COOPERATION AND COMPETITION
Russia and China in Central Asia, the Russian Far East, and the Arctic
Paul Stronski and Nicole Ng
FEBRUARY 2018
COOPERATION AND COMPETITION
Russia and China in Central Asia, the Russian Far East, and the Arctic
Paul Stronski and Nicole Ng
Contents

About the Authors v
Summary 1
Introduction 3
History 4
Central Asia 9
The Russian Far East 17
The Arctic 25
Implications 32
Notes 39
Carnegie Endowment for International Peace 49
About the Authors

Paul Stronski is a senior fellow in Carnegie’s Russia and Eurasia Program, where his research focuses on the relationship between Russia and neighboring countries in Central Asia and the South Caucasus. Stronski served as a senior analyst for Russian domestic politics in the U.S. State Department’s Bureau of Intelligence and Research. He was director for Russia and Central Asia on the U.S. National Security Council Staff from 2012 to 2014, where he supported the president, the national security adviser, and other senior U.S. officials on the development and coordination of policy toward Russia.

Nicole Ng is a James C. Gaither junior fellow in Carnegie’s Russia and Eurasia Program.

***

The authors wish to acknowledge the Ministry for Foreign Affairs of Finland for their generous support of this research effort.

Additionally, the authors would like to thank Alexander Gabuev, Annie Himes, Sinikukka Saari, Andrew Weiss, and Xin Zhang for their insights and feedback on earlier versions of this paper. The authors also appreciate the insights of those who attended a series of workshops on the topic in Helsinki and Washington.
Summary

Since the collapse of Russia’s relationship with the West over Ukraine, the Sino-Russian strategic partnership has become more of a reality. Russia and China share a common desire to challenge principles of the Western-dominated international system. But their relationship is complex, with lingering mistrust on both sides. The balance of competition and cooperation is most evident in Central Asia, the Russian Far East, and the Arctic. Engagement in these theaters has tested Russia’s and China’s abilities to manage their differences and translate the rhetoric of partnership into tangible gains.

The Reality of Partnership

- In Central Asia, China is emerging as one of the most influential players, and there is little Russia can do about that. The prospects for Russia’s Eurasian Economic Union look dim against China’s Belt and Road Initiative. The arrangement is fairly stable for now, yet fears of instability from South and Central Asia have forced Beijing to slowly increase its security profile there.

- Russia considers economic development of its eastern territories a strategic imperative, for which Chinese investment is essential. But Chinese investment is not materializing as broadly as Russian business interests would like, while Beijing often uses its economic leverage to extract favorable commercial terms.

- In the Arctic, Russia needs China to realize many of its goals for infrastructure development and resource extraction. China is eager to access the Arctic’s economic potential and enhance its technological prowess by partnering with Russia on key projects. Yet this presents new challenges for Moscow, which tightly guards its sovereignty in the region.

Implications

- China holds the upper hand in the relationship, and this power asymmetry will continue to grow at the expense of Russia. But Russia and China have more to gain from cooperation than outright competition. Barring an
unlikely course correction in Russia’s relationship with the West, the partnership will strengthen.

- **The Sino-Russian partnership may be tempered by unfulfilled expectations on both sides.** As China envisions a more active role in regional and global affairs, its long-term ambitions with respect to Russia are not clear. China’s decisions will set the course for the Sino-Russian relationship, while Russia will remain only in a position to react.

- China’s expanding commercial interests in Central Asia, the Russian Far East, and the Arctic are likely increasing the competitiveness of Chinese firms on a global scale. **But the greatest threat to the West of the Sino-Russian partnership emanates from their efforts to adjust the international system to their advantage.** As both Russia and China pursue increasingly activist foreign policies, Western policy needs to come to terms with the fact that their partnership is here to stay.
Introduction

Since the collapse of the Soviet Union, Moscow and Beijing have transformed their relationship from being Cold War adversaries to become pragmatic partners with a common goal of pushing back at a Western-dominated international system. Their relationship is tactical and opportunist but marked by increasingly compatible economic, political, and security interests. Sharing a geopolitical worldview of multipolarity, they both have firm desires to contain Western power and seek to accelerate what they see as the weakening of the United States. With a common desire to shift the center of global power from the Euro-Atlantic space to the East, they aim to rewrite at least some of the rules of global governance, suggesting that their partnership is becoming increasingly strategic. Yet the Chinese-Russian relationship is complex, with lingering mistrust on both sides. Despite the grand ambitions for cooperation voiced by the two countries’ leaders, achieving substantive results often eludes them, particularly in the Russian Far East and the Arctic, where realizing the plethora of trade, investment, and infrastructure deals announced since 2014 has been difficult.

