The last month of 2009 was significant for petro-politics on the Eurasian continent. In mid-December, the 1,800 km Turkmenistan-Uzbekistan-Kazakhstan-China natural gas pipeline went into operation. It connects with the 4,500 km West-East trunk line inside China and has an annual capacity of 40 billion cubic meters. Two weeks later, Prime Minister Putin officially commissioned the first section (about 2,700 km from Taishet in eastern Siberia to Skovorodino in the Amur region) of the nearly 5,000 km Eastern Siberia-Pacific-Ocean (ESPO) oil pipeline to the newly built Kozmino oil port near Vladivostok, where the first batch of Siberian crude was being loaded on the 100,000-ton oil tanker Moscow University bound for Hong Kong. Thus, Moscow and Beijing significantly elevated their postures in the global game of energy diversification for both buyers and sellers. Both pipelines were built during the tenure of President-turned-Prime-Minister Putin. His October visit to China resulted in a dozen high-value commercial deals, but also reflected his 10-year legacy in shaping Russian-Chinese relations and their mutual perceptions.

Putin in Beijing again

On Oct. 12-14, Russian Prime Minister Vladimir Putin went to Beijing for the 14th Regular Prime Minister Meeting with his Chinese counterpart Wen Jiabao. Putin’s remains the most powerful man in Russia, whether as president or prime minister and has been instrumental in shaping the framework of bilateral relations. Putin was accompanied by a delegation of more than 100 people, including Deputy Prime Ministers Alexander Zhukov and Igor Sechin, Minister of Transport Igor Levitin, Minister of Culture Alexander Avdeyev, head of the Customs Service Andrei Belyaninov, head of Rosrybolovstvo Andrei Krainy, head of Roscosmos Anatoly Perminov, Deputy Minister of Defense Alexander Kolmakov, and CEOs of some of the largest Russian companies.

Chinese Premier Wen Jiabao greeted Putin as an “old friend” and said that the two “have met many times before.” They observed the signing of 13 agreements for increased cooperation. Most of them covered economic and technology issues (e.g., constructing a high-speed rail system in Russia with Chinese technological and financial inputs, China’s export of coal-liquidization technology to Russia, building the second unit of the Tianwan nuclear power plant, regulating customs clearance and control procedures, Russia’s exporting of natural gas to China, Russia building two fast neutron 800 MW(e) nuclear reactors in China, and cooperation in space research). Prior to the ministerial talks, deals valued at about $4 billion were signed by Chinese and Russian business people who attended a China-Russia economic forum in Beijing. Among
those contracts, China Development Bank and Agricultural Bank of China agreed to extend $500 million to Russia’s Vnesheconombank (VEB) and Bank VTB for various projects.

During the ministerial talks, Putin urged China to invest in the Russian economy, particularly in Siberia and the Russian Far East. His remarks were part of an effort to implement a landmark 10-year regional cooperation plan (Outline of Regional Cooperation between Northeast China and the Russian Far East Area and Eastern Siberia, 2009-2018). The plan, which was proposed by Hu Jintao in August 2007 and approved by the presidents of China and Russia on Sept. 23, 2009, specifies more than 200 areas for economic cooperation in transportation, communication, raw materials processing, health care, environment, etc.

The regional plan went into effect amidst the world-wide economic downturn which is hitting Russia particularly hard due to its raw material-based economy. China’s huge and still growing financial power is seen as crucial for the economic recovery of Russia’s Far Eastern Region. “Our Chinese partners have accumulated considerable financial resources. We are interested in actively attracting them into the Russian economy, including the Siberian and Far Eastern regions of Russia,” said Putin in his interview with Vesti TV. This Russian economic predicament was also one of the main reasons for the breakthrough in February 2009 when the two sides, after 15 years of negotiations, concluded a long-term crude oil deal (15 million tons of oil each year for 20 years to China through a 67 km branch line to China’s northeastern provinces) with a $25 billion Chinese credit to Russian oil companies, which was the largest credit ever for Russian companies.

