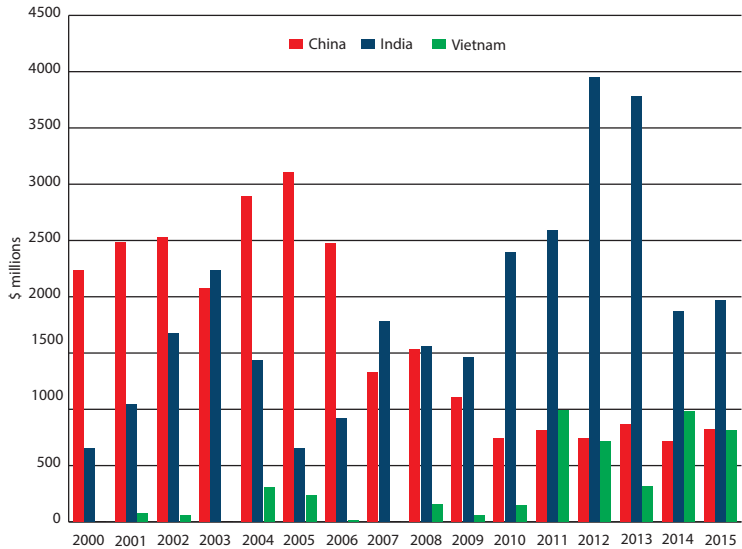
Relations between Moscow and Beijing have come a long way since the Soviet Union and China skirmished along their common border in 1969, raising fears of a nuclear war. Rapprochement began during the Gorbachev era and continued after the fall of the Soviet Union. In the early 1990s, as China began to invest heavily in its military forces, Russia was desperate for hard currency; whatever the fears of some Russian politicians about Chinese intentions, the Russian arms industry turned to China as a promising market. Between 1992 and 2015, the Stockholm Peace Research Institute (SIPRI) estimates that Russia supplied weapons to China worth \$32 billion – almost 80 per cent of China's arms imports over the period. But the bonanza years were from 2000 to 2006, when sales averaged over \$2.5 billion per year; since then sales have fallen to an average of under \$1 billion per year.

It is interesting to compare Russia's arms exports to China with its exports to two of its other traditional customers in Asia, namely India and Vietnam. Exports to India from 1992-2015 totalled almost \$36 billion, but the boom years were 2010-2015, when average annual exports were around \$2.7 billion. Exports to Vietnam were much smaller, at around \$5.7 billion from 1992-2015; but almost two-thirds of those were supplied between 2011 and 2015. In other words, Russia's arms exports to China's main regional rivals have outstripped those to China even as Moscow has been trying to build its strategic partnership with Beijing (see Chart 5 overleaf).

Russia has also supplied the same weapons systems to both China and its rivals: China, India and Vietnam all have 'Kilo' class submarines, Su-30MK fighter aircraft and Kh-59 cruise missiles; China and Vietnam both have the S-300PMU air defence system, while China and India are both buying the more modern S-400 system.

Chart 5:
Russian
arms sales to
China, India
and Vietnam,
2000-15.

Source:
Stockholm
International
Peace Research
Institute: SIPRI
Arms Transfers
Database.



The US and Russia both face the problem in supplying weapons that ‘my friend’s enemy is my friend’. For the US the issue is Israel and Saudi Arabia; for Russia its three Asian partners. The US has an overt strategy of ensuring that Israel has a qualitative edge in weaponry. Russia, however, seems willing to supply all paying customers, regardless of the state of relations between them or the regional security implications. Indeed, despite the political warmth of the Russia-China relationship, Russia is apparently ready to lease one of its latest ‘Yasen’ class nuclear attack submarines to India, probably in the hope that India will subsequently buy more as part of New Delhi’s plan to procure six attack submarines. At the same time China is interested in working with Russia to develop a diesel-powered attack submarine based on a Russian design.

Russia has, however, held back on some sales to China for reasons that would be familiar to Western companies exporting goods to China: China has reverse-engineered some of the items supplied by Russia, and then gone on to sell its indigenous versions to third countries, in competition with Russia.⁶ In 2006, China withdrew from a contract to build 200 Su-27 aircraft under licence after only 95 aircraft had been built; Russia suggested this was because China had stolen and used Russian technology to build its own J-11 aircraft. In 2009, the general

6: Kjell Engelbrekt and John Watts, ‘Sino-Russian strategic collaboration: Still an “Axis of Convenience”?’, Swedish National Defence College, February 12th 2015.

director of the Russian state arms exporter 'Rosoboroneksport', Anatoliy Isaykin, said that his company was conducting a detailed examination to establish whether China had copied the Su-27 in its entirety, or only its external design features.⁷

Despite this, Russia and China started discussions in 2007 over the purchase of a more modern Russian aircraft, the Su-35. But negotiations were very drawn out. In 2010 Rosoboroneksport announced that it was "ready to hold talks on the delivery" of the Su-35 to China. In 2011 the Chinese said that they were "ready to acquire" a number of Su-35s. But in 2012 the Russians suspended talks because the Chinese only wanted to buy a small number, which Russia considered commercially unviable (they perhaps also feared that the Chinese would buy them only in order to copy them). The two sides finally signed a contract for the delivery of 24 aircraft at a cost of about \$2 billion in November 2015.

By fair means or foul, China has caught up with Russia in many areas of military technology, limiting the scope for Russia to increase its sales to China again (even if it can hold the Chinese to agreements on protecting intellectual property). One of the few remaining areas of clear Russian superiority is in aircraft engines; China has continued to buy these in significant quantities both for indigenous aircraft and as spares for aircraft bought from Russia.⁸

One question is whether Russia and China will work together more to improve their military technology, or to produce equipment jointly. While Russia and India have a joint venture to produce the BrahMos short-range cruise missile, Russia and China have yet to reach a similar level of integration. Rostec (a Russian state corporation which promotes high-technology civil and military industries) signed an agreement with AVIC, a Chinese aerospace company, in 2014.⁹ This foresaw co-operation in helicopter and engine construction, the manufacture of aircraft materials, avionics, and other onboard electronics equipment. The two also agreed on joint development of a heavy lift helicopter, aimed at the Chinese market. This is intended primarily for civilian use, but could also have a military role. As China becomes more technologically advanced, particularly in electronics, it will become a more attractive partner for the Russian military industrial sector. Russia may also feel that the only way to benefit from China's ability to copy Russian technology and then undercut the Russians is to go into partnership with China's defence industry.

7: 'Rosoboroneksport has promised to deal with Chinese copies of the Su-27'; *lenta.ru* (in Russian), August 19th 2009.

8: 'Military and Security Developments Involving the People's Republic of China 2016: Annual report to Congress', Office of the US Secretary of Defense, April 26th 2016.

9: Paul Schwartz, 'Sino-Russian Defense Relations Intensify', *The Asan Forum*, December 23rd 2014.

As well as supplying both India and China with arms, Russia also conducts military exercises with both. Russia and India have held annual naval and land exercises since 2003. These 'INDRA' exercises in 2015 (hosted by India) included a destroyer, a frigate, a submarine and various naval aircraft from India; Russia supplied a guided missile cruiser and a destroyer. The land component was about 250 troops on each side. This year's exercises were hosted by Russia and featured slightly smaller vessels (two destroyers on the Russian side; a destroyer and a small warship on the Indian side). The land exercises are similar in size to those in 2015; interestingly, Russia has chosen to host them in Ussuriysk, near Vladivostok and very close to the Chinese border.