As a result, bilateral ties between the two countries have become highly personalized with Russian President Vladimir Putin and Chinese President Xi Jinping directing commissions, sitting officials, and heads of state corporations to develop financial and trade deals—most of which are large-scale, top-down investments of Chinese money into key sectors of the Russian economy. Many areas where Russia and China now cooperate—transportation infrastructure, energy, telecommunications, and high-tech military sales—had been de facto closed off to Russia’s Chinese partners just a few years ago, because Moscow has focused more effort on engaging Europe as its priority economic partner, source of international financing, and provider of cutting-edge technologies. Moscow’s pivot to China, accelerated by the collapse of its relationship with the West over Ukraine, has enabled the Kremlin to keep some of its most important state assets going—Rosneft, Gazprom, and the Yamal liquefied natural gas (LNG) project—despite Western sanctions.
For the West, this shift also has implications for the competitiveness of Western companies as Chinese firms gain market share in Russia. The technological advances Chinese companies may gain by working in Russia could make Chinese manufacturing, weaponry, telecommunications, hydrocarbon exploration, and drilling capacities more innovative and competitive on a global scale. Yet there are clear negative implications for Russia from this shift. Beijing clearly now holds the economic and political power in the bilateral relationship. It is increasingly exercising this power to its advantage, but it frequently defers to Russia symbolically and offers assurances to manage Russian concerns over the imbalance in relations, particularly as Moscow seeks to shore up its position in the Asia Pacific. Beijing, for example, recognizes the need to accommodate Russian interests and sensitivities to ensure that its vision for the Belt and Road Initiative (BRI), which is solidifying China’s economic dominance in Central Asia, will bring benefits to Russia. It offers still undefined pledges to coordinate Russia’s Eurasian Economic Union with the BRI. This deference to Moscow has led Beijing to cede most hard security issues in Eurasia to Moscow, although growing Chinese concerns about instability in Central Asia and Afghanistan have increased Beijing’s interest in becoming a security provider to the region—a move that could stoke friction with Moscow over time.

In the Russian Far East, China has attempted to alleviate Russian insecurities by promising investments to boost the region’s economic development. Similarly, China’s increasingly prominent role in the Arctic internationally has also led to pledges to help develop energy, transportation, and telecommunications infrastructure in the Russian far north. However, the implementation of many of these deals remains uncertain. Chinese investors often complain of high corruption and impenetrable bureaucracies, or are hesitant to invest in Russian companies that have been sanctioned by the West. Thus far, Russia and China have successfully managed their differences in Central Asia, the Russian Far East, and the Arctic, but potentially divergent interests remain over the long term. Some Russians now quietly express concern about Beijing’s growing geoeconomic and geopolitical ambitions in the Asia Pacific region.

**History**

At the end of the Cold War, few would have predicted a robust Russian-Chinese relationship in the twenty-first century. The two countries have had a long, complex, and contentious history dating back to the 1800s, when Russia’s eastward expansion across Siberia and the Russian Far East led to China ceding over 1.5 million square kilometers of territory to imperial Russia. Rocked by war and revolution in the twentieth century, both countries became brief allies
after the Communist Party takeover in Beijing in 1949, as Moscow dispatched technical aid, financial assistance, and political advisers to China. At the time, Moscow was firmly the leader of the global socialist movement and saw itself as by far the stronger partner in the Sino-Soviet relationship. However, the two countries split ideologically during the Nikita Khrushchev era, becoming Cold War adversaries by the 1960s with a highly militarized and disputed border that stretched 4,380 kilometers. A series of border clashes in 1969 left scores of mostly Chinese soldiers dead. Along with a heavy dose of anti-Chinese propaganda, this history of Cold War tension along the Soviet-Chinese border helped ingrain Sinophobic stereotypes among the general population of former Soviet Central Asia and the Russian Far East—tendencies that still linger in popular consciousness today.

In the Mikhail Gorbachev era, Russia and China started to normalize relations, though the collapse of the USSR in late 1991 put the two countries on different trajectories. Under former president Boris Yeltsin, Russia moved toward the West, seeking advice from the United States and Europe on how to push through democratic reforms—processes that largely failed, as the country descended into early post-Soviet economic, political, and social chaos. Although the North Atlantic Treaty Organization (NATO) initially embraced Moscow as a partner in the early 1990s, it expanded to include former Warsaw Pact countries, conducted operations in the Balkans against Moscow’s wishes, and eventually increased its military footprint across Eurasia to support the Afghan war effort. Russians—the political elite and the population at large—grew resentful of the West’s growing power, NATO’s presence in and near Eurasia, and its perceived lack of deference to Russian interests.