The ministerial meeting covered many substantive issues of bilateral economic interaction, which was evident in the joint communiqué, was perhaps the longest and most comprehensive document ever produced for the annual meeting. Oddly and conspicuously, the issue of the closing of Moscow’s Cherkizovsky Market was not discussed. “Directly this subject wasn’t raised but we are aware of the concerns of our Chinese partners,” Putin told reporters in Beijing. Just a few months before, Russia’s sudden decision to close the largest retail market in Europe for law and order reasons led to the dislocation of tens of thousands of Chinese merchants with billions of dollars of economic losses. This was followed by a series of meetings between Russian and Chinese Customs officials, culminating in the opening of the first meeting of the China and Russia Customs Cooperation Sub-Committee on Sept. 7-8, 2009. In Beijing, Putin and Wen agreed to regulate the customs clearance process, increase the efficiency of customs supervision, and fight smuggling and other illegal activities.

**CBMs for missile launches**

Russian First Deputy Defense Minister Alexander Kolmakov and Deputy Chief of the Chinese Army’s General Staff Ma Xiaotian also signed the Agreement on Mutual Notification of the Launches of Ballistic Missiles and Space Rockets at the ministerial meeting. Although it was unclear which side raised the issue, the accord was driven by at least two factors. First, was the heightened political and strategic trust between the two sides, which naturally led to a marked elevation of bilateral military confidence building measures (CBMs). This can be compared with previous CBMs. One was the September 1994 joint communiqué specifying that Russian and Chinese strategic weapons would not target one another. That document, however, was more of a
political declaration because it did not have any technical specifications or any mutually binding and operational mechanisms. Another case was the April 1996 CBM agreement for the then “Shanghai Five” to notify each other of military activities, including missile launching, within 100 km of the border areas. That document does not cover strategic weapons and space carrier launches beyond 100 km of the border regions. In contrast, the current agreement requires providing each other specific information regarding missile types, numbers, timing of launch, intended distance, height, target location, etc. It is also an operational platform with specific mechanisms for the two sides to communicate with one another for both commercial and military launches.

The second factor for this missile/rocket CBM is developments in China and Russia regarding their respective strategic postures. China has been constantly and significantly modernizing its small strategic forces. Moscow wants to make sure that such a development would be transparent for Russia. Beijing, too, is keenly interested in the ongoing deliberation and evolving nature of Russia’s new military strategy, which may move Russia toward a posture of “preventive” nuclear strikes.

The accord has both political and military ramifications. First and foremost it is a military/strategic extension of the enhanced political trust between Russian and Chinese political elites. The military-technical mechanism would provide additional assurance. Chinese pundits noted that technical agreements are usually made with military allies, which suggests a significantly elevated strategic relationship between the two nuclear powers. The Russians seemingly shared this view. “We have indeed become strategic partners over the past few years,” and “The scope of our cooperation is enormous and it has passed the test of the world financial and economic crisis,” said Putin in Beijing.

Putin’s sentiment was shared by his Chinese hosts. President Hu Jintao described Putin’s visit as “a powerful impetus to further development of Russian-Chinese strategic partnership.” Premier Wen Jiabao offered a more measured, albeit more realistic, assessment of China-Russia ties as “mature, stable and important state-to-state relations.” Wen’s assessment was perhaps the closest to the reality of Moscow-Beijing relationship in that it is normal if partnership is partnership and price is price. “Russia and China argued themselves hoarse on all issues on the agenda but always come to agreement,” Putin was quoted by Itar-Tass in Beijing after the talks.

**SCO Prime Ministers Meeting in Beijing**

On Oct. 14, Premier Wen Jiabao hosted the eighth Shanghai Cooperation Organization (SCO) Prime Ministers Meeting in Beijing. In addition to the prime ministers of the six SCO member states (Kazakhstan, Kyrgyzstan, Tajikistan, Uzbekistan, Russia, and China), Indian Minister for Petroleum and Natural Gas Murli Deora, Iranian First Vice President Mohammad Reza Rahimi, Mongolian Foreign Minister Sukhbaatar Batbold, and Pakistani Prime Minister Syed Yousuf Raza Gilani represented the SCO’s four observer states. Afghan Vice President Abdul Karim Khalili was present as guest of the host country.

Economic issues topped the agenda as the global economic crisis continued to impact SCO member and observer states. Ten of the 15 articles in the Joint Communiqué signed by the heads
of governments related to economic issues: multilateral economic cooperation (#2), financial cooperation (#3), larger role for the SCO’s Business Council and Interbank Consortium (#4), cooperation in transportation (#5), earlier launch of the SCO’s “Information Superhighway” and “Transnational Electronic Cooperation Through the Use of Electronic Digital Signatures” (#6), agricultural cooperation (#7), science and technology cooperation (#8), enhancing customs cooperation (#9), issues of standardization and quality control (#10), and approving SCO’s Progress Report for multilateral trade and economic cooperation (#15).

The prime ministers also approved the “Joint Initiative on increasing multilateral economic cooperation in the field of tackling the consequences of the global financial economic crisis.” Its 17 initiatives were sent to the SCO Business Council and Interbank Consortium, and various expert working groups for implementation.

Many of the initiatives seemed to be driven by China, which had offered $10 billion for economic development for SCO member states at the July 2009 SCO summit in Yekaterinburg, Russia. In his speech to the SCO heads of government, Premier Wen indicated that the $10 billion loan would focus on large economic and technological cooperation projects including roads, railways, and new clean energies as well as small and medium-sized business projects that would be funneled through SCO’s Business Council and Interbank Consortium. In the process of allocating the $10 billion loan to SCO members, China would also “fight trade and investment protectionism and motivate trades and development of the members.”

**Peace Mission 2010**

On Nov. 17-19, SCO member states held the third round of consultations for the Peace Mission 2010 joint counterterrorism exercises to be held in September 2010 in Kazakhstan. A protocol was signed by representatives from five of the six SCO member states (Russia, Kazakhstan, China, Tajikistan and Kyrgyzstan). Uzbekistan chose not to join the consultation because it opposes military integration within the SCO.

*Peace Mission 2010* will be conducted in Kazakhstan’s Matybulak Military Range, which consists of typical Central Asian terrain. China, Russia, and Kazakhstan each plan to contribute 1,000 military participants. Another round of consultation is planned to be held shortly before the exercise. The scenario for the exercise will be “eliminating armed conflict,” which suggests a larger-scale military operation than fighting a relatively small group of terrorists.

If these elements are incorporated into September exercise, *Peace Mission 2010* will be a more realistic exercise than some in the past in terms of scale, format, terrain, and scenario for SCO’s geostrategic location. It addresses not only the traditional concerns about the “three forces” (terrorism, separatism, and extremism), but also protecting the expanding energy infrastructure across the SCO’s vast area, particularly in Central Asia. The larger scale of this exercise may suggest that China is reconsidering its traditional approach to Central Asia, which focuses on economic issues while leaving security issues to Moscow. The safety and security of thousands of kilometers of pipeline requires more attention from China and other states in the region. Accordingly, *Peace Mission 2010* may be a turning point for increased military integration within the SCO.
Managing the China puzzle: past and prospect

Until early 2009, China’s perception of Russia in general and of Putin in particular had largely been positive. Two developments in 2009 turned this around. One was the sinking of a Chinese cargo ship *New Star* in February by the Russian Coast Guard near Vladivostok, which led to the death of seven sailors. Russia said it regretted the loss of lives and then tried the *New Star* captain for violating Russia’s border regulations. In June, Russian authorities suddenly closed Moscow’s Cherkizovsky market, which immediately displaced 60,000 Chinese merchants with a loss of $2-4 billion. (See “China-Russia Relations: Market Malaise and *Mirnaya Missiya*,” *Comparative Connections*, October 2009 for details.) In the case of the Cherkizovsky market incident, the Chinese government reportedly sent Russia 23 diplomatic notes in addition to quickly dispatching several governmental delegations to Moscow in an effort to resolve the issue. China even temporarily halted part of its $25 billion credit for Rosneft and Transneft for the construction of an oil pipeline in order to move the matter from “a standstill.”

By the time Prime Minister Putin visited China in October, much of the furor from the incidents had subsided. However, soon after Putin left China, an article titled “China Should Be Alert to Russia’s ‘Ambiguous Diplomacy’” by Zhao Haijian appeared Oct. 19 in the *Guangzhou Daily* and quickly spread to most media web pages including the official *People’s Daily* and *CCTV*.

Zhao warned that Russia has been, at best, a “fair-weather friend” when it needs China largely because of pressure from the West. Russia has been “double dealing” with China since the PRC took control and has continued to do so since the dissolution of the Soviet Union when Russia developed a “Strategic Collaboration Partnership” with China. Russia has always hedged between China and the West/US. Zhao claimed that even as bilateral relations were elevated to a new height with Putin’s official visit to China in October, Russia continued to perfect its ambiguous diplomacy regarding China. He went on to argue that the current strategic partnership between Russia and China was rather fragile because it was the product of the “external factors” (Western pressure) and a lack of political trust between the two sides. China’s rapid rise also contributed to Russia’s uneasiness, which was manifested in recent speculation originating from a St. Petersburg-based think tank that parts of Vladivostok be “leased” to China for 75 years for its development. This rumor quickly led to another wave of warnings in Russia about the coming threat from China to the point that the Chinese government had to publicly reject the rumor. Zhao concluded by urging China to abandon the habitual thinking of “taking a part as the whole,” and to deal with Russia in more realistic, more rational, and more interest-based ways.

Zhao’s view does not represent the Russia studies community in China or the view of the Chinese government. Zhao’s sharp words may also be unrealistic. The diplomacy of any country, including Russia and China, is by nature “ambiguous” because normal practice is to compromise rather than to confront. What really matters was the appearance of a broad questioning of the bilateral relationship, which seldom happens in China’s media. The real impact of Zhao’s piece is on the perception of Russia by China’s public, which has been increasingly relevant in China’s domestic and foreign policies, for better or worse.
In contrast to the relative absence of “anti-Russia” rhetoric in China’s media prior to 2009, the “China threat” has been a constant theme in Russian media. Following Zhao’s piece, the “China threat” chorus seemed to grow louder. Throughout the quarter Russian pundits and even officials warned about China’s “economic expansion” into Russia (Yuliya Latynina in Moscow Yezhednevnyy Zhurnal, which is critical of the government, Oct. 20); China’s territorial expansion “as the only remaining imperial power” (Yuliya Latynina again in Gazprom-owned but independent Moscow Ekho Moskvy Radio, Oct. 20); the coming of China military operations against Russia (Aleksandr Anatolyevich Khramchikhin, deputy director of the Institute for Political and Military Analysis, in “Millions of Soldiers Plus Modern Weapons” in the independent Moscow Nezavisimoye Voyennoye Obozreniye, Oct. 22); China’s rehearsing future ground war with Russia (Chief of the Main Staff of the Ground Troops Sergey Skokov, “specified three types of threats to Russia,” in Moscow Stoletiye.ru, Nov. 10); China as a direct military threat to Kazakhstan (Darya Aslamova, “China Will Start Swallowing Former USSR With Kazakhstan,” in Komsomolskaya Pravda Online, Nov. 18, online daily with links to energy projects and the Russian Railways and sometimes serves as a vehicle for Kremlin officials); reserving Russia’s nuclear weapons to deter China (Yevgeniy Trifonov, “A Shield for Future Generations” in Gazeta.ru, which is critical of the government, Nov. 20); Russia’s “strange cooperation” with China (Vladislav Inozemtsev, director of the Industrial Society Research Center, “The Oriental threat is a reality” in Gazprom-owned Moscow Izvestiya Online, Dec. 25), etc. Ironically, Russia’s China phobia seems to go hand in hand with the broadening and deepening relations between the two powers.

Russia’s China policy may well be one of the few bright spots in its post-Soviet diplomacy. The byproduct of Putin’s China policy, however, is perhaps equally evident, particularly the persistently negative Russian perception of China and more recently, the issue-based Chinese resentment of Russia. Russia’s political elites have been navigating between growing domestic apprehension of China and Russia’s strategic need. This has been done not only for the sake of maintaining a pragmatic working relationship with Russia’s giant neighbor whose political system, economic practice, cultural heritage have little similarity with those of Russia, but also because of the rise of such a different power is almost unstoppable under normal circumstances.

**Over the Horizon**

Even without these recent “war of words” between Russian and Chinese media, certain issues require immediate action and careful management.

Despite serious effort by both governments, bilateral trade was down considerably in 2009, dropping 35 percent in the first three quarters of 2009 compared with same period in 2008. Much of this plunge was caused by the global economic downturn. However, bilateral trade volume (only 2 percent of China’s total trade) is far below China’s trade volume with other neighboring nations (13 percent with Japan). The $56 billion of China-Russia trade in 2008 was even dwarfed by the $100 billion between China and South Korea. The underdeveloped economic relationship may not be easily corrected if the global economic climate improves and even if large energy projects go into operation. Russia’s domestic economic weakness and the habit of over-strategizing of business issues by Russian political elites will continue to impede its economic...
development in the foreseeable future. Economic relations, therefore, will remain a weak link in the Sino-Russian strategic partnership.

In the medium-term, the infrastructure of the strategic partnership may need to be alerted to dangers over the horizon and outside the perimeters of bilateral relations. One is “pipeline politics” in Central Asia. Although Russian politicians including Putin have offered public endorsement for the Turkmenistan-Uzbekistan-Kazakhstan-China gas pipeline, they could hardly hide their displeasure because this essentially means the end of Russia’s monopoly over the Central Asian gas market. It is not clear how Moscow will adjust from its sense of entitlement and position of total control to being one of many market players in this part of the world. For Turkmenistan, Russia played a hardball, if not nasty, game with gas prices over the past year. After months of hard bargaining and several rounds of meetings, the price formula reached in the last week of December 2009 is believed to be a more flexible “market-based” one that continues to favor Russia.

Russia’s credibility in the increasingly competitive energy market, now being extended to Central Asia and the Far East, has suffered. At the end of 2010, the branch line of Russia’s ESPO oil pipeline to China will be commissioned. Even with a 25-year contract, the annual delivery price may be subject to renegotiation, and already the Chinese media has expressed concerns regarding Russia’s inability to honor the contract. In 1960, the former Soviet Union cut the oil supply to China when political tensions escalated. China’s Daqing oil field, which will be on the receiving end of Russian oil pumped through the ESPO for 25 years, was created in the wake of that embargo. For Beijing, history always serves as a reference point.

A potentially important development in Russia’s Asia-Pacific strategy is a breakthrough in Russian-Vietnamese relations at the end of 2009. The day (Dec. 14) the Turkmenistan-Uzbekistan-Kazakhstan-China gas pipeline was officially launched, Vietnamese Prime Minister Nguyen Tan Dung embarked on a two-day “working visit” to Moscow to secure a multi-billion arms delivery contract. It includes eight Šú-30MK2 multi-role fighter-bombers and the intention of purchasing another 12 aircraft of this type, plus various other types of armaments.

The main part of the Russian-Vietnamese arms deal is six Project 636, or Kilo-class submarines, valued at $350 million per submarine. Russian sources noticed that these subs, which are quiet and very maneuverable in shallow waters like the South China Sea area, are not just additions to the Vietnamese arsenal, but means the creation of an entirely new branch of the Vietnamese armed forces. The deal means the preparation of the infrastructure, the organization of a base for ships, a repair base, a communications hub, a training base, and crew training. The cost of the entire program may reach $4 billion.

Aside from making arms deals while in Moscow, Nguyen also concluded a memorandum of understanding for the construction of the first nuclear power plant in Vietnam, with a total of four units of up to $15 billion still being discussed. Perhaps more significant was the fact that when the Vietnamese prime minister was signing these contracts in Moscow, Vietnam’s defense minister was visiting Washington and meeting Defense Secretary Robert Gates. Many pundits pointed to the connections between the two trips and the China factor behind them. Chinese analysts, however, have so far been tight-lipped. A Chinese embassy official in Hanoi only
carefully noted that Vietnam, Russia, and other countries in the area “must think about peace, and peace in the South China Sea.” Song Xiaojun, a Beijing-based military and strategic analyst of the PLA, when asked to comment on the submarine deal, only mentioned that Vietnam, because of its long coastline, has its own need for submarines.

Russia has been Vietnam’s main arms supplier for decades. Prior to the current deal, Vietnam has recently acquired 12 Su-30MK2Vs and 36 Su-27s. Russian ship builders are also filling Vietnam’s orders for missile ships and frigates. Yet, this major escalation of Vietnam’s arms acquisition from Russia also coincides, in broader terms, with the Jan. 1, 2010 launch of the China-ASEAN Free Trade Zone, which will be the largest in terms of population (1.9 billion) and the third largest (after the European Union and the North America Free Trade Zone) in GDP ($6 trillion with $4.5 trillion of intra-regional trade volume). Russia’s huge arms input is not only the first significant arms purchase within the region since Vietnam joined ASEAN in 1995, but also constitutes a new and uncertain factor for the already complicated arms and territorial issues in the region.

It remains to be seen if Putin will shape the next 10 years of Russian-China relations. If he decides to join the next Russian presidential race in 2012, a possibility which Mr. Putin has never ruled out, the prospects are good that his influence will continue.

**Chronology of China-Russia Relations**

**October - December 2009**

**Oct. 9-11, 2009:** An inter-party Russian-Chinese forum for border cooperation, co-hosted by the United Russia Party and the Chinese Communist Party and the two governments, is held in Suifenhe, China. The delegations agree to organize cooperation between the border regions. Vice Premier Wang Qishan joins the forum.

**Oct. 12-15, 2009:** Vladimir Putin makes his first official visit to China as Russia’s prime minister. He attends the 14th regular meeting between prime ministers with his counterpart Wen Jiabao and the eighth Shanghai Cooperation Organization (SCO) prime ministers’ meeting.

**Oct. 14, 2009:** SCO holds the eighth annual prime ministerial meeting in Beijing and adopts a joint initiative for countering the global financial and economic crisis and for developing the regional economy.

**Oct. 16, 2009:** SCO Regional Anti-Terrorist Structure (RATS) holds a working session in Tashkent, Uzbekistan to focus on protecting information and telecommunication systems, particularly during the 2010 Asian Games in China, the 2011 Winter Asian Games in Kazakhstan, and the 2010 Shanghai Expo.

**Oct. 27, 2009:** Foreign ministers of Russia, India and China hold their ninth meeting in Bangalore, India. External Affairs Minister S M Krishna, Russian Foreign Minister Sergei Lavrov and Chinese Foreign Minister Yang Jiechi discuss terrorism, health care, agriculture, disaster relief, climate change, and global recession. Chinese and Russian foreign ministers also meet separately to discuss bilateral relations.

Nov. 14, 2009: Chinese President Hu Jintao and Russian President Dmitry Medvedev meet in Singapore on the sidelines of the annual APEC leaders meeting to discuss bilateral relations and other issues of common concern.

Nov. 17-19, 2009: The third round of consultations on SCO’s “Peace Mission 2010” anti-terrorist drill is held in Almaty, Kazakhstan.

Nov. 18, 2009: The eighth meeting of the China-Russia Friendship Committee for Peace and Development (CRFCPD) is held in Beijing. Chinese Vice President Xi Jinping meets the members of the Russian delegation.


Nov. 24-26, 2009: SCO anti-drug agency officials meet in Beijing to discuss current levels and prospects of joint efforts against drug-trafficking. They also work on the SCO’s anti-drug strategy for 2010-2015.

Dec. 7-8, 2009: Russian Security Council Chairman Nikolai Patrushev and China’s State Councilor Dai Bingguo hold the fourth round of Russian-Chinese strategic consultations in Beijing. A strategic security protocol is signed and Parushev meets President Hu.

Dec. 9, 2009: SCO holds the first meeting of its finance ministers and heads of central banks in Almaty, Kazakhstan.

Dec. 12, 2009: Foreign Minister Sergei Lavrov and his Chinese counterpart Yang Yiechi hold a telephone conversation to coordinate position for the UN climate talks in Copenhagen.

Dec. 15, 2009: Vietnamese Prime Minister Nguyen Tan Dung announces that contracts worth billions of dollars to purchase Russian submarines, fighter jets, and other military hardware were signed during his official state visit to Moscow on Dec. 14-15.

Dec. 31, 2009: Presidents Hu and Medvedev exchange New Year greetings and open the Year of the Chinese Language in Russia. Prime Minister Putin sends a separate greeting to Hu.