“The latest exercise with China included marines storming and capturing a small island.”

Russia and China conducted joint naval and amphibious exercises in the South China Sea in September 2016, the latest in the 'Joint Sea' series which started in 2012 (the Chinese sent ships to the Mediterranean for Joint Sea 2015). This year's exercise was the first to take place in the South China Sea (though close enough to the Chinese coast not to involve any disputed waters). Russia's contribution was comparable in size to that involved in INDRA, with two destroyers and a landing craft, as well as 90 marines. China's contingent was larger: two destroyers, three frigates, two submarines and a landing platform dock, as well as aircraft and 160 marines with amphibious armoured vehicles.

In terms of scenarios, however, there are differences. Russia's exercises with India are set in the context of UN peacekeeping operations; but the latest exercise with China included a phase in which the marines stormed and captured a small island occupied by an unspecified enemy. While the Russians have not explicitly supported China's claim to almost all of the South China Sea, they seem to have felt that it was in their wider interest to join China in a little muscle-flexing in the area. In the Russian case, the focus was presumably on showing the US that Moscow and Beijing are now working together militarily. For the Chinese, there may have been a message to countries like Vietnam that they should not rely too much on Russia's good offices if they got into a confrontation with China.

Apart from their bilateral military exercises, China and Russia also conduct regular training exercises in the framework of the Shanghai Co-operation Organisation (SCO). The full members of the SCO are

China, Russia, Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan; India and Pakistan (previously observers) will become full members in 2017. The SCO grew out of the Shanghai Five (China, Russia, Kazakhstan, Kyrgyzstan and Tajikistan), a confidence-building initiative that began in 1996 and was designed to reduce military tension along the borders between the former Soviet Union and China. The SCO has subsequently focused on combating terrorism and separatism, and has conducted more or less annual military exercises since 2010. While the exercises must do something to increase the interoperability of forces from different SCO member-states, the results seem rather modest.¹⁰

When it comes to national defence policy and exercises, do the two countries behave as partners who trust each other? Russia gave clear signs before the crisis in relations with the West that it still regarded China as a potential adversary, as well as a current partner. In 2009, Lt Gen Sergei Skokov, then head of the Main Headquarters of Russian land forces, told journalists that while in the West Russia faced armies with the latest technology, in the East they faced a multimillion man army using traditional tactics. Writing for the CER in 2012, Russian analyst Dmitri Trenin commented: "This is hardly a description that fits the US military".¹¹ Another Russian analyst, Aleksandr Khramchikhin of the Institute for Political and Military Analysis in Moscow, described Skokov's description as "epochal" – the first time since the last years of the Soviet Union that a military leader had acknowledged that China was a potential adversary.¹²

Lt Gen Vladimir Chirkin, commander of the Siberian Military District, went even further in 2010, deploying two brigades (around 8,000 men) close to the Chinese border and commenting in an interview that "our army command understands that friendship is possible only with strong countries, which can quiet a friend down with a conventional or a nuclear club".¹³ Subsequent exercises in 2010, 2013 and 2014 have featured large-scale land force operations and tactical nuclear strikes. Though the Russian military describe the adversary in these exercises as "hypothetical", Russia is unlikely to have to fight a ground war in the Far East against any power other than China.

It is less clear whether any of China's exercises in its northern military districts are intended to impress or deter Russia; but according to Trenin

10: Andrew Scobell, Ely Ratner, Michael Beckley, 'China's strategy toward South and Central Asia: An empty fortress', RAND Corporation, 2014.

11: Dmitri Trenin, 'True partners? How Russia and China see each other', CER report, February 2012.

12: Aleksandr Khramchikhin, 'But all in all, only 85 brigades on permanent military readiness', *Nezavisimoye Voyennoye Obozreniye* (Independent Military Review), in Russian, October 16th 2009.

13: Yaroslav Vyatkin, 'Reinforcement of the border with China', *Argumenty Nedeli* (Arguments of the Week), in Russian, March 4th 2010, quoted in Roger McDermott, 'Reflections on Vostok 2010: Selling an image', *Eurasia Daily Monitor*, July 18th 2010.

the Russians interpret what China is doing as potentially hostile. The sort of integration of land and air forces that they have practised seems more relevant to fighting enemies across a land border than Americans or Japanese coming from the sea.

On one level, Russia's fears of Chinese intentions in Siberia and the Far East seem to contradict the political rhetoric from Putin: he described relations in 2014 as "the best ever". But Russians have worried about the huge disparity between the population of the Russian Far East and that of the Chinese regions facing it since at least the fall of the Soviet Union. The bald figures are 4.3 million Russians facing 109 million Chinese. The Chinese provinces concerned are large, and the bulk of the population is far from the border; even so, Russian politicians (including Putin himself in 2008) have expressed the fear that the Chinese would take over Russian territory.¹⁴ And although China no longer sees Russia

“Russian concerns reflect the way in which China handles latent nationalism and irredentism.”

as the main military threat to the country (as it did for many years after Mao's split with Moscow), it still has large enough forces near the border to justify the Russian military command's caution.

Russian concerns also reflect the way in which the Chinese authorities handle latent nationalism and irredentism. On the one hand, China has an agreed border with Russia: the last unresolved issue, over islands in the Amur river, was settled when a small amount of territory was transferred to China in 2008. On the other, an increasingly nationalist China is drawing more attention to the 'unequal treaties' it signed in the 19th century, under which it was forced to cede territory to the European powers and Japan. While the Chinese authorities deny that they have any claims against Russia, they have used 'unequal treaties' both as the basis for recovering sovereignty over Hong Kong, and for their claims on the Senkaku islands (controlled by Japan but claimed by China, which calls them the Diaoyu islands) and on parts of the South China Sea.

As long as China's relations with Russia are generally good and as long as China has the upper hand in them, there is no reason for the Chinese authorities to stir up nationalist fervour over territories lost to Russia. In 2012, nationalists rioted and attacked Japanese targets in China in protests over the Senkaku/Diaoyu islands. Nothing similar has occurred in respect of Russia, though there were on-line protests demanding the

¹⁴: Dragos Tirnoaveanu, 'Russia, China and the Far East question: Are there any Chinese 49ers around?', *The Diplomat*, January 20th 2016.

return of Chinese lands at the time of Xi Jinping's first visit to Moscow as president, in 2013.¹⁵ The Russians can therefore relax, up to a point; but Russia's military exercises are intended to show Beijing that Moscow remains vigilant.

¹⁵: Chris Luo, 'Chinese nationalism flares up ahead of Xi's visit to Russia', *South China Morning Post*, March 20th 2013.

Chapter 3

Russia and China in Central Asia: Competing for favour?

If a Chinese land-grab in the Far East seems very unlikely, China's growing influence in Russia's Central Asian back yard is a fact. China has become by far the most important trading partner for four of the five former Soviet states in Central Asia (Uzbekistan being the exception). That does not tell the whole story: EBRD analysis shows that taking trade, investment and remittances together, Russia still has more economic impact on the Central Asian states than China does.¹⁶ But China's importance is increasing steadily.

China and Russia have competing visions of how Central Asia should relate to the rest of the world. China's New Silk Road Economic Belt sees Central Asia as part of a trade route stretching to Europe. Beijing does not see this as an exclusive economic area for China, though with the size of its economy and its proximity it would clearly expect to dominate Central Asia's trade relations. To that end, China is investing heavily in transport infrastructure crossing Central Asia. Its investments serve multiple purposes: to create new overland trade routes, quicker (though more expensive) than sea routes, and less vulnerable to being blocked by a hostile power in a crisis; to connect China's underdeveloped and sometimes restless Western provinces to the rest of Eurasia, spurring economic development; and to create a use for excess steel and concrete, thus preventing unemployment in large state-owned enterprises. The last, and most pragmatic, objective is often ignored by analysts looking for geopolitical significance in Chinese policy; but it was explicitly cited by Chinese premier Li Keqiang in remarks to foreign guests at the 'Fourth Global Think Tank Summit' in Beijing in June 2015.

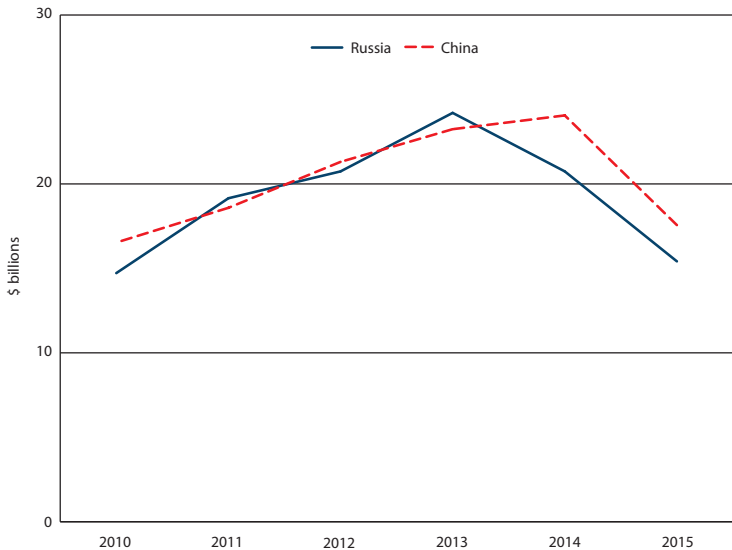
Russia's Eurasian Economic Union (EAEU) is a trading bloc loosely modelled on the European Union (with a Commission made up of officials from its member-states, and the ambition of creating a single market). It is not explicitly designed to keep out China, but its external

16: Alexander Plekhanov and Peter Sanfey (eds), 'Regional Economic Prospects in EBRD Countries of Operations May 2016', European Bank for Reconstruction and Development.

tariffs could limit China's market share in Central Asia. Theoretical work by the EBRD suggested that China's exports to Kazakhstan (in particular) would be displaced by exports from Russia when Belarus, Kazakhstan and Russia formed a customs union in 2010, and subsequently the Eurasian Economic Union in 2015.¹⁷ So far, however, the available statistics suggest that in Central Asia neither China nor Russia has benefited or suffered much from the creation of the Belarus-Kazakhstan-Russia customs union and the EAEU. Their exports to the countries of Central Asia rose in parallel from 2010 onwards; Russian exports to the region peaked in 2013 and Chinese in 2014, with China's exports remaining higher than Russia's in 2015 (see Chart 6). China has learned to live with Russian tariff levels, though it welcomes their fall and hopes it will continue; it worries more about low purchasing power in Russia and Kazakhstan as a result of persistently low oil and gas prices.

Chart 6:
Russian and Chinese exports to Central Asian states (Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, Uzbekistan) 2010-15.

Source:
World Bank World Integrated Trade Solution.



Chinese investment in Central Asia in recent years has also been much greater than that from Russia. Investment in roads and railways across the region has followed earlier Chinese projects to build oil and gas pipelines from Kazakhstan and Turkmenistan. There may be questions over the effectiveness of this investment in generating sustainable economic growth once the construction projects end, but not over the volume.

17: Asel Isakova, Zsoka Koczan and Alexander Plekhanov, 'How much do tariffs matter? Evidence from the customs union of Belarus, Kazakhstan and Russia', European Bank for Reconstruction and Development, Working Paper No 154, January 2013.

Over time, Russia wants to strengthen and expand the Eurasian Economic Union, and China wants to give more substance to the Silk Road Economic Belt. It is an open question whether they can achieve their aims in a way that benefits both of them as well as the Central Asian states. Presidents Putin and Xi agreed in May 2015 that the two projects could “complement each other harmoniously”, and welcomed the start of talks between the Eurasian Economic Union and China on a trade and economic co-operation agreement. But it has proved hard to translate the warm language into anything more practical.

When Putin and Xi met in Beijing in June 2016, the EAEU and China had only progressed from ‘talks about talks’ to signing a joint declaration on “transition to the negotiation stage”. The negotiations are supposed to agree on harmonisation of technical and customs regulations and on intellectual property issues; and they are supposed to create new institutions to support trade. But private discussions with the Commission of the Eurasian Economic Union in 2016 did not suggest a sense of urgency about reaching an agreement. The Commission’s focus seemed to be on co-ordinating the bilateral relationships that individual member-states had with China.

Even though China is such an important economic partner for most EAEU members (and other former Soviet states), there seems to be little enthusiasm on Russia’s part for a China-EAEU free trade agreement. Putin has suggested instead that the EAEU and the Shanghai Co-operation Organisation should work on a free-trade agreement. This looks like a diversionary tactic: negotiating a free-trade agreement with a larger group of countries, including some in a state of conflict with each other, would be even harder than reaching a China/EAEU deal.

The EAEU Commission argues that its tariff rates are falling anyway (from an average of 9 per cent when the customs union was established to an average of 5.3 per cent in 2016). Commission officials suggest that if China wants to avoid paying tariffs on goods sold in the EAEU, it should invest in new production facilities in EAEU countries rather than trying to sell finished goods from Chinese factories. They claim that there is an economic logic in bringing Chinese manufacturing closer to Russian raw materials. But it is not clear how the Commission sees China’s economic role in Central Asia, or how (in effect) import substitution through local manufacture might affect a country like Kyrgyzstan, whose economy has benefited significantly from acting as a transit hub for Chinese goods.

Chinese analysts accept that it is too early for a free trade agreement with the EAEU, which would benefit China at the expense of countries that have been relatively isolated from international trade and have under-developed manufacturing sectors. EAEU countries would get access to cheaper and better Chinese goods, but some local firms would be driven out of business; that would be politically difficult. The Chinese are ready to be patient, waiting until Russia (and other EAEU members) see the need for an FTA.

“China has managed its economic expansion into Russia’s back-yard without causing much friction.”

So far, therefore, China has managed its economic expansion into Russia’s back-yard without causing much friction. This may be acceptance of the inevitable by

Russia: Russia’s economy is simply incapable of competing with Chinese manufacturing exports. In part it may be that so far the two have been able to find common interests in the region: neither wants US influence there, which grew during Western operations in Afghanistan, to persist; neither wants Islamist terrorist movements to spread in Central Asia, threatening to destabilise areas of China and Russia with large Muslim populations. But China has also proceeded with caution; Beijing has been happy to leave Russia in charge of security in Central Asia, rather than risking local hostility to the stationing of Chinese forces. Even though this means in effect that Russia is paying to provide security for China’s economic interests in the region, Moscow seems to be content with the arrangement. Its willingness to provide military forces in Tajikistan and to work with security forces elsewhere guarantees its political influence with leaders in fragile states.

Chapter 4

'Core interests': Crimea and the South China Sea

Beyond their shared neighbourhood, Russia and China are both involved in territorial disputes with other neighbouring countries. Russia annexed Crimea and invaded eastern Ukraine in 2014; China claims the Senkaku/Diaoyu islands and almost all of the South China Sea, parts of which are also claimed by Brunei, Indonesia, Malaysia, the Philippines, Taiwan and Vietnam. Each would like the support of the other; so far, neither has received it, but Russia has come closest to implicit recognition of China's claims in the South China Sea.

For China, Crimea creates awkwardly conflicting issues. On the one hand, Russia claims that the peninsula belonged to Tsarist Russia (which conquered it in 1783) and only became part of Ukraine by accident when the Soviet Union broke up in 1991. On the other hand, Russia argued at the United Nations that it annexed Crimea following the exercise of self-determination by the Crimean people, who voted to become part of the Russian Federation.

The idea that historical claims might justify modern ones is useful to China, which bases its claims in the South China Sea on the fact that there are Chinese structures there dating from the 15th century onwards. The Chinese therefore see the period when France (as the colonial power in Vietnam) and Japan claimed parts of the area in the 19th and early 20th centuries as an anomaly born of the weakness of the Chinese empire and the subsequent Republic of China. The precedent of sovereign territory changing its status as a result of a plebiscite, however, is uncomfortable for China. It could have implications for Taiwan, Hong Kong or Tibet. So far, China's fear of setting a bad precedent has led it to be neutral over the Crimea question.

China therefore abstained on a UN Security Council resolution (vetoed by Russia) in March 2014 urging countries not to recognise the

'referendum' held by Russia in Crimea.¹⁸ Later that month, it abstained again on a resolution in the UN General Assembly which stated that the 'referendum' in Crimea had no validity and could not form the basis for a change in Crimea's status. In November 2014, the acting director of the Chinese Foreign Ministry's European-Central Asian Affairs department, Gui Congyou, told journalists "We are against any nationality gaining independence through referendums".

“Neither China nor Russia gives wholehearted support to the other in its territorial disputes.”

Speaking privately in 2015, a Chinese analyst and former diplomat said that China would never recognise the annexation of Crimea, or the 'independence' of

Abkhazia and South Ossetia (which Russia seized from Georgia in the war of 2008) – such steps would be contrary to China's "core interests", principally the inviolability of borders. But the Chinese authorities have not stopped Chinese companies operating in Crimea, despite protests from Ukraine. The governor of Sevastopol claimed in April 2016 that a Chinese company had promised to invest \$120 billion in Crimea over 5 to 10 years (though the Chinese side has not confirmed this).

China has interests to protect on both sides of the Ukraine conflict. Ukraine is a major food exporter to China: agricultural exports grew by 56 per cent between 2014 and 2015, and among European countries only France exported more food and agricultural products to China in 2015. In 2013, when the previous Ukrainian regime under President Viktor Yanukovich was in power, China agreed to lease up to 3 million hectares of farmland in Ukraine – about five per cent of Ukraine's total territory. The conflict in the East has apparently delayed implementation of the project, but China has gone ahead with other smaller investments in Ukrainian agribusiness. And China has not backed Russian efforts to block disbursement of IMF loans to Ukraine – in fact, in the early stages of the Ukraine crisis, in March 2014, China called for international financial institutions to ensure Ukraine's financial and economic stability.

China has subsequently encouraged Ukraine to apply for a loan from the Silk Road Fund set up by China to finance infrastructure projects in the framework of the Silk Road Economic Belt and Maritime Silk Road initiative (known as One Belt, One Road (OBOR)). In January 2016 Ukraine sent a trial cargo to China by ship across the Black Sea, rail across Georgia and Azerbaijan, ship across the Caspian Sea and rail across Central Asia to western China. The route is unlikely to be

¹⁸: UN Security Council, record of the 7138th meeting, March 15th 2014.

commercially viable, but it sends a signal of Chinese interest in Ukraine's economic development.

Some Russian analysts claim that the Chinese secretly welcome Russian behaviour in Crimea and Eastern Ukraine: it may make it easier for China to push forward in the South China Sea and elsewhere without attracting so much attention. But that may not accurately reflect Chinese views: in private, Chinese experts have criticised Russia for its "recklessness" in Ukraine. They worry about being dragged into a conflict with the West sparked by Russia.

For Russia, the question of who to back in the South China Sea is also complicated: it does not want to offend its traditional ally, Vietnam; but it has an even greater interest in cultivating good political relations with China. In April 2016, Russian foreign minister Sergei Lavrov told Asian journalists that the countries directly involved in the dispute should "continue the search for a political-diplomatic solution acceptable to both parties", while there should be an end to "any interference in the talks by countries that are not directly involved, and to attempts to internationalise the issues".¹⁹

Countries in the region, including Vietnam, interpreted Lavrov's comments as a reference to the case brought by the Philippines against China at the Permanent Court of Arbitration at The Hague, and as a tilt towards China's view that the tribunal had no jurisdiction.²⁰ Lavrov stopped short of saying that Russia agreed with China's position on the substance of the dispute; but the Russians calculated that accepting China's view on procedure would buy some credit in Beijing without doing too much damage elsewhere in the region. (On international maritime issues affecting its own interests, Russia's position also chimes with China's; in 2013, Russia dismissed the ruling of an international maritime tribunal to release the Greenpeace vessel 'Arctic Sunrise'.)

All in all, neither China nor Russia gives wholehearted support to the other in its territorial disputes. Russia has enthusiastically claimed neutral Chinese language as backing Moscow's views, but the reality is that China has been careful to say nothing that would set a bad precedent for its own disputes, and has prioritised its economic interests in Ukraine over Russia's political needs, knowing that Russia has nowhere else to turn.

19: 'Interview given by the Minister of foreign affairs of Russia S V Lavrov to Mongolian, Japanese and Chinese media on the eve of visits to these countries' (in Russian), Ministry of Foreign Affairs of the Russian Federation, April 12th 2016.

20: Rem Korteweg, 'Europe and its South China Sea dilemma', CER bulletin, Issue 110, October/November 2016.

Chapter 5

Russia and China on the global stage: Regional security

Western (and Russian) media often portray Russia and China as partners in crime at the United Nations. Neither is a fan of the liberal interventionist concept of 'responsibility to protect'; both are strong supporters of state sovereignty and opponents of 'interference in the internal affairs of other states' (China perhaps more sincerely than Russia). They have regularly voted together, vetoing four UN Security Council resolutions on the Syrian civil war between 2011 and 2014. But China does not always vote the same way as Russia. In addition to the March 2014 draft resolution on Crimea, China abstained on two draft resolutions in July 2015, on Bosnia and on establishing an international tribunal to prosecute those responsible for shooting down Malaysian Airlines flight MH17 over eastern Ukraine, both of which were vetoed by Russia alone. And most recently, China abstained on October 8th 2016, when Russia vetoed a draft resolution calling for an end to airstrikes on Aleppo, in Syria. China is relatively even-handed in objecting when third countries, whether Russia or Western powers, intervene in other countries.

Outside the Security Council, China also approaches its responsibility for international peace and security in a different way from Russia. Both countries refer in strategic documents to their involvement in peacekeeping missions. China's 2010 national defence white paper talks of China maintaining world peace and stability inter alia by contributing to UN peacekeeping operations. Russia's 2014 military doctrine refers to involvement in "the management of peacekeeping operations... and increasing the participation of units and servicemen of the Armed Forces... in operations aimed at maintaining (restoring) peace". China has implemented its plans, becoming one of the major contributors to UN peacekeeping operations. As of August 2016, it

had 2,639 troops, police and civilian experts deployed with 10 UN peacekeeping operations in Africa and the Middle East. Russia, by contrast, had only 98 personnel deployed (the other three permanent members of the Security Council contributed 867 (France), 337 (UK) and 68 (US) personnel).

“In the UN Human Rights Council, China and Russia almost invariably vote the same way.”

China’s engagement seems to have a number of motives: it has economic links with a number of the countries in Africa where its troops are deployed, so there is a direct economic interest in their stability;

it can use its contributions to peacekeeping to ‘buy’ influence within the UN system; it can limit the opportunities for the US or other outside powers to intervene unilaterally in conflicts; and it can use operational deployments to improve the quality of its military forces.²¹ Russia on the other hand seems willing to be a ‘free-rider’, perhaps judging that none of the UN’s current peacekeeping operations are in countries of strategic concern to Russia, or that it can rely on China and others to protect Russian interests. In presenting Russia’s role in peacekeeping, the Russian ministry of defence elides operations carried out under UN auspices and those on the territory of former Soviet states such as Georgia and Moldova, which have often been instruments of political pressure rather than genuine crisis management tools.²²

21: Jerker Hellström, ‘Blue berets under the red flag: China in the UN peacekeeping system’, FOI Swedish Defence Research Agency, June 2009.

22: ‘Our mission – Participation of Russia in peacekeeping operations’ (in Russian), Ministry of Defence of the Russian Federation website.

Chapter 6

Russia and China on the global stage: Human rights and internet governance

If Russia and China take different approaches to international security, they have been more closely aligned on issues of human rights and political freedoms. They oppose most international efforts to hold countries to account for what they do to their own citizens within their own borders.

Although Russia has ratified the International Covenant on Civil and Political Rights, while China has not, in the UN Human Rights Council they almost invariably vote the same way. In the 33rd session (which ended on September 30th 2016), they were on the same side in eight out of nine votes (all the other UNHRC resolutions being adopted without a vote); the exception was an anodyne resolution on the right to safe drinking water and sanitation. Both voted against resolutions condemning human rights violations in Burundi and Syria. In the 31st and 32nd sessions, Russian and Chinese voting records were identical; in addition to opposing most resolutions condemning the human rights records of specific countries (North Korea and South Sudan were rare exceptions), they also worked together on amendments (largely unsuccessful) designed to water down resolutions on human rights defenders, freedom of association and violence against sexual minorities.

As a participating state of the Conference (later Organisation) for Security and Cooperation in Europe (CSCE/OSCE), the Soviet Union accepted in 1991 that “commitments undertaken in the human dimension are matters of direct and legitimate concern to all participating States and do not belong exclusively to the internal affairs of the State concerned”.²³ Russia, as the internationally accepted successor state to the Soviet Union, inherited these commitments. China has never accepted any such external oversight. But whatever the difference in their international obligations in the field of human rights, in practice Russia and China ensure that neither they nor third countries

23: Document of the Moscow meeting of the Conference on the Human Dimension of the CSCE, October 4th 1991.

are internationally accountable. Though Russia signed the Rome Statute which established the International Criminal Court (ICC), it did not ratify it and has announced that it is withdrawing its signature; China did not sign in the first place. And both have blocked efforts by the UN Security Council to refer alleged war crimes in Syria to the ICC.

“An internet along the lines that China and Russia propose would be much less open.”

Russia and China have also worked together in an effort to reshape cyber-space to give states more control over it. As they have done so, Russia's domestic approach to the internet has converged with

that of China. The internet in Russia used to be a haven of relatively free speech. But in recent years it has come under ever closer state control. Aleksandr Bastrykin, the head of Russia's powerful Investigative Committee (roughly equivalent to the Federal Bureau of Investigation in the US), told a Russian newspaper in April 2016 that Russia should follow China's example of restricting access to foreign sources of information on the internet, and obliging internet companies to keep their data on servers inside Russia.²⁴ Such 'data localisation' would make it easier for the Russian authorities to monitor the activity of residents. Even under current conditions, the authorities have been able to block access to some websites, have forced some to remove content (including that opposing the annexation of Crimea) and have imprisoned a number of bloggers.

Beijing is famous for imposing 'The Great Firewall of China', blocking access to many overseas news sources that might be critical of Chinese policies, and for pervasive censorship of social media to prevent discussion of many controversial topics. Both countries were rated 'unfree' in their treatment of the internet by the US human rights NGO 'Freedom House' in 2015 (though with China significantly more unfree than Russia).²⁵ Since 2009, both have tightened their grip.

Beijing and Moscow are working together to control the internet in two ways. First, they are sharing 'best practice' on technical and legal issues domestically: China's draft law on cybersecurity, which received its second reading in the National People's Congress in June 2016, includes some elements borrowed from its Russian equivalent, while Russia has copied aspects of the Great Firewall in its increased filtering of internet content, and is seeking Chinese technology to help it.²⁶ Second, they

24: 'Russia should learn from China's internet censorship, says official', *Democracy Digest*, April 18th 2016.

25: 'Freedom on the net', reports for 2009 to 2015, Freedom House.

26: Alexander Gabuev, 'How Russia and China see the internet', World Economic Forum, December 16th 2015; Andrei Soldatov and Irina Borogan, 'Putin brings China's Great Firewall to Russia in cybersecurity pact', *The Guardian*, November 29th 2016.

are working together in several international bodies to increase state control over global internet governance.

In December 2015, China and Russia succeeded in getting the UN's World Summit on the Information Society to mention the role of "multilateral" as well as "multi-stakeholder" processes in internet governance – that is, acknowledge a special role for governments, rather than putting them on the same footing as the private sector and civil society in managing the internet.²⁷ With the same aim in mind, Russia and China tried (unsuccessfully) in 2014 to give the International Telecommunications Union (a UN agency involved, among other things, in setting technical standards), a greater role in internet governance – again, trying to shift control to a body where governments have more standing than other stakeholders.²⁸

Putin and Xi set out their goals in a joint statement "on co-operation in information space development" when they met in June 2016. Apart from uncontroversial points on scientific, technological and economic co-operation, and technical assistance to developing countries to bridge the digital divide, the statement also set out a number of areas in which Russia and China are at odds with Western views on the internet. These included:

- ★ respect for every country's sovereignty in information space;
- ★ resisting interference via information space in other countries' internal affairs;
- ★ promoting the establishment of a UN framework to respond to the use of the internet for terrorist and criminal purposes.²⁹

An internet along the lines that China and Russia are proposing would be much less open; the opportunities for civil society to hold governments to account much reduced. The internet would probably also be more balkanised, with authoritarian governments (not only in Russia and China, but in the Middle East and elsewhere) able to control what their citizens know about the outside world and about their own countries, and what the outside world knows about what is happening inside the country. The kind of investigations that Western experts have been able to carry out into Russian involvement in the war in Ukraine, through Russian soldiers' use of social media, might become much harder.

27: David Bandurski, 'China's cyber-diplomacy', The China Media Project, December 20th 2015.

28: David Gross, Carl Frank, Umair Javed and Sara Baxenberg, 'Internet governance in transition: The ITU as a battleground for rival visions', CircleID, April 29th 2016.

29: 'The joint statement between the presidents of the People's Republic of China and the Russian Federation on co-operation in information space development', chinadaily.com, June 26th 2016.

Chapter 7

China and Russia on the global stage: The international financial institutions

Beijing and Moscow both saw the 2008 global financial and economic crisis as an opportunity. Faith in the liberal international order was shaken; Western countries could no longer preach reform to others on the basis that liberal democracy and capitalism made countries more successful than any alternative model.

But China and Russia responded to the crisis in different ways, by necessity or by choice. Though the crisis hit China's economy to some extent, it had the capacity to launch a stimulus programme quickly and to cushion the effect of the crisis, not only on itself but on its economic partners. In 2009, the US, China and Japan accounted for 39 per cent, 13 per cent and 10 per cent respectively of total global fiscal stimulus packages; Russia's contribution was less than 2 per cent.³⁰ Of all the G-20 countries, Russia's economy was one of the hardest hit by the crisis, limiting its ability to help others: in 2009 its GDP fell by 7.8 per cent. When the G-20 London Summit in April 2009 agreed to increase the IMF's capital, China's share was \$40 billion (later increased to \$50 billion); the US, the EU and Japan chipped in \$100 billion each. Russia provided \$10 billion.³¹ Thus, as Marcin Kaczmarski put it, the 2008-2009 crisis "strengthened existing trends – Russia's and China's positions in the global economy drifted further apart".³²

China has been able to use its economic weight to strengthen its role in international financial institutions: after a 2010 reform it has the third largest voting weight in the IMF; and is equal third with Germany in the World Bank. Although China's yuan is still not truly convertible, the IMF agreed in December 2015 to include it as a reserve currency in calculating Special Drawing Rights (SDR – the IMF's unit of account),

30: Eswar Prasad and Isaac Sorkin, 'Assessing the G-20 stimulus plans: a deeper look', Brookings Institution, March 5th 2009.

31: Peter Chowla, 'The potential development implications of enhancing the IMF's resources', Brettonwoods Project, August 4th 2009.

32: Marcin Kaczmarski, 'Russia-China relations in the post-crisis international order', Routledge, 2015.

where it joined the US dollar, Japanese yen, the euro and the pound. By contrast, the IMF ignored Russian proposals to expand the SDR to include the rouble and gold. China has also been able to back up the direct influence that reserves of \$3 trillion give it by putting effective officials into key roles in the International Financial Institutions (IFIs) – as Charles Grant noted, something Russia has not been good at.³³

When China has still felt that it needed more influence than its membership of the IFIs could give it, it has set up institutions of its own to provide finance for projects of interest to China. The clearest example of this is the Asian Infrastructure Investment Bank (AIIB). China set this up as an alternative to the Asian Development Bank, in which the US and Japan have 26 per cent of the voting strength, while China has 5.47 per cent. The AIIB has its headquarters in Beijing, and started operations in January 2016, with \$100 billion in capital (two-thirds of the ADB's capital); China has 26 per cent of the voting strength in the AIIB (Russia has 5.93 per cent). The US tried unsuccessfully to persuade its allies not to join the AIIB, but led by the UK all the major Western countries

“China and Russia do not always see eye to eye, and they have different trajectories.”

except Japan and the US itself signed up to China's project; and the AIIB is now involved in projects co-financed by the European Bank for Reconstruction and Development and by the World Bank.

China also hosts the New Development Bank (initially known as the BRICS Development Bank), which grew out of an Indian initiative to give the BRICS countries (Brazil, Russia, India, China and South Africa) another source of funds for infrastructure and other major projects. Though initially Russia seems to have been unenthusiastic about the banks, it may have felt that it had little option but to go along with China's preferences.³⁴ The Eurasian Development Bank (set up by Russia and Kazakhstan in 2006; Armenia, Belarus, Kyrgyzstan and Tajikistan joined later) cannot compete with China's resources: it has only \$7 billion in capital. Russia and China may speak from the same script about reform of the IFIs, and giving a bigger voice to emerging economies; but only China has the economy to back its rhetoric.

33: Charles Grant, 'Russia, China and global governance', CER report, April 2012.

34: Sarah Lain, 'Russia gives way to China in BRICS and SCO', *The Interpreter*, Lowy Institute for International Policy, July 17th 2015.

Chapter 8

Difficult choices for the West

Western policy-makers have a number of options for dealing with Russia and China, and no consensus on which to choose. Some, particularly American politicians such as John McCain, see both countries as threats to the West and the liberal international order, and favour assertive policies towards both. Others see China as the main long-term threat, and believe that Russia can be a partner in restraining it.³⁵ Others, mostly but not only in Europe, believe that the West should focus on reaching an accommodation with China.³⁶ Finally, some, particularly in Europe, believe that all disagreements with China and Russia can be overcome by dialogue and economic co-operation with both.

Oppose both Russia and China

It makes sense to oppose both Russia and China if one thinks that they are strategic allies working together against Western interests with more or less shared aims. But as the earlier analysis has shown, China and Russia do not always see eye to eye, and they are at very different stages of development, with very different trajectories. Though they generally work together in international organisations to weaken Western influence, it would be a mistake to force them closer together than they would otherwise be. The underlying situations of China and Russia are fundamentally different, a point that has often been lost since Jim (now Lord) O'Neill, then of Goldman Sachs, coined the term 'BRICS' to denote a group of supposedly rising economies in 2001.

Oppose China, seek partnership with Russia

There may be less risk of American politicians and commentators bracketing Beijing and Moscow together under President Trump: during the election campaign he was consistently more pro-Russian and anti-Chinese than Hillary Clinton (or the Obama administration). His early appointments to his national security team, including National Security Adviser Michael Flynn, have made statements suggesting that they see Russia as a potential ally against Islamist terrorism (though Flynn has on other occasions suggested that

35: Thomas Graham and Matthew Rojansky, 'America's Russia policy has failed', *Foreign Policy*, October 13th 2016.

36: James Woolsey, 'Under Donald Trump, the US will accept China's rise – as long as it doesn't challenge the status quo', *South China Morning Post*, November 10th 2016.

both Russia and China are aligned with the so-called Islamic State against the US). But America's European allies will be uncomfortable if Washington tilts towards Moscow and steps up confrontation with Beijing. For many countries in Europe, since the invasion of Ukraine Russia has been the most immediate threat to their security. China, on the other hand, is not a direct military threat to any of them, but an important economic partner.

Oppose Russia, seek partnership with China

This option might pose the biggest challenge to transatlantic unity, especially if the Trump administration follows through on its pro-Russian campaign rhetoric. But it might still be the best option. For all Trump's rhetoric about unfair economic competition from China, the reality is that both the US and Europe have invested a lot (literally and figuratively) in China's economic success, and all parties benefit from it. China is much better integrated into global value chains (and more difficult to dislodge from them) than Russia is. China's growing military power will in time rival America's in the seas around China, but it will be a long time indeed before Beijing can pose an existential military threat to the US, let alone the West as a whole. Russia, on the other hand, has been willing to use military force against its neighbours,

“The US and Europe have invested a lot in China's economic success, and all parties benefit.”

and to rattle its nuclear sabre in NATO's direction: it can pose an existential threat to the West, and it wants to ensure that the West respects that fact.

Working with Beijing, however, would not be easy: under Xi Jinping China has become more repressive at home and more assertive in its relations with its neighbours, while using cyber-espionage and other methods to steal intellectual property from its economic partners; and the obstacles to Western investment in China have, if anything, grown.

Seek partnership with both Russia and China

This might be described as the 'German option': Berlin's traditional policy has been to build up economic links as the basis for political engagement with both Beijing and Moscow, taking a softly-softly approach to controversial issues and believing that dialogue will ultimately overcome all difficulties. But the German approach has faltered since Russia invaded Ukraine in 2014: it became clear that Russia thought, wrongly, that its economic ties with Germany created leverage against Berlin, and expected that German businesses would

ensure that the government either did not support EU sanctions or lobbied to lift them quickly. Equally, the Germans were disappointed to find out that the preservation of economic ties was not important enough for Putin to persuade him to change course.

Germany's mercantile approach to China has never been tested in the way its relationship with Russia has. Chancellor Angela Merkel can say that she met Chinese dissidents (during her visit to Beijing in October 2015) without damaging Germany's commercial interests. But again, it is unclear that the discreet signalling of the Germans has been any more effective than American megaphone diplomacy in producing changes in Chinese policy, whether domestically or (for example) in the South China Sea. Partnership with China and Russia, based on mutual economic benefit and largely ignoring other concerns, might bring some short-term trade gains, but it would probably not address the security challenges that the two powers pose.

To make the right choices, policy-makers need to start by understanding how and why Russian and Chinese interests differ. In most areas except military spending, Russia is a declining power. It is a commodity-exporting economy at a time when there is a global glut of its main commodities. Partly because of its size and partly because of long-standing lack of investment, its transport infrastructure is poor. Its demography has improved somewhat since the early 2000s, when deaths far outstripped births; but its population is still lower than it was in 1993. The half-hearted economic reforms started by then-president Dmitri Medvedev between 2008 and 2012 stalled or went into reverse when Putin resumed the presidency; Putin has gone back to relying on the oil and gas sector to prop up the rest of the Russian economy. Foreign and domestic investment is low. Russia has structural economic problems holding it back: though it ranks 45th of 140 countries in the World Economic Forum's (WEF) Global Competitiveness Report, this masks some areas of great weakness: 100th in strength of institutions; 96th in goods market efficiency; and (surprisingly, for a country that prides itself on its higher education sector) 68th in innovation.

China, by contrast, though it also has economic problems, still has untapped potential. It has a diversified economy and is moving up the value chain. It is beginning to innovate as well as imitate: the WEF rates it 31st for innovation, and 28th for overall competitiveness. It is investing heavily in infrastructure. Foreign firms still want to invest in and trade with China. China will face demographic problems in a few years, as

a consequence of the one-child policy (which has belatedly been relaxed). But for the moment its birth rate still exceeds its death rate, and life expectancy, especially for men, is much greater than in Russia.

These structural differences feed into the two countries' calculations of their interests. Russia knows the vulnerability of its own position. In diplomatic terms, President Obama might have done better to keep his thoughts to himself, when he said in 2014 that Russia was a regional power which had intervened in Ukraine out of weakness; but his analysis was correct.

“Like other rising powers before it, China wants a political status reflecting its economic success.”

What keeps Russia at the international top table (apart from the UN Security Council seat that it inherited from the Soviet Union)? It remains the world's largest

country by far. It is one of the world's leading oil and gas producers. And it has strong military forces that it is willing to use. But Moscow has concluded that it can buttress its position more effectively by exacerbating or threatening to exacerbate international problems than by solving them. The Obama administration knows that Russia cannot deliver peace in Syria, but has been forced to keep dealing with it on equal terms because Moscow can make things still worse.

China, on the other hand, is a rising power, which has so far succeeded largely within the framework of the existing liberal international order. It could stay on its present course, following Deng Xiaoping's foreign policy axiom of hiding its abilities and biding its time, and simply become a prosperous but introverted economic superpower.

Beijing has generally benefited from stability and from others seeing it as politically and economically reliable. It could continue to pursue a policy of either improving its standing in existing institutions (through its contributions to UN peacekeeping, or its increased role in the IMF) or setting up mirroring institutions to which other countries will be attracted (the AIIB as an alternative to the ADB).

Under Xi Jinping, however, China is becoming more ambitious. Like other rising powers before it, China wants a political status in the world that reflects its economic success. Since Xi became General Secretary of the Communist Party of China in November 2012, he has been more willing than his predecessors to challenge the status

quo. In buttressing China's claims in the South China Sea with the creation of artificial islands, military airfields and an enhanced maritime presence, he has made clear that he sees China's interests as extending beyond its immediate coastal areas; and he is willing to promote them even if that means confrontation with China's neighbours and with the US.

China still has more to lose than to gain from chaos. As a major exporter of manufactured goods and an importer of raw materials, China wants both its suppliers and its customers to be stable and well-disposed to it. China may be revisionist in the sense of wanting a stronger position on the global chess board; but it has shown less inclination than Russia to tip over the board entirely.

While tension with the US has increased in the Asia-Pacific region, Beijing has tried to ensure that it has allies inside the EU, thereby weakening transatlantic unity. China has worked to allay European fears of its international ambitions, however, including by linking together Chinese and European investment programmes. It has cultivated the countries of Central and Eastern Europe through the '16 + 1 process', which brings EU members and non-members in the region together for annual summits with China (the fifth summit took place in Riga on November 5th 2016) and promotes trade and economic co-operation. And China's influence is not limited to the poorer parts of Europe: though the new British government is a little less enthusiastic about China than its predecessor, it is still keen to attract Chinese investment.

For many in the US, however, China is America's only potential peer competitor, and a long-term threat to US interests. In an article in 2012, Graham Allison (Director the Belfer Center for Science and International Affairs at Harvard) used the phrase "Thucydides's trap" to refer to the near-certainty that rising and status quo powers will clash, as Athens and Sparta did in the 5th century BC.³⁷ Believing in the inevitability of such a conflict, some leading US experts on Russia argue that America should avoid confrontation with Russia over issues such as Ukraine and Syria; it should instead treat Russia as a partner in "channel[ing] Chinese energies in ways that don't endanger America's core interests or, better, work to Washington's benefit".³⁸

Chinese views on the Thucydides trap are split: some analysts embrace the idea, perhaps because it has a Marxist feel of historical inevitability;

37: Graham Allison, 'Thucydides's trap has been sprung in the Pacific', *Financial Times*, August 21st 2012.

38: Thomas Graham and Matthew Rojansky, 'America's Russia policy has failed', *Foreign Policy*, October 13th 2016.

others reject it and argue that the American emphasis on it risks making it a self-fulfilling prophecy. At an international conference in Beijing in 2013, Wang Jisi (Dean of the school of international studies at Peking University) responded sharply to a critic who accused him of thinking that China and the US could “overcome the law of physics” and avoid the fate of Athens and Sparta. Wang said that China had many domestic problems to solve, and conflict with the US would solve none of them.

Western allies in Asia have differing views about the Russia-China relationship depending on their own relations with Beijing. Japan (which has bilateral disputes with both China and Russia) believes that it has more hope of resolving its arguments with Russia than with China, and of then working with Moscow to balance the power of China. Australia, for whom China is its most important trading partner, wants China to be economically strong, but militarily contained by the

“It is wrong to ignore evidence that shows that co-operation with China is possible.”

US. Some Australian officials are privately concerned that Russian military technology will help China to get closer to the point where it can counter US power in the region.

It is not yet clear how the new US administration will deal with China and Russia. During the election campaign, Trump regularly attacked China for unfair trade practices and threatened to impose high tariffs on Chinese goods and to force American companies to move manufacturing from China and other low-cost countries back to the US. Since his election, however, one of his foreign policy advisers, former CIA head James Woolsey, has suggested that Trump might take a much more co-operative line with China in relation to the AIIB and OBOR, provided that China did not challenge the balance of power in Asia. At the same time, Trump made very warm statements during the campaign about Putin’s leadership of Russia, called for better relations with Moscow and even said that he would consider recognising Russia’s annexation of Crimea and lifting sanctions against it.

Chapter 9

Conclusion

However difficult it may be, the Western allies need to coalesce around differentiated policies to manage China's rise and Russia's decline. Their goal for Russia should be to limit the damage Moscow can do, especially in Europe, while still working with it where necessary. Any suggestion from the Trump administration of a 'grand bargain' offering Russia a sphere of influence in Eastern Europe would be very destabilising.

The Western aim in relation to China should be to create the greatest possible incentives for co-operation and the greatest obstacles to conflict with the West, through increased economic interdependence and political engagement. From this perspective, if Woolsey is right then US policy under Trump might be helpful, provided that it is not coupled with a punitive approach to trade.

In 2005, the then-US Deputy Secretary of State, Robert Zoellick, suggested that China should be a "responsible stakeholder", working to sustain the international system that has supported its growing prosperity.³⁹ Kurt Campbell, one of the architects and leading exponents of America's 'pivot to Asia', also sees the potential for future US relations with China to embody "careful and complex coexistence – incrementally negotiated – with a rising China that is embedded in Asia's rules and indigenous institutions".⁴⁰ Though the political narrative in the US has often emphasised China as a threat, it is wrong to ignore evidence that shows that co-operation is possible. In the last decade, China has shown that it is ready to act as a 'responsible stakeholder' in certain circumstances, such as UN peacekeeping or mitigating the global financial crisis in 2008-09. The West needs to look for ways in which, without compromising Western interests, China can have a role in global governance that matches its growing economic weight. Woolsey suggested for example that the job of UN under-secretary responsible for peacekeeping (traditionally held by France) might be given to China, in recognition of its contribution to peacekeeping operations.

39: Robert Zoellick, 'Whither China? From membership to responsibility', remarks to the National Committee on US-China relations, September 21st 2005.

40: Kurt Campbell, 'The Pivot': three profound misunderstandings about Asia', *The Interpreter*, Lowy Institute, July 12th 2016.

Finding a means to accommodate China's new strength may involve uncomfortable compromises for the West. The EU's response to the Permanent Court of Arbitration judgement on the South China Sea was less robust than the US had hoped; perhaps it was driven by the EU's commercial interests in China, but it may also have been sensible in not throwing its full weight behind the Philippine claim.⁴¹ Neither the EU nor the US has an interest in direct confrontation with China in the South China Sea (and the US has less now that President Rodrigo Duterte of the Philippines has decided not to try to enforce the court's

judgement against China). Both, however, have a strong interest in continued freedom of navigation there; they should focus on patient and quiet diplomacy designed to guarantee it.

“The West cannot prevent China's rise or Russia's decline, only try to minimise international disruption.”

This might be the time for Asia-Pacific countries to establish a counterpart to the Organisation for Security and Co-operation in Europe (OSCE) or its predecessor, the Conference on Security and Co-operation in Europe (CSCE). The Helsinki Final Act adopted by the CSCE in 1975 included 10 principles of inter-state relations. It also set out a number of measures designed to ease tension and increase co-operation, organised in three so-called baskets: security (including military confidence-building measures); economic (steps to facilitate trade) and humanitarian (including access to information from other countries, and freedom of travel).

One advantage (and sometimes weakness) of the CSCE/OSCE is that commitments are only politically binding on member-states: the rules are easy to update in the light of experience, and do not need to go through lengthy ratification processes. The downside is that if a country violates them, it will face criticism, but no other punishment.

In the European case, the economic basket of the CSCE was largely overshadowed by co-operation in the framework of the EU or its predecessors, leaving security and human rights as the main issues for the CSCE/OSCE. In Asia, a 'Conference on Security and Co-operation in Asia', including Russia and China as well as the US, might focus on economic issues (where there are already common interests) and security (including confidence-building), at least initially. A 'CSCA' might also be a forum in which key players could agree on a code

41: Theresa Fallon, 'The EU, the South China Sea and China's successful wedge strategy', Asia Maritime Transparency Initiative, October 13th 2016.

of conduct for cyber-space, while still disagreeing about the legal framework of internet governance.

The dilemma for any country putting forward such an initiative is how to tackle issues of human rights. China knows that the Soviet authorities underestimated the importance of the CSCE's seemingly modest first set of principles and commitments in the 'human dimension'.

It may be that a Trump administration will be more focused on deal-making than pursuing a global human rights and democracy agenda; but it is also possible that it will seek to use human rights instrumentally against its rivals, while ignoring violations by its friends. It may be that other governments in the West will have little choice but to raise human rights concerns discreetly, rather than making them a central element of their public approach to China (and Russia). But both China and Russia are making such a policy of quiet lobbying more difficult for Western governments by increasing pressure on the embattled internal opposition. In democracies, it is often hard to persuade public opinion to ignore human rights violations in pursuit of geopolitical interests. At the very least, Western governments will have to maintain dialogues with Russia and China on (potentially) less sensitive areas relevant to civil and political rights, such as judicial reform, prison reform and the rule of law.

Western countries should also look for opportunities to talk to China about Russia and the former Soviet space. This will be sensitive, for both sides. It may be necessary to start with institutionalised but non-governmental discussion, and to look at (for example) issues relevant to trade and transport between Europe and China via Russia or Central Asia.

The West cannot prevent China's rise or Russia's decline, but it can try to manage both in ways that minimise the international disruption. At present, those in the West who see China as a threat often emphasise what it is more than what it does; those who focus on the Russian threat stress what it does more than what it is. It should be more urgent for Western leaders to influence disruptive Russian behaviour than to try to constrain China's growing strength.

The West should try to show that Beijing and Western capitals have a shared interest in ensuring that Moscow abides by fundamental

international norms such as the inviolability of borders: at present, what Russia is doing internationally should be of concern to China as well as the West. The historical lessons for China and the US to study should not be those of Thucydides, but of Germany and Russia before World War One: great powers drawn into a disastrous war by unwise promises to erratic allies.



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Russia and China

Partners of choice and necessity?

Ian Bond

Russia and China have been rivals more often than allies. But when the West's relations with Russia soured after its invasion of Ukraine, there was a *rapprochement* between Beijing and Moscow. The West feared the emergence of an illiberal international order. But away from the photo-opportunities, China and Russia are less than natural allies. The EU is a much more important economic partner for both countries than they are for each other. Russia sells arms both to China and to China's regional rivals. Russian military exercises sometimes imply a fear of Chinese invasion. China has not recognised Russia's annexation of Crimea, and Russia has not recognised China's claims in the South China Sea. China plays a constructive role in international financial institutions, where Russia is a minor actor. They work together, however, to oppose many international human rights norms and to increase state control of the internet. The West must decide whether to treat China and Russia as though they are strategic allies, and risk driving them closer together; and if not, whether to view China or Russia as the more immediate threat to Western interests. It may be easier to accommodate a rising China than a disruptive Russia in the existing international order.