China, however, did not suffer similar disillusion with the West. Isolated after the 1989 Tiananmen Square crackdown, Beijing had no incentive to launch political liberalization programs, partner with the West, or seek European or U.S. assistance. After witnessing the political chaos of the late Soviet Union and early post-Soviet Russia, China chose a different path. Keeping its political system closed, China liberalized markets, attracted foreign investors, and transformed itself into the world’s factory. China’s strategy succeeded and led to large-scale urbanization, infrastructure development, and economic growth, with no dilution of the Communist Party’s centralized rule and political control. China has since grown into the world’s second-largest economy, yet one that is largely dependent on the free flow of trade with key markets in Europe and North America. That dependency has provided a stabilizing ballast to China’s relations with the West, given it a greater stake in the existing international system, and has prevented the sort of turbulence that Russia has seen in its relations with Europe and the United States over the past decade. Still, despite its co-dependency with the West, Beijing is wary of perceived U.S. hegemony in both economic and security spheres.
After the Soviet collapse, China and Russia began working on resolving their border dispute and advancing economic ties. Despite their different development paths, growing Russian disillusion with the West, coupled with China’s rising international ambitions, accelerated the Sino-Russian rapprochement. In 2001, Russia and China signed the Treaty of Good Neighborliness and Friendly Cooperation, which set forth a bilateral relationship based on “mutual respect of sovereignty and territorial integrity,” noninterference in internal affairs, equality, and mutual benefit. 3 Years of negotiations on their borders culminated in China receiving almost 340 square kilometers of disputed territory from Russia in return for Beijing dropping all other land claims against Moscow. Today, neither sees major threats emanating from across their common border. Rather, Moscow is much more concerned about insecurity on its western flank, where it faces NATO, or about threats coming to Russia from the Middle East or Afghanistan through the Caucasus or Central Asia. Beijing, too, appears worried about instability coming across the border from Afghanistan and Central Asia, and is intensely focused on shoring up its position amid territorial disputes in the South China Sea and East China Sea.

Economically, cross-border trade and migratory labor between China and its former Soviet neighbors in the 1990s provided an essential lifeline to communities in Central Asia and the Russian Far East. China, unable to buy military technology from the West in the 1990s, also looked to Russia as a supplier of military industrial technology. Moscow’s exports slowed in the mid-2000s over concerns of Chinese reverse engineering of Russian equipment, although high-technology exchanges recently restarted, with China again a major buyer of Russian arms. Although technology transfer likely will facilitate China’s transformation into a formidable arms competitor, Russia is eager right now to take advantage of China’s appetite for Russia’s most modern armaments while Moscow still enjoys the upper hand in this sector.4

On a multilateral basis, China and Russia began coordinating their positions in the United Nations (UN) and other international bodies in the 1990s. In 1997, for example, they presented to the United Nations General Assembly a “Joint Declaration on a Multipolar World and the Establishment of a New World Order,” an early indication of their common resentment of Western dominance in the international system and their desire to reconstruct it to their benefit.5 They both promote the United Nations as a key pillar of the international system, because of the authority and leverage that their status as permanent Security Council members provides. They likewise have worked together in the Asia-Pacific Economic Cooperation (APEC) forum, the East Asia
Summit, G20 group of prominent economies, and the BRICS group (Brazil, Russia, India, China, and South Africa) to align their interests. In 2003, they both pushed back at the UN against the Iraq war, and they criticized (although neither vetoed) the West’s military intervention in Libya. Today, both frequently highlight the instability that Muammar Qaddafi’s ouster brought to the region. Neither, however, has acted upon any concrete solutions of their own to stabilize the broader Middle East.

Since then, Beijing and Moscow have worked together to challenge principles of the U.S.-led international system to which they share an aversion. They have worked to defend fellow authoritarian states from human rights criticisms and external efforts to change their political trajectories. They label Western democracy promotion as an example of harmful, destructive, and unacceptable interference by strong powers in the internal affairs of sovereign states. They also look to each other for models for ensuring regime stability and domestic governance. Beijing, for example, has passed legislation similar to Russia to curtail the activities of nongovernmental organizations and limit their ability to accept foreign funding. Moscow likewise is trying to incorporate aspects of China’s internet firewall to gain greater control over information flows on the Russian-language internet. Moscow’s new laws banning virtual private networks (VPNs) appear to be following the Chinese model of clamping down on VPNs and other internet proxy services that allow users access to websites that are restricted by the state. They likewise have cooperated in various international fora to increase the power of states over the internet, challenging the free flow and access of information, and seek to reduce the power of the West over decisions concerning global governance.

