

MEMORANDUM

To: President Xi Jinping

From: Mr. Wang Yi, Foreign Minister

Topic: Sino-Russian Relations

Date: May 7, 2018

Abstract

The purpose of this memo is to analyze the deterioration of U.S.-Russia relations and the improving relations between China and Russia. I will first provide a history of U.S.-Russia relations from 2000, and an analysis of the reasons for the recent worsening of U.S.-Russia relations. Then, I will provide a history of Sino-Russian relations from 2000, and an analysis for the reasons for the improvement in China-Russia relations. Lastly, I will give two recommendations to advance Chinese global ambitions: China should agree to pay world market price for Russian gas to encourage an increase in Russian gas imports; China should also make Belt and Road Initiative funding in Kazakhstan conditional on improvements in energy infrastructure.

U.S.-Russian Relations since 2000

Initial Mutual Cooperation

After 9/11 U.S.-Russian relations improved considerably with Russia supporting America's right to retaliate against the Taliban in Afghanistan. Putin also promised to stabilize oil markets and used his influence to allow American troops to be stationed in Central Asia. His support was motivated by a common enemy, radical Islam. Russia had been fighting their own Islamic separatists in Chechnya and feared the destabilizing force of a strong Al-Qaeda.¹

Russia and the U.S. were also in agreement to reduce both countries' nuclear stockpiles. In 2002, the Strategic Offensive Reductions Treaty, SORT, was agreed upon to reduce nuclear weapon stockpiles to approximately 2,000 per country. New START, Strategic Arms Reduction Treaty, was signed in 2010 to further reduce the stockpile by 30% from the SORT levels. This

¹ Steve A. Yetiv, "THE COLD WAR AND GLOBAL INTERDEPENDENCE." In *Crude Awakenings: Global Oil Security and American Foreign Policy*, Ithaca; London: Cornell University Press, 2004. <http://www.jstor.org/stable/10.7591/j.ctt7zgt.11>, 116-117.

reduced the global fear of nuclear war and was an important step to promote goodwill between the two countries.²

Diverging Interests

The perception of a tenuous but mutually beneficial U.S.-Russian relationship began to deteriorate at the start of the Russian-Georgian War in 2008 and continued with the 2014 Maidan Revolution. These policies signaled more aggressive tactics to exert greater influence over Russia's "near abroad". Russia defines the "near abroad" as former Soviet Union countries which border Russia. These countries are seen by Putin as an important buffer between Russian and Western interests.³ In many of these countries, Russian interests were directly opposed to democratic or free market groups that were backed by the U.S. This contributed significantly to the rapid erosion of the U.S-Russian relationship.⁴

2008 Georgian-Russian conflict: Russia invaded Georgia under the guise of protecting South Ossetian minorities. Their real aim was to defeat the U.S.-backed army of Georgia and reassert Russian influence over the country. The Bush administration condemned the Russian actions and implemented sanctions to punish Putin's aggression.⁵

2014 Maidan Revolution and invasion of Crimea: Pro-Western groups within Ukraine protested and eventually forced out Yanukovych, the pro-Russian president. Russia accused the U.S. of fueling these protests illegally to promote American interests. In response, Russia invaded and occupied Crimea in violation of international law. Russia has also supported Ukrainian rebels in Eastern Ukraine who are fighting against the pro-Western government in Kiev.⁶ The U.S condemned these actions and implemented additional sanctions.⁷

² "Fact Sheets & Briefs," Nonproliferation Benefits of India Deal Remain Elusive | Arms Control Association, June 1, 2017, accessed May 07, 2018, <https://www.armscontrol.org/print/2556>.

³ Paul J. Bolt, "Sino-Russian Relations in a Changing World Order." *Strategic Studies Quarterly* 8, no. 4 (2014): 50, accessed May 7, 2018, <http://www.jstor.org/stable/26270816>.

⁴ Stephen F. Cohen, "Four Years of Ukraine and the Myths of Maidan," *The Nation*, January 19, 2018, , accessed May 07, 2018, <https://www.thenation.com/article/four-years-of-ukraine-and-the-myths-of-maidan/>; Stephen Sestanovich, "What Has Moscow Done?", *Foreign Affairs*, November/December 2008, accessed May 7, 2018, <https://www.foreignaffairs.com/articles/russia-fsu/2008-11-01/what-has-moscow-done>.

⁵ Sestanovich.

⁶ Stephen F. Cohen, "Four Years of Ukraine and the Myths of Maidan," *The Nation*, January 19, 2018, accessed May 07, 2018, <https://www.thenation.com/article/four-years-of-ukraine-and-the-myths-of-maidan/>.

⁷ Steve Holland and Jeff Mason, "UPDATE 4-Obama Warns on Crimea, Orders Sanctions over Russian Moves...", *Reuters*, March 06, 2014, , accessed May 08, 2018,

Analysis of Deterioration of U.S.-Russia Relationship since 2014

Previously, good relations between Washington and Moscow had been grounded in common interests, and the two countries avoided conflict over policy differences.⁸ Since 2014, Russia has increasingly pursued nationalistic policies under Putin to regain its superpower status.⁹ These policies have become more aggressive over the past four years, with Russia expanding its focus from “near abroad” countries in Eastern Europe, the Caucasus, and Central Asia, to involvement in the Syrian Civil War and election tampering in America. Putin has shown through these actions that he prefers to illustrate Russia’s increasing power by challenging the Western world order through policies directly contrary to American and democratic interests.

Sino-Russian Relations since 2000

The start of the century saw a shift in bilateral relations when China and Russia signed the Sino-Russian Friendship and Cooperation Treaty in 2001. This was the first cooperation treaty between these two countries since 1950.¹⁰ In 2006, China and Russia voted the same on a wide range of U.N. topics, illustrating their similar outlook on international order. China has also consistently supported Russia’s questioning of U.S. foreign policies.¹¹ Furthermore, goodwill between the two countries improved with the resolution of the Tarabarov border dispute in 2004.¹² More recently, common interests in security and energy have strengthened this relationship.

Security

Russia and China have cooperated within the Shanghai Cooperation Organization in planning exercises to combat terrorism.

<https://www.reuters.com/article/ukraine-crisis-obama/update-4-obama-warns-on-crimea-orders-sanctions-over-russian-moves-in-ukraine-idUSL1N0M30XQ20140306>.

⁸ Sestanovich.

⁹ Bolt, 50.

¹⁰ Bolt, 48.

¹¹ Olga Oliker, Keith Crane, Lowell H. Schwartz, and Catherine Yusupov. "Russian Foreign Policy." In *Russian Foreign Policy: Sources and Implications*, RAND Corporation, 2009: 116-117, accessed May 1, 2018, <http://www.jstor.org/stable/10.7249/mg768af.11.>, 116-117.

¹² Ibid., 119.

Peace Mission 2005: Russia and China cooperated in military exercises with 10,000 troops involving naval and amphibious maneuvers. Many observers believed these exercises were meant to simulate a Chinese invasion of Taiwan.¹³

Joint Sea 2013: This exercise focused on surface warfare, submarine defense, and anti-aircraft defense. China contributed seven naval vessels, and Russia added eleven ships. Both exercises presented a warning against aggressive action from America and Japan in the East or South China Sea disputes. This exercise also implies Russia will support China in their maritime territorial disputes.¹⁴

Economic

Russia has an important symbiotic relationship with China that fuels the economies of both. Russia is a key exporter of oil and weapons to China. In exchange, China exports consumer and technological goods to Russia. Both countries have steadily increased their bilateral trade from \$8 billion in 2000 to \$80 billion in 2011.¹⁵ Russia has become more dependent on Chinese energy imports because of poor economic relations with the West in addition to sanctions. The Russian energy trade gives China more diversity in its energy imports. It also protects energy imports from the “Malacca Dilemma”, the potential for the U.S. to disrupt energy shipments in the Malacca strait in the case of conflict. Chinese energy imports from Russia are transported by land, and thus avoid this trade vulnerability.¹⁶

Russia-China Analysis

As with U.S.-Russian relations, China-Russia relations have been borne out of converging mutual interests rather than a formal alliance. Good relations were created from similar beliefs in opposing American interventionism. Both countries have also expressed interest in having the

¹³ Bolt, 58.

¹⁴ Ibid., 58.

¹⁵ Jing-Yun Hsu and Jenn-Jaw Soong, "Development of China-Russia Relations (1949–2011)," *The Chinese Economy* 47, no. 3(2014), 80.

¹⁶ Can ÖĞÜTÇÜ and Mehmet ÖĞÜTÇÜ, *China's Expanding Energy and Geopolitical Linkages with Central Asia and Russia: Implications for Businesses and Governments*. Rabat: OCP Policy Center, 2017. Accessed May 2, 2018. www.ocppc.ma/sites/default/files/OCPPC-PP1709_0.pdf, 12.

freedom to deal with regional instability, the Caucasus, Ukraine, and Chechnya for Russian and Tibet and Xinjiang for China.¹⁷

The improving relations between Russia and China have been founded in economic co-dependence. China needs Russian oil to fuel its economic growth, while Russia needs consumer goods from China that it can't produce domestically. Even with this mutually-beneficial relationship, Russia fears Chinese dependence and eventual hegemony in the region. Russia complains it is becoming an "energy appendage" of China, dependent on Chinese imports to fuel their economy. However, with their worsening relations in Western Europe, Russia must establish new markets they can rely on.¹⁸

Recommendations

Import More Russian Gas

China is currently very dependent on coal and oil for its expanding energy needs. To improve its energy diversity and security, Beijing is pursuing policies to increase natural gas imports, which only accounts for 9% of their total energy imports.¹⁹ Unfortunately, much of the gas is imported from countries far from China's border such as Turkmenistan who supplies 35% of China's gas imports.²⁰ This requires years of construction. Russia can fill this void because it is close to China, has developed pipelines with China before, and has capacity to expand exports. Moscow can expand capacity to China, but China must pay Russia's price for the gas.²¹

To address China's energy future and to further improve relations with Russia, China should agree to pay global market prices along with a long-term pricing contract in exchange for Russian gas infrastructure development. Since 2004 the two countries have been working on a deal to build the Altai gas pipeline from Russia to China.²² The main hurdle in implementing this

¹⁷ Bolt, 49.

¹⁸ ÖĞÜTÇÜ, 13.

¹⁹ "China," OEC - China (CH) Exports, Imports, and Trade Partners, accessed May 08, 2018, <https://atlas.media.mit.edu/en/profile/country/chn/>.

²⁰ "Import Origins of Petroleum Gas to China (2016)," Where Does China Import Petroleum Gas From? (2016), , accessed May 08, 2018, https://atlas.media.mit.edu/en/visualize/tree_map/hs92/import/chn/show/2711/2016/.

²¹ Bolt, 53.

²² Edward C. Chow, "New Russian Gas Export Projects – From Pipe Dreams to Pipelines," The New Southbound Policy | Center for Strategic and International Studies, February 22, 2018, accessed May 07, 2018, <https://www.csis.org/analysis/new-russian-gas-export-projects—pipe-dreams-pipelines>.

project has been disagreements on the price of gas. China is already starting to realize that it will not be able to pay below global prices from any new supplier.²³ President Xi should meet with the Politburo, agree on a range of prices that are feasible for the Russians, and direct the Chinese negotiators to make a deal the Russians could accept. Agreeing to this price will create goodwill between the two countries and foster an environment of trust.

This policy should give China greater energy diversity. It will also allow greater Chinese energy security with gas imports being transported by overland pipeline instead of by sea. This should improve relations with Russia who have become dependent on new markets for profit. Their traditional export market in Europe has languished due to U.S. sanctions on new Russian pipelines and Europeans fearful of Moscow's influence in the energy market. The VTB Bank in Moscow projects this expansion into China is the only way for Russian energy companies to increase revenue and output in the short term.²⁴

Belt and Road Funding conditional on Kazakhstan Energy Infrastructure Development to China

China continues to be dependent on oil from the Middle East, a region with interests independent of China. At present, Middle Eastern oil makes up about 50% of China's imported oil. These oil imports also suffer from the "Malacca Dilemma," making them vulnerable to a U.S. blockade.²⁵ The U.S. has exploited economic vulnerabilities in the past to overthrow unfriendly governments such as in Chile, so China must plan for this possibility.²⁶ China's dependence on vulnerable Middle Eastern oil is in part due to a lack of infrastructure development in Central Asia.²⁷ Central Asia is a better option for China because it is close enough for overland energy transport. This route avoids sea trade that can be blockaded by the U.S. and goes through territory without a major U.S. military presence.²⁸ China is already the primary funder of infrastructure projects in Central Asia through the Belt and Road Initiative (BRI). This program

²³ Erica S. Downs, "A Grand Bargain," Brookings Institute, July 28, 2016, accessed May 07, 2018, <https://www.brookings.edu/articles/a-grand-bargain/>.

²⁴ Henry Foy, "Russia's \$55bn pipeline gamble on China's demand for gas", *Financial Times*, April 3, 2013, accessed May 7, 2018, <https://ig.ft.com/gazprom-pipeline-power-of-siberia/>.

²⁵ ÖĞÜTÇÜ, 24.

²⁶ Paul E. Sigmund, "The "Invisible Blockade" and the Overthrow of Allende," *Foreign Affairs*, September 04, 2015, , accessed May 08, 2018, <https://www.foreignaffairs.com/articles/chile/1974-01-01/invisible-blockade-and-overthrow-allende>.

²⁷ Bolt, 59-60.

²⁸ ÖĞÜTÇÜ, 24.

intends to spur economic growth through Asian interconnectedness, with China being the long-term benefactor. BRI infrastructure projects include pipelines, roads, bridges, and tunnels. All these projects can be utilized for increased energy transport to China.²⁹ The most important country for this recommendation is Kazakhstan because it is the largest oil producer in Central Asia and its oil exports are currently underutilized by China.

China should make BRI funding conditional on an increase in oil exports from Kazakhstan. Kazakhstan is the largest producer of oil in Central Asia, exporting \$24.5 billion in 2017. In 2017, Kazakhstan only exported 3% of its natural gas and 8% of its oil to China.³⁰ Completing BRI projects should make it more economical to transport oil from Kazakhstan by creating integrated infrastructure.³¹ China already completed the China-Kazakhstan Pipeline in 2006 which has directly led to ten million tons of oil flowing to China per year.³² President Xi should meet with President Nazarbayev to reiterate China's commitment to Kazakhstan's development and the importance economic development has for both countries. This should encourage greater Chinese-Kazakh cooperation and focus investment on energy infrastructure.

This deal would benefit both countries with Kazakhstan improving critical infrastructure and reducing transportation costs for all goods. China receives safer overland energy imports and increases its energy source diversity.³³ This policy will probably not please Russia who sees Central Asia as their sphere of influence. This region was part of the Soviet Union for 60 years and still has many Russian speakers. Moscow could perceive this policy as expanding Chinese influence in the region at the expense of further isolating Russia from their sphere of influence.³⁴

Conclusion

²⁹ ÖĞÜTÇÜ, 17.

³⁰ "Export Destinations of Crude Petroleum from Kazakhstan (2016)," OEC - Kazakhstan (KAZ) Exports, Imports, and Trade Partners, accessed May 08, 2018, https://atlas.media.mit.edu/en/visualize/tree_map/hs92/export/kaz/show/2709/2016/.

³¹ ÖĞÜTÇÜ, 27.

³² "Kazakhstan-China Crude Oil Pipeline," Hydrocarbons Technology, , accessed May 07, 2018, <https://www.hydrocarbons-technology.com/projects/kazakhstan-china-crude-oil-pipeline/>.

³³ ÖĞÜTÇÜ, 25.

³⁴ Sino-Russian Strategic Partnership, 22.

China must take advantage of warming relations with Russia and Moscow's poor relations with the West. China should increase Russian gas imports to improve energy diversity, security, and reduce pollution. Beijing should also expand its reach to Central Asia by improving integrated energy infrastructure in Kazakhstan through the Belt and Road Initiative. These two policies will set the foundation for China's growing energy needs.