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Russia's Perceptions of China's Rise and its Impact on the Russian-Chinese Economic Cooperation

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Introduction

As Trenin wrote that “the rise of China to the status of world power is the principal cause of the changes in the entire geometry of international relations” (Trenin [2000] p. 39). China's rise confronts Russia with many challenges, while also offering several opportunities. How to adequately respond to the challenges and how to successfully take advantage of the opportunities require a fundamental rethinking of Moscow's foreign policy, as well as major adjustments of its domestic policies.

Over the past three decades, the evolution of Russian-Chinese relations has been one of the most significant changes in world politics. After nearly three decades of confrontation, the two countries improved their relationship in the latter half of 1980s. In 1994, the bilateral relationship was officially announced as a constructive partnership. In 1996 the two countries upgraded their constructive partnership to a strategic partnership (Garnett [2001] p. 44). Followed in 2001, the Treaty on Good-Neighborliness and Friendly Cooperation, signed by Russian President Putin and his counterpart Jiang Zemin, codified the bilateral ties and the

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future of the essential equality of the two states. The Russian-Chinese strategic partnership has considerably broadened and deepened. Some speculate that the past enmity has been replaced by a new amity with the “Russian-Chinese strategic axis” (Bilveer [1998]). On the other hand, some perceive the Russian-Chinese relationship as something as an “axis of convenience” plagued by “fear, anxiety, and mistrust”, which is ultimately “of secondary importance” (Lo [2008] pp. 35-36).

Indeed, the Russian-Chinese strategic partnership has many aspects : cooperation, competition, and needless to say, ambiguity. In recent years, with the further development of both countries, the Russian-Chinese economic ties have expanded substantially. New geopolitics and geo-economic are changing the context of the Russian-Chinese relationship.

This study focuses on a rather modest issue : how does Russia perceive the rise of China ? How do Russia’s perceptions influence the bilateral economic relationship ? After briefly reviewing Russia’s different perceptions of the China threat and the origins of them, this study tries to explain the ambivalent attitude of Russia toward Russian-Chinese Economic Cooperation, especially toward the cross-border cooperation between the Russian Far East (RFE) and Chinese Northeastern Region by highlighting Russian economic and security concerns in that region. Finally, this study proposes, from a researcher’s viewpoint, an approach to ameliorate real or imaginary threat perceptions.

1 The Rise of China as an opportunity

As Vladimir Putin once said, the breakup of the Soviet Union is “the greatest geopolitical tragedy of the 20th century” (China Daily, April 26, 2005). During the 1990s, the newborn Russia lost its superpower status, weakened and was struggling with problems of domestic transition and development, as well as Islamic insurgency. It also confronted with assertive and dangerous international rivals

from a position of disadvantage. Under Putin's presidency, Russia started its revival ; nevertheless, its achievements remain fragile and insignificant.

Russian perspectives on international relations more broadly tend to traditional realpolitik considerations of the dynamics between the rise and fall of great powers (Kuchins [2010] p. 35). Regarding the future international power distribution for the first 20 years of the 21st century, there are four points of consensus in the Russian policy cycle : (1) The U. S. will continue to be the predominant power for at least the next 20 years. Its major goal is achieving to keep its superpower status ; (2) Within the next 20 years, China will double its GDP and rise up as a superpower ; (3) Russia will remain as a great power in a state of recovery. If it does not succeed in its recovery, Russia may lose its great power status ; (4) the next 20 years will be the key moment for the competition between unipolar politics and multipolar politics, none of the states has the capability to resist the unilateralism of the U. S. Therefore, based on these aforementioned assumptions, the U. S. and China will be the two main focuses in Russian foreign policy for the next twenty years. The U. S. is the first focus because Russia has to counterbalance it at the very time the power gap between the two countries is widening, and Russia will not be able to confront the U. S. on an equal footing. China is the second focus because China can be used to counterbalance the U. S.' dominance in international politics (Wu [2005] p. 53). In the international arena, China has a common point with Russia to constrain, —if not balance—, U. S. unilateral power and to promote a multipolar world order. Both countries support the principle of non-interference in domestic politics and emphasize on a multipolar world governed by international laws through international organizations rather than superpower diktat in several Russian-Chinese joint statements.

At the same time, Russia is not willing to become dependent on Beijing. Russian leaders are not comfortable with the idea of a partnership with China in

which Russia would be the junior partner and China, the dominant partner. Moscow will not run any risk to confront the U. S. in case of clash between the U. S. and China. Therefore, Moscow will simply continue to pursue tactical cooperation, but not strategic alliance, with China.

In the next 20 years, Russia will make the best use of China's rise in the following four domains: (1) to prevent the U. S. from controlling international organizations centered on the UN. For Russia, UN is still the most important international organization where it holds a veto right in the Security Council. The decision to use force against Serbia outside the UN Security Council's jurisdiction in March 1999 signaled the power of the Western-centric world. Russia emphasizes the centrality of the UN and will not let the U. S. take the leadership in the UN reform. Russia and China are determined to cooperate to prevent an UN controlled by the U. S. (Tsygankov [2012] p. 2). This cooperation also applies to other international political, economic and cultural organizations which are considered as representatives of the western countries' interests.

(2) To strengthen the Russian-Chinese cooperation in regional organizations. The power shift is occurring in the Central Asia, Korean peninsula and Middle East. The U. S. is taking every opportunity to penetrating its forces everywhere. For example, in the aftermath of 9/11, the U. S. established a network of jumping off bases across Central Asia. The apparent rationale has been the fight against terrorism and support for its military operations in Afghanistan. However, nearly at the same time and particularly when Washington reached a rapprochement with India and strengthened military co-operation with India, these developments in Central Asia and South Asia are often interpreted as being motivated by containment of Russia and China. The political changes in Georgia, Ukraine and Kirgizstan which used to be considered as the backyard of Russia, have shown how powerful the U. S.' penetration could be. Naturally, to counterbalance the U. S., Russia needs

support from China.

(3) To prevent the international disarmament mechanism from being controlled by the U. S. Since the end of the cold war, the U. S. took the leadership in the disarmament mechanism. For instance, in recent years, Russia and China have demanded a ban on the use of weapons in space, signaling a shared effort to challenge America's military superiority (Kommersant, February 12, 2008).

(4) To take the "China Express" to develop Russia's own economy. Russian government's main goal is to develop its economy in the next 20 years. Russia expects to expand economic cooperation with China and makes efforts to integrate the RFE with China's Northeastern economy and further integrate into the Asia-Pacific economy. Specifically, by meeting China's demands for energy and other resources, Russia expects to diversify its export destinations.

2 Russia's perceptions of threats from China

2.1 Different Perceptions of the China Threat

From the middle of the 1990s, the idea that China, as a rising power representing a source of regional and international instability, the so-called "China threat" has periodically been voiced by the Chinese watchers in Russia. The China threat perception is multi-dimensional: a threat to Russia's territorial integrity, demographic expansions and exploitation of Russia's resources.

As the Russian-Chinese relationship improved in the beginning of the 1980s, both governments agreed to restart the border trade which had been stopped for more than two decades. The growing prospects for economic cooperation were met with great enthusiasm in the Russian border regions. Both local elites and the population in general hoped to take advantage of their close proximity to China, and to gain from the development of the border trade and direct contact with the authorities and businesses of neighboring Chinese provinces. This interaction flourished during the

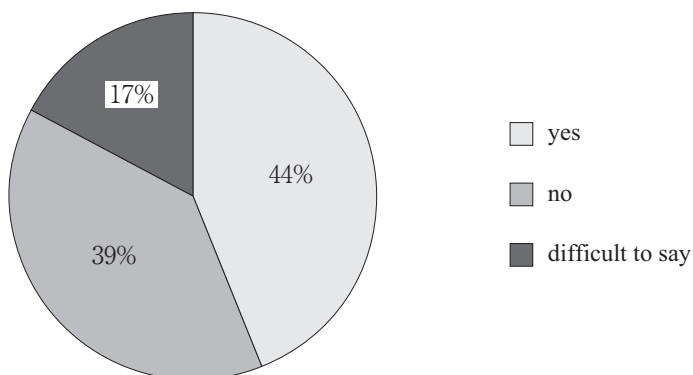
last years of the existence of the Soviet Union as a result of the elimination of visa requirements for business trips and other measures. The border that had been closed for decades finally reopened. However, this early enthusiasm soon changed to apprehension (Lukin [2002] p. 91). Poor regulation on both sides enabled criminals and unscrupulous business people to take advantage of the sudden opening of the border. The new markets catering to the shuttle trade soon became associated with criminal activities. According to Minakir, criminal activity in the border region peaked in 1992, and was popularly attributed to the growing influx of Chinese (Minakir [1996]). “The uncontrolled flow of Chinese traders and laborers, some of whom stayed in Russia for a long time or even settled there, revived the old fears, in those under populated Far Eastern regions of the possibility of Sinoification of these territories” (Lukin [2002] p. 92). Chinese labor migration into the RFE is perceived as a threatening consumption of Russia’s own land, population, and resources. In an opinion poll conducted in the RFE, 50 percent of inhabitants answer that they believe that in 10 years ahead in the future, the Chinese population will rise up from 20 percent to 40 percent in the RFE. 20 percent of inhabitants answer that the percentage could rise up from 40 percent to 60 percent (Alekseev [2001] pp. 1-2).

Actually, this perception is based on the population imbalance of Northeastern China and the RFE. On the Chinese side, three provinces have more than 100 million people, on the Russian side, the total population in the RFE is declining rapidly from 8 million in 1990 to 6.4 million in 2010, due to migration to the European Russia. High unemployment rate, relatively low income comparing with other regions, shorter life expectancy in the RFE, these deeply entrenched problems are pushing people in the RFE to move. This exodus of local population and incoming Chinese is arousing concerns for the Russian people.

Opinion poll in 2007 shows that 44 percent Russians think that the growth of

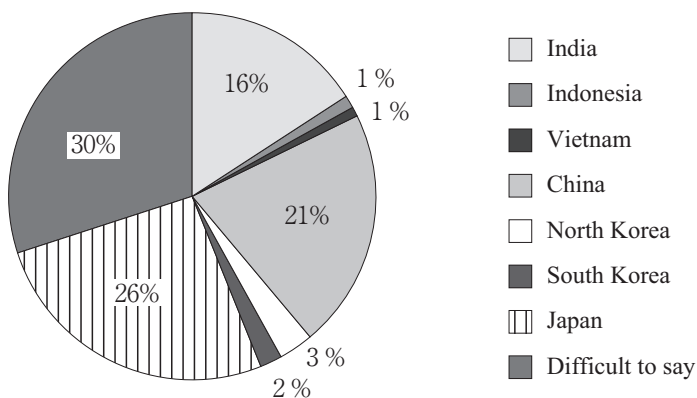
China is a threat to Russia's interests (Figure 1). In a survey about Russian Views on their Asian Neighbors, the results show that Russians prefer Japan to China (Figure 2). And in the same survey, attitudes towards China showed no clear improvements between 2005 and 2007 (Table 1 and Table 2).

Figure 1 : Russian Population : Do You Think That the Growth of China is a Threat to Russian Interests ? (Oct. 2009)



Source : Russian polling institute FOM, <http://bd.fom.ru/pdf/d43kitay.pdf>
Russian Analytical Digest, 2007, No. 25 p. 14

Figure 2 : Who, in Your opinion, Should Become the Main Partner of Russia in South-East Asia ?



Source : Russian polling institute FOM, <http://bd.fom.ru/pdf/d43kitay.pdf>
Russian Analytical Digest, 2007, No. 25 p. 12

Table 1 : What is your Attitude Towards the Following Questions ? (one answer for each point)

		Positive	More likely positive	More likely negative	Negative	Difficult to say
A. More goods from China are appearing in our shops	2005	11%	23%	35%	27%	4%
	2007	11%	25%	35%	21%	8%
B. Entrepreneurs and companies from China are acquiring property in Russia	2005	5%	9%	36%	46%	4%
	2007	2%	7%	37%	48%	6%
C. There are more and more workers from China in our country	2005	4%	10%	36%	45%	5%
	2007	3%	12%	37%	41%	7%

Table 2 : Do You Think the Following Should Be Limited Or Not ? .. (one answer for each point)

		Yes	More likely yes	More likely no	No	Difficult to say
A. Import of goods from China to Russia	2005	29%	32%	24%	11%	4%
	2007	22%	35%	29%	7%	7%
B. Acquiring of property in Russia by Chinese entrepreneurs	2005	45%	19%	14%	19%	3%
	2007	43%	31%	12%	8%	6%
C. Free movement of workers from China to Russia	2005	43%	26%	15%	13%	3%
	2007	38%	34%	14%	7%	7%

Source : Russian Attitudes towards China (VTsIOM Survey), “How would you regard the current relationship Between the Russian and Chinese peoples ?”, July 23-24, 2005, *Russian Analytical Digest*, 2007, No. 25 p. 15.

Of course, attitudes towards Chinese workers, traders and other migrants clearly do not determine the future success or failure of regional cooperation and development in the RFE and China's Northeast region. Even so, prior experience demonstrates that negative attitudes towards Chinese migration have the potential to disrupt potential for increasing economic cooperation. As discussed above, regional relations were plagued by distrust, in large part prompted by the chaos and

mismanagement of the border opening. It enhanced the sense of nationalism rather than strengthen regional labour market integration. Chinese labour migration had the effect of heightening fears of a "quiet expansion" (Wishnick [2001] p.809).

The third factor contributing to the China threat perception is the China's needs for resources. The resources located in the RFE and Siberia are enormous, with world leading concentrations of petroleum, natural gas, strategic mineral deposits, and forestal resources. Since free market reforms were implemented in 1978, China's GDP has grown an average 9.9 percent a year. China is tapping into a variety of resource markets to feed their ever growing economy. China's intent is not to compete on the open market for natural resources, but to own them and their associated infrastructure to create a secure source of supply. Thus, in this logic, some Russians think that if China cannot get enough energy, it might invade the RFE.

2.2 Factors contributing to the Chinese threat perceptions

In response to the arguments about the threats caused by China, the Chinese government has reiterated that (1) China will solve the unsettled border issues with Russia through negotiation, as a peace-loving county and that it will never invade another country ; (2) China's migrants in Russia are mainly shuttle traders, they will return to China eventually. Chinese government does not have a population expansion plan, and it agrees to co-operate with Russian government on the border control and visa issues. (3) China will seek energy and resources through mutual beneficial agreements according to the international rules. However, the China threat issue is far from being alleviated, because the origins of the China threat theory are deep-rooted (Wu [2005] p.54).

First, the shadow of history cannot be simply erased. It is a heavy psychological burden for the Russians that the land of the RFE used to belong to

China. The arrival of Chinese traders recalled the historical memory of Russian-Chinese clashes. History has played a crucial role in the formation of Russia's perceptions of the "China threat". Unfortunately, its impact has been almost entirely negative. The encounter dates back to the 17th century, with the expansion of the Russian and Chinese empires eastward and northward, respectively. Russia and China signed the 1689 Treaty of Nerchinsk after several clashes. Russia renewed its inroads into China's periphery later through military operations, diplomatic treaties and commercial expansion. The 1860 Treaty of Beijing opened China's entire northern frontier to Russia. As a result of Russia's, Europe's and Japan's infringement on China, the nineteenth century was seen by Chinese as a century of "humiliation" (Yu [2005] p. 229 ; Lo [2008] p. 21). During the 1920s, Stalin instigated the independence of Outer Mongolia which was China's suzerain.

The Russian-Chinese border was a legacy of various treaties in which Russia gained over 1 million km² of territory in Manchuria at China's expense, and another 500,000km² in the western regions. These treaties have long been regarded by Chinese as unequal treaties, and the issue arose again with the Sino-Soviet split. Sino-Soviet border negotiation failed in 1964. Mao Zedong made a statement in July 1965 which was considered by the Soviet side as a claim of 1.5 million square kilometers of Soviet territory. Those tensions eventually lead to division-scale military clashes along the border in 1969. The conflict created unforgettable painful memories for both countries. As Lukin commented, "Perhaps for the first time in the history of Russian-Chinese relations, the awareness of the danger of having a vast, densely populated and hostile neighbor in the east permeated public opinion, not only in the border areas, but over the entire country" (Lukin [2002] p. 90). During the thirty years of Russia-Chinese confrontation, the RFE was the frontier. The disagreements and misunderstandings that destroyed the Sino-Soviet alliance in the 1950s have generated an undercurrent of mistrust that endures to this day. It

would be naïve to think that those historical memories would be dismissed after a few years of friendship and cooperation which only started from the late 1980s. The “unequal treaties” left a territorial question which remains unfinished business. Even though Moscow and Beijing have agreed on formal demarcation of the border, Beijing's hardline policy toward Taiwan, especially its rejection to abandon the threat of military force, has strengthened the image of China as a war prone state. This has led some Russians to believe that Beijing will turn its attention to recovering the RFE after it has completed Taiwan's reunification with the mainland (Rozman [2007] p. 362).

Secondly, the gap between Russia and China is widening. Even though both countries are in the “BRICs” group, their economic performances are not the same. Neil MacFarlane challenged whether Russia is an emerging power and is qualified to be in the “BRICs” group (MacFarlane [2006]). China has surpassed Russia in GDP and trade volume. And China is catching up with Russia rapidly in terms of living standard, educational level and military power. There is a growing recognition of Russia's weakness on the Russia's side (Kuhrt [2012] p. 473). For Russia, China's historical role as “little brother” or “junior partner” has made it hard to adjust to the reality of a China which is more powerful economically. From the markets of the RFE to those in the metropolis of Moscow, Chinese consumer goods and Chinese traders are constant reminders of the rise of China.

Thirdly, China's errors and mistakes fuelled the “China threat”. Chinese government failed to control the illegal border-crossing and the activities of shuttle traders. High demand from China triggered illegal logging and illegal fishing which also contributes to environmental degradation in the form of deforestation and looting of protected stocks (Lukin [2009] p. 107). Although these problems are caused as much by corrupt Russian officials seeking bribes as by Chinese criminal economic activity, Russia likes to blame China's failure to regulate such activities.

2.3 China's threat at the other extreme : China collapse

While Russia is concerned about the dangers of China's rise, there are also arguments about the potential of threat of a weakened China or the uncertainty of China's development.

First, despite China's success in obtaining formidable economic growth, some scholars cast doubts on its highly administrated economic development model based on export and investment which might not be sustainable. Chinese economy will eventually run into a dead end, an event which will have major implications for Russia's national security interests. In sum, a frail, unstable China will not be in Russia's interest.

Secondly, there are tensions between the society and the state in China. Since China has made little progress in its political reforms, there is a possibility that poverty, awareness of wide economic inequalities, dissatisfaction with an unresponsive and unaccountable government could create instability in China. If the transition from an authoritarian political system to a democratic system derails, China could be trapped into chaos.

Thirdly, the Taiwan issue could explode. In the case of unification by force, the U. S. might intervene ; therefore there might be a clash between the emerging superpower and the incumbent superpower. In that case, America's intervention might bring political changes in China.

Fourthly, China is facing separatist movements in Tibet and Xinjiang. If ethnic groups rise up and declare independence, and other provinces and regions follow suit, China will collapse. Separatism in Tibet and Xinjiang could trigger unrest in the Central Asia and threatening the security of Russia and Kazakhstan. In conclusion, all these would mean big problems for Russia.

The Russians fear that the consequences of the explosion of these problems will cause China's disintegration. In other words, the Chinese government would lose

its control and the country would degenerate into chaos. An exodus of Chinese people would cross the border entering into the RFE. However, to the contrary, most of the Chinese migrants in Russia only aim are to make quick money and then go back home. Few of them would choose to live in Russia for a long period of time, and even more to live there forever.

As David Lampton argues, "China is a giant screen upon which outsiders project their hopes and fears. Expectations of economic gain coexist with worries about financial crisis ; shrill alarms about Chinese power with dire forecasts of collapse ; visions of democratic change with caricature of current reality. It is time to step back and look where China is today and where it might be going, the consequences that direction will hold for the rest of the world" (Lampton [1998]).

3 The ambivalent attitude of Russia toward Russian-Chinese economic cooperation

The highly complementary economies of the two countries provide great potential for trade, investment and energy cooperation. Still, despite some positive trends it remains unclear whether Russia and China are able to realize the full potential.

Russia has an obvious interest in sustaining economic growth by taking advantage of its strengths—oil and gas exports to China, arms transfers to China ; and tapping lucratively into China's growing demand for nuclear power plants. On the other hand, Russians have had many apprehensions regarding China. Oil and gas exports to China help drive the furious pace of modernization, a modernization fundamental to its transformation into a global power. The expanding Chinese economic power could be a concern in the long term (Ma [2007]).

3.1 Trade

Bilateral trade of \$ 57 billion in 2008 fell to \$ 39 billion in 2009 due to the global financial crisis, and then rebounded back to \$ 59 billion in 2010. For the first time, China became Russia's top trade partner. Nonetheless, Russian-Chinese trade remains insufficient. The import of Russian goods in 2008 amounted to only 2.1 percent of China's overall imports, while the average export of Chinese goods to Russia was only 2.2 percent of China's overall exports. The import of Chinese goods in 2008 amounted to 13.2 percent of Russia's total import, while the export of Chinese goods to China was only 4.3 percent of Russia's overall exports. It is obvious that Russia is more dependent on the bilateral trade than China. If the RFE is singled out to calculate the dependency ratio, it would be as high as 30 percent or 60 percent according to the oblast or krai.

Russian exports to China overwhelmingly consist of raw materials, especially natural resources like oil and timber. Oil deliveries alone often account for half of the value of all Russian exports to China. China mostly supplies machinery, equipment and vehicles; textiles and footwear; metals and metal goods; and chemicals. The share of Russian manufactured goods in the overall imports to China has plunged from about 30 percent in 1997 to less than 3 percent in 2007.

Trade imbalance is another source of tension. The decline in Russian arms purchased by China in recent years has shifted this balance significantly against Russia. Before 2007, Russia recorded substantial surpluses from large deliveries of energy, arms, and other industrial goods. Since then, the trade balance has strikingly moved in China's favor due to a decline in Chinese purchase of weapons systems and other high-technology items and increase in the exports of machinery and high-tech products (Asia Times, August 15, 2007).

3.2 Investment

Mutual investment is another lagging area of cooperation that has attracted the attention of both governments. In 2011, China's direct non-financial investment in Russia amounted to only \$ 300 million, which itself represented just 0.5 percent of China's total investment (Asia Times, March 23, 2012). By the end of 2011, China's accumulative non-financial direct investment in Russia was only \$3.1 billion. Most Chinese non-financial capital flows into Russia's textile, timber, and raw materials sector. Russia and China have outlined, but not yet achieved, a Russian-Chinese Investment Cooperation Plan, designed to expand their mutual cooperation in investment and financing.

Russian ministries try to persuade China and Japan to set up venture businesses in manufacturing sector in the RFE, but in economic terms it makes little sense to invest there : the total population of the RFE has decreased to only 6.4 million, and the market is very limited. The transportation fee is very high to ship the goods to European Russia ; it makes more sense to build a car factory in European Russia so that cars can be sold there or exported to other European countries.

Russia's concerns about "Chinese economic expansion" have continuously been a hot issue among the Russian power elite against Chinese investment in the resources sector. It is in this context that the Russians have been reluctant to encourage Chinese investment in hydrocarbon fields in Eastern Russia. China's involvement in upstream projects has been limited to only economically doubtful ones. Examples include the Vostok Energy joint-venture company's investment in Zapadnochonsky and Verkhnechersky mining deposits in the Irkutsk region, which possess only small volumes of oil and gas resources. Even though the Vostok Energy joint-venture company was established by the Russian oil company Rosneft which held a 51 percent stake, and China National Petroleum Corporation (CNPC) (Itoh [2010] p. 10).

The agricultural sector badly performed in Russia. Lands lay unused For the Chinese farmers, the unused land is an opportunity. According to the Russian Law, foreigners cannot own Russian land, however, they can lease land for a maximum of 49 years. There is significant political resistance to accept an increased number of Chinese farmers. Russia prefers to lease land to Korea, Singapore and Vietnam than China (Asia Times, March 2, 2012).

3.3 Energy Cooperation

It seems that it is in the energy sector where lies a great promise of a lucrative area in economic cooperation between Russia and China. As of 2009, Russia became the world's largest producer of oil and second largest of natural gas, while at the same time China exceeded the U. S. in 2010 to become the world's largest energy consumer.

Given the geographic contiguity between the two countries which share a 4,000 kilometer border, the facts that Russia is the world's largest oil producer, and China is the world's largest energy importer with the fastest growing appetite for energy, it would seem that Russia and China would have cooperated sooner. Russia's oil and natural gas sediments, some of the largest in the world, lie much more nearby than the remote energy reserves of the Persian Gulf and Africa. Oil and gas from these regions can only arrive at China through international waters which are vulnerable to the blocking by foreign navies and sea pirates, whereas Russian energy can enter Chinese territory straightaway without having to be shipped through intermediate territories.

In the last 10 years, Russia's oil and gas companies have been searching to diversify their energy export not only in the West, but in the East as well. Oil was sent from Russia to China by trucks and trains, the transport fees are very expensive and wasteful. To facilitate the oil delivery and to make it more cost-effective in the

long term, as early as November 1994, Russia advocated the construction of an oil pipeline connecting Angarsk in Russia to Daqing in China. After many years of flawed hopes and halted agreements, China and Russia have made only little progress in building their long-anticipated energy partnership.

Despite these complementarities, it was not until 2009 that Russia became China's fourth largest oil supplier, furnishing 7.8 percent of China's imports in 2009, rising up from 6.3 percent in 2008. Still, this low figure is unbelievable because the two countries would appear to be natural energy partners. Furthermore, negotiations over a direct natural gas pipeline came to a standstill due to discordance over what price China will pay for the gas.

In spite of these advantages and other mutual encouragements to expand bilateral energy collaboration, the result has been astonishingly minimal. Technical obstacles, controversy about prices, scarce transportation infrastructure, and mutual distrust have historically kept Chinese purchases of Russian energy at relatively low levels. Recurrent delays in transportation on the part of the Russians and attempts to let the competing interests of the Chinese, Asian, and European markets play off with each other have prevented Chinese policy makers from regarding Russia as a trustworthy long-term partner. In assessing energy relations between the two nations, it is important to discern real actual contracts from nothing but statements of intention. A great deal of the bilateral contracts made in recent years—often described as reminders of understanding or framework deals—had the only objectives of signifying interest as well as gaining leverage regarding third parties, such as Japan and Europe.

The Energy Strategy of Russia for the period up to 2030, approved by the Russian government in November 2009, defines a planned acceleration in exploiting oil and gas resources in Eastern Russia, with the goal of exporting these products to the Asia-Pacific region. The procedure specifies that Russia aims to expand the

percentage of oil exports to the Asia-Pacific region, among its total oil exports, from 8 percent in 2008 to 14~15 percent in 2020-22 and to 22~25 percent in 2030 and that of natural gas exports from zero in 2008 to 16~17 percent in 2020-22 and to 19~20 percent in 2030.

China provides the main consumer market for Russia's eastern energy strategy. China's primary oil demand, for instance, is projected to increase by an average annual growth rate of 3.3 percent in 2007-2030, whereas that of the world is predicted to be 0.9 percent (the reference scenario in the International Energy Agency's 2009 *World Energy Outlook*). Unlike the upsurge in China's energy demand, Japan's energy demand has almost peaked with oil demand already on a gradual decline.

Ironically, however, domestic voices have emerged expressing concern that the swift expansion in the amount of energy provided to China might leave Russia as a "resource appendage", which reinforces its historical opponent. The share of crude oil in Russia's total exports to China increased from 5 percent in 2000 to 40 percent in 2008 (Itoh [2010] p. 9).

Admittedly, it is true that the Russian government is currently struggling to raise the share of value-added products rather than raw materials in the overall structure of exports. Yet, the same kind of concern was never heard with regard to the fact that crude oil accounted for 40 percent of Russia's total exports to Japan in 2007.

Russia's paranoia about China is based on a geopolitical mindset and has prevented it from adopting a trusting attitude toward its "strategic partner" (Itoh [2010] pp. 9-10).

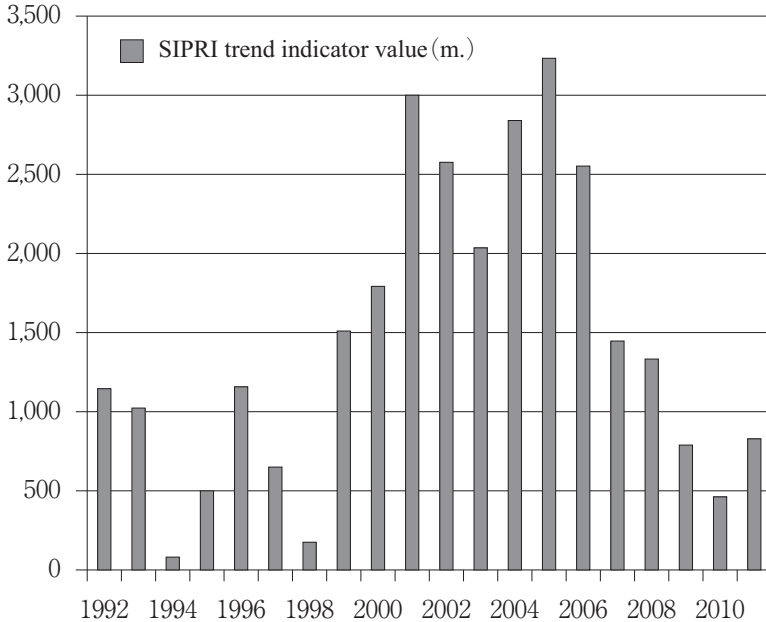
3.4 Arms trade

Russian-Chinese arms trade began in 1992 after Beijing was struck with a U. S-

European arms blockade as a consequence of the 1989 Tiananmen Square Accident. Since the two governments signed an agreement on military-technical cooperation in December 1992, Russia has been the main arms provider to China, and China became the leading purchaser of Russian arms. For over 10 years, Russian military exports to China have turned out to be the most important dimension of the two countries' security relationship and the largest sector of Russian-Chinese trade. China has bought more weapons platforms and hardware-related items from Russia than from all other countries.

Between the dissolution of the Soviet Union in 1991 and 2010, more than 90 percent of China's imported major conventional weapons were supplied by Russia. Since 2007 there has been an impressive diminution in the volume of Chinese weapons imports from Russia. Although the quantity of deliveries can alternate abruptly from year to year, deliveries for 2008 remained at the same low level and diminished further in 2009 and 2010. Anatoly Isaikin, director of Rosoboronexport (the agency which is responsible for managing the Russian arms trade) recognized that China's share of Russian arms exports dropped to 10 percent in 2010, when Russia exported a record \$8.6 billion worth of arms (Reuters, March 9, 2011). China which once was the largest importer of Russian arms, ranked behind India and Algeria in 2010. Then in 2011, China ranked behind India and Vietnam in 2011 (Figure 3).

For Russians in general, and for the Russian military establishment in particular, China is a double-edged sword. One edge represents China's capacity to help Russia's military-industrial complex to survive, but the other edge represents the potential harm that a rising China might do to Russia. Military officers have supported the sale of modern weapons but hedged against the risk of a future conflict with their neighbor by withholding the latest military technologies (Ryan [2010] p. 192).

Figure 3 : The volume of Chinese arms imports from Russia, 1992-2010

The bar graph shows annual totals and, to smooth out year-on-year fluctuations in deliveries, the line graph shows the five-year moving average (plotted at the last year of each five-year period). The SIPRI trend-indicator value (TIV) is a measure of the volume of arms transferred and not of financial values. For a description of the TIV and its calculation see (<http://www.sipri.org/databases/arms transfers/background>).

Source : SIPRI Arms Transfers Database, <http://www.sipri.org/databases/armstransfers>

The rationale of such extensive arms sales to China has been pointed out in Russia. As a matter of fact, many Russian analysts view China as a potential long-term threat to Russia. In a December 1996 speech even Defense Minister Rodionov let slip that China was a “potential threat” to Russia. Russian commanders in the Transbaikal have complained that they face Russian-made Chinese aircraft in their field of action in better state than their own. Likewise, Russian naval officers have

expressed displeasure that the destroyers sold to China would have been deployed by the Russian fleet if economic conditions had allowed (Kuchins [1999] p. 440).

Russian defense manufacturers, however, indicate that the technologies being sold to China are not on the cutting edge and that there is excessive paranoia, particularly on the part of the Ministry of Defense Export Control Committee (Komitet eksportnogo kontrolya—KEKMO), about the quality of arms going to China. A journalist Pavel Felgengauer points out that much of this cutting-edge technology exists “only on the drawing boards or in experimental samples” (Felgengauer [1997]).

On the other hand, it is true that the systems sold to China, such as Su-27s and Kilo Class submarines, have been in production for over a decade and China has expressed dissatisfaction with Russian reluctance to be more forthcoming with sales of the latest technologies and systems. It is interesting to note that while Russia has refused to supply the PLA with certain types of military equipment, such as the Tu-22M Backfire supersonic tactical strike bomber, it has been willing to sell them to India (Tsai [2003] p. 125). One conference participant suggested that this largely reflects the fact that the Russian General Staff, which has to approve all weapons sales, views Beijing as a potential threat, while holding no such suspicions about New Delhi (Bellacqua [2010] pp. 6-7).

Decreasing dependence on Russian arms exports means that China has taken the upper hand in the relationship, according to a report issued by the Stockholm International Peace Research Institute (SIPRI) (Jakobson et al. [2011]). Chinese specialists frequently admit that Russia is drawing restrictions in the providing of its most developed weapon systems and technology, assessing that the Russian military would be eager to keep technological superiority over the Chinese superpower and that Russia furnishes India with more developed gear and technology than China. There is definitely a gap between the Russia-China and Russia-India military

technical collaboration. There is no history of conflict between Russia and India, whereas some Russian analysts who support restrictions in weapon deliveries to China have enrooted in their memory the 1969 Sino-Soviet border conflict in which Chinese army used weapons bought from the Soviet Union. However, this apprehension remains discreet in mainstream Russian discourse, which underlines that border disputes have been settled and that Chinese acquisitions are meant to be used in the Taiwan Strait region and South China Sea. Likewise, mainstream Chinese specialists do not foresee an open conflict with Russia. Nevertheless, some Chinese analysts believe that the “China Threat” does weigh in Russian decision making on whether to provide weapons and technology to its eastern neighbor (Jakobson et al. [2011] p. 20).

Russia and India have a friendly relationship and high levels of mutual confidence that have been built over the years. Moreover, tighter connection with India is perceived as a way of balancing against a rising China. In addition, while Russian officials benefit from a major role in the cooperation with India, they are more and more conscious of and unhappy with their minor role in Russian-Chinese interactions (*ibid.*).

3.5 Cross-border cooperation

Heilongjiang province in Northeast China plays a critical part in Russian-Chinese trade relations. This province has been the longest and most economically active border with Russia. In recent years nearly 20~25 percent of bilateral trade volume is coming from, or go to Heilongjiang province.

A flow of resolutions taken by the China's central and local governments to reinforce Russian-Chinese economic connection, in particular economic exchanges across the border zones, was welcomed on the Russian side with a diversity of responses.

The Pogranichny—Suifenhe Trade and Industrial Complex opened in August 2006. It was meant to become an important emblem of regional Russian-Chinese economic integration. Alas, it has not been built according to what was planned. From 2004, in the Chinese side, 1 billion RMB was invested by the Shanghai Shimao group. The Chinese local governments and businessmen had hoped the trade and industrial complex would be the core of a border economy which is considered as a natural economic territory. By 2008, the Chinese side of the trade zone had a luxurious Holiday Inn hotel, and a huge shopping mall. The original planning also included a casino and factories. The objective of having people from both countries to move without severe restraints in the Pogranichny—Suifenhe Trade and Industrial Complex, however, could not be achieved because Russia did not agree to let Chinese citizen to cross the border without a visa. On the Russian side there are only a hostel and a church. Despite promises made at the Sino-Russian Trade Forum in 2004, no major corporations have injected money there. In the giant shopping mall, one can barely find more than a few Chinese merchants selling Chinese consumer goods and Russia souvenirs to the Chinese tourists. Twice or three times per hour, tourist bus arrives and tens of Russians would start shopping in the mall. Then, one hour or so later, they will board back on the bus and leave. Shop owners complain about the bad location of the complex because most tourists prefer to do their shopping in the Suifenhe town rather than the complex which is 20 minutes away by taxi from the town.

Another example is the Heihe bridge project. Heihe and Blagoveshchensk are twin cities which are only 800 meters away, separated by the Amur River. Heihe aims to facilitate trade and tourism by building a bridge. In the absence of a bridge, in the summer, ferry and hovercraft are used to cross the river. In the winter time, after the river is completely frozen, trucks and buses can pass on the ice. There is the inconvenience that the Customs Checkpoint has to be closed twice

a year, nearly 2 months during the periods of river freezing and ice breaking. The negotiation about building a bridge started in the middle of 1990s, however, more than ten years have passed by, and there is still no bridge. There are two reasons for the non-existence of the bridge: first, the Defense Ministry vetoed the plan for reasons of national security. Secondly, the bridge has been hindered by the involvement of a Russia private company. The current Customs Checkpoint of Blagoveshchensk is in a building owned by a private company and that company leased it to the Russian government to be used as Customs Checkpoint. In the case of a new bridge being built, the Customs Checkpoint would have to move to the end of the bridge which is supposed to be in the downstream, so that is why this company lobbied against the bridge plan.

The procedures of passing the customs are time-consuming. On the Chinese side of Heihe, the Customs Checkpoint, City Commercial Bureau, Health and Sanitary Check Bureau, and the shipping agent companies are in the same building in order to facilitate the trade. Chinese officials and businessmen are irritated by the inefficiency of doing business with Russia. It takes even longer time for a truck to pass the Russian customs inspection. Often, a truck loaded with goods passes Customs of Heihe then goes to the Russia side and wait to be checked there. Sometimes when the working hour on the Russia side is over, the trucks which have not been inspected have to return to the Chinese side again. The local transportation companies started to hire Russian drivers just to drive the trucks across the river, saying that a Russian driver costs more but will save lots of time.

From those three examples, we can see that Russia still sets national security to a higher priority than economic cooperation. Indeed, as Andreas has pointed out that foreign economic penetration tends to raise the question for border areas, of whether borders can perform “both as better security barriers and as efficient economic bridges at the same time” or whether ensuring the continued operation of

the border as an effective security barrier “may restrict its role as an efficient economic bridge” (Andreas [2003] p. 96).

Concluding Remarks

There are a variety of paradoxes in Russia's policy toward the economic exchanges with China. It is true that, on the one hand, at the domestic level, and in particular in a region such as the RFE, trans-border issues become hard to ignore. On the other hand, threat perceptions and Great Power considerations cannot address development issues of the RFE which are closely connected to the Northeastern China and Northeast Asia.

The fear of becoming a “raw materials appendage” to China has hindered cooperation at the local level ; Russia complains that China imports too much resources from Russia, but not enough machinery products. As a matter of fact, in 2005, oil, oil products, wood and pulp consisted of more than 84 percent of Russia's total export to the world. Meanwhile, Russian machinery and transportation equipment amounted to 1.0 percent. Thus the overall structure of Russian exports to China conformed to Russia's global trade profile as a supplier of raw materials, metals, and semi-processed goods (Ma [2007] p. 85). Yet, Russia has never been heard complaining about being a raw materials appendage to Europe or to Japan even though fuels and related materials accounted for 79 percent of EU's imports from Russia and fuels and related materials accounted for 76 percent of Japan's imports from Russia in 2010 (European Commission [2012] ; JETRO [2011] p. 11).

Another contradiction is that Russia's economic and energy policies tend to bolster the prominence of raw materials. Russia has shown its desire to gain the status of “energy superpower”. Russia's GDP, export and government budget is heavily dependent on its oil and gas revenue. The overdependence on energy

revenues has distorted the economy and has had broader repercussions at the regional and domestic levels. Moreover, Russia stands alone as the only major economy that hasn't increased industrial production in the last 20 years, while China expanded its industrial production 4.3 times between 1994 and 2008. Industrial workers make up only 16 percent of Russia's workforce. Unemployment, low income and shorter life expectancy in the RFE, these deeply entrenched problems are still far from being solved.

Russia's ambivalent attitudes towards China have greatly impeded its own economic development in the RFE and turned out to be self-fulfilling. In other words, to avoid being dependent on China, Russia tried to control the border, and its own resources, etc. However, the geographic proximity with China and the economic structure of the RFE has turned the bordering regions into a natural economic territory. Without cooperation with China, the problems of the RFE will remain unresolved. Therefore people there will continue to move out and the population balance will worsen further across the border, the China Threat will grow even bigger, and this will further impede the cooperation with China.

What is needed is cutting the Gordian's knot. If Russia cannot overcome its fear of China, it will not be able to benefit from the rise of China. To constrain a potential hegemonic China or an imagined predatory China, closing its border or stopping the economic exchanges is not a solution. In order to avoid an overdependence on China or become a raw material appendage to China, Russia needs to improve its relationship with other Asia-Pacific countries, to get the Russian-Chinese relationship enmeshed into a regional cooperation framework. Only by developing the RFE, Russia can overcome its threat perceptions of China. As Lampton said that "China is a giant screen", when Russia looks at it, what it sees is its own weaknesses.

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