Advancements in their political, economic, and international ties have led Beijing and Moscow to promote their “strategic partnership,” claims that have only strengthened since Putin’s “pivot to Asia” in 2013 and Russia’s break with the West after the Ukraine crisis the following year. Both countries see the other as a useful counterbalance to U.S. influence. Furthermore, with its traditional sources of capital now restricted due to sanctions, Russia sees China as a provider of funds to support its struggling economy. China, meanwhile, benefits from Moscow’s efforts to thwart Western military and economic power globally, ceding leadership to Russia in opposing Western policies abroad, while benefiting by receiving minimal blame. Yet when Russia and China have come together in Central Asia, the Russian Far East, and the Arctic, their individual interests and realities on the ground have tested their ability to manage differences and sustain this strategic alignment.

Beijing and Moscow have worked together to challenge principles of the U.S.-led international system to which they share an aversion.
Differences in Chinese and Russian Views of Multipolarity, Global Governance, and the International Order

Both Russia and China welcome a shift to a pluralistic world order with an enhanced role for them and a diminished one for the West. While Russia and China have publicly embraced multipolarity together, their views on global governance and sovereignty diverge, as do their approaches to rearranging the current international order. Russia's recent foreign policy moves highlight a greater ambition to overturn the current liberal order, which it sees as a direct threat to its interests and security. Russia's view toward multipolarity holds that the Western-dominated, post–Cold War international system has sidelined its security interests in its immediate neighborhood and suppressed what it sees as its rightful role as a great power. For Russia, multipolarity means an international system where power is balanced between influential global players with a diminished role for the United States and the liberal values it allegedly has imposed on other states. Moscow, particularly since 2014, has mounted a revisionist and offensive challenge to the current order, showing a willingness to take substantial risks to weaken Western power within the international system.

In contrast to Russia, China recognizes that it has benefited from the rules-based international order. The processes of economic liberalism and globalization have facilitated its rapid economic rise over the past thirty years. Though China has expressed dissatisfaction with U.S. unilateralism and the West’s promotion of human rights and democratic values, China has benefited from the public goods that U.S. global leadership has provided, enabling China to focus on its internal development over the past few decades. Beijing likewise has gained tangible benefits from international financial institutions; it is one of the largest recipients of World Bank loans and its participation in international organizations has raised China's confidence, global engagement, and presence. Therefore, unlike Russia, Beijing's vision of a multipolar world order does not necessarily envision a radical dismantling of the current international system; instead, China seeks to reform the system of global governance to increase its role and influence to match its growing economic power and size. China desires an increase in the representativeness of existing global institutions by providing developing countries—particularly itself—a stronger voice so that they can more readily pursue their interests on a global scale. Beijing also seeks to highlight that its model of authoritarianism and development can be an alternative to the prevailing norms of the West.

Beijing seeks to implement its vision of multipolarity largely within the existing international system. President Xi has affirmed the importance of Beijing playing a greater role in global governance and taking an active role in global leadership, a role Russia does not seem as interested in assuming. In fact, Xi has begun to cast China as a defender of economic globalization and inclusivity, as well as a leader in combating global challenges, like climate change. Unlike Russia's willingness to take large risks, China's approach is generally cautious, reflecting its desire to safeguard its economic interests. China certainly does subvert the established international system, for instance when it violates international trade norms, but it generally does so for commercial reasons. It is only in the Asia Pacific, where China sees its historic role as the superior power and center of the region, that China has taken a more aggressive foreign policy stance, as its actions in the South China Sea attest.
Though China seeks to make direct changes to the distribution of power in the current system, it sees little gain in overturning existing institutions. Whereas Russia seeks to exploit divisions and weaken European unity, China still finds a stable European Union, particularly an integrated, single market, to be in its interest for commercial and economic reasons. The EU’s importance to Beijing likely will grow should U.S.-Chinese relations deteriorate over trade. China’s challenge to the current system thus far primarily takes the form of its creation of and support for parallel regional organizations and institutions, such as the Asian Infrastructure Investment Bank. These institutions demonstrate to the West that China will promote alternative models of governance should existing institutions push back at Beijing’s call for a greater say within them.

Central Asia

Central Asia is witnessing a major rebalancing of power with Russia declining and China emerging as one of the region’s most influential players. China’s rise in Central Asia is due to its broad vision for regional connectivity, appetite for Central Asian energy resources, and ample reserves, which it distributes to Central Asia through commercial investments, loans, the Asian Infrastructure Investment Bank, and several other entities. Unlike the West, China makes no demands for political reform from Central Asian governments. Unlike Russia, Beijing does not use political pressure to keep the region in its general orientation. The lack of an overt political agenda—other than regional stability, which Beijing believes can be guaranteed through economic development—makes China particularly attractive to local governments.

While China’s presence is growing across all of post-Soviet Eurasia, its expanding geopolitical and geoeconomic influence is most striking in Central Asia, which is where China has learned how to manage Russian concerns over its growing regional influence. With the BRI expected to expand Chinese influence throughout Eurasia, including Russia, maintaining positive dynamics with Moscow in Central Asia will remain one of the most important tests of Chinese political and economic diplomacy; so far, Beijing appears up to that test. China is astute in managing Russia, because Beijing engages with Central Asia primarily on economic issues; it has made no overt push into political or military issues. While Beijing’s soft power is growing in Central Asia, it still cannot compete with Russia’s media presence in the region or the fact that Russian universities, particularly those in Siberia, remain more popular than Chinese ones, although the number of Central Asian students studying in Chinese universities—often with hefty stipends from the Chinese government—is on the rise. From 2005 to 2015, the number of Kazakhs studying in China increased from 781 to 13,198, while the Chinese government now
offers twenty-three academic scholarships to Kyrgyz citizens wishing to study at Chinese higher education institutions. 17

Beijing has been effective at managing Russia’s concerns about its place in Central Asia in part because there is little Russia can do about China’s influence in the region. Moscow cannot compete economically, and its actions in Ukraine have alienated prominent Central Asian political elites. Yet many of China’s goals in the region—economic development, political stability, and keeping the West at bay—either coincide with Russia’s agenda or at least do not contradict Russia’s short-term interests. China’s first priority for Central Asia is to promote political and social stability through development. Given the chaos that has roiled the Middle East since 2011 and Ukraine since 2014, both China and Russia fear the potential for political instability and popular protest in the region; both seek to preserve the political status quo, as opposed to transforming it. Both countries also remain concerned about extremism moving from Afghanistan or the Middle East—two of the most insecure regions of the world—to Central Asia, which borders both China and Russia. Yet while they enjoy a symmetry of interests over the need to contain radical extremism, their approaches to securing stability in the region differ. Russia generally is focused on hard power in Central Asia—military bases, weapons deals, and counterterrorism cooperation through the Collective Security Treaty Organization (CSTO).

China concentrates its efforts to stabilize Central Asia through economic power, not military or security tools. Unlike Moscow, Beijing is not keen to highlight its geopolitical influence or lay claim to the region. China, however, concentrates its efforts to stabilize the region through economic power, not military or security tools. Unlike Moscow, China is not keen to highlight its geopolitical influence or lay claim to the region as its part of its “privileged sphere of influence.” Preserving its influence in the South China Sea is far more important to Beijing than showcasing its power in Central Asia. China instead seeks to create a zone of stability around its restless and poorly developed Xinjiang Autonomous Region in western China, home to the Turkic Muslim Uighur population. Beijing sees prosperity on one side of the border as helping to ensure stability and prosperity on the other. This suggests that China’s interests in the region largely derive from its need to keep western China pacified, to develop its economic potential, and to link it more closely with the rest of China and the outside world. Part of this policy obviously also includes gaining leverage in neighboring countries to help Beijing influence their approaches to Xinjiang and the diaspora Uighur minority populations across Central Asia. In fact, regional governments across Eurasia have become loath in recent years to resist Beijing’s requests to monitor local Uighur diaspora communities, to restrict activities of local Uighur civil society groups, and to extradite Uighurs suspected of links to extremist or secessionist groups. 18 This sort of political influence does not damage Russian interests in the region.
A second Chinese goal in Central Asia is to find external markets for Chinese companies active in construction and infrastructure development, as part of China’s Go Out strategy.19 This helps reduce excess capacity at home in these sectors and creates opportunities for Chinese firms and workers abroad. Although Russian companies are also keen to bid on various infrastructure projects in Central Asia, the sector is already quite crowded with Japanese, South Korean, Turkish, and other entities, many of which are more competitive than their Russian counterparts. This crowded field helps to minimize the potential for direct commercial friction between Russia and China over Beijing’s Go Out program in Central Asia.

Beijing’s third goal—most vividly seen in the BRI—is to build transportation networks that can help support Chinese export flows; China sees this as a long-term project that will help develop China’s western most regions by linking them through a network of rails and roads with key global markets in the years to come. It has pulled Russia directly into this project, through the China-Russia-Mongolia economic corridor and a plan announced in summer 2017 to include the Arctic in the BRI. These transport networks, if realized, will modernize and expand road and rail lines between the countries. China is also active in other Russian rail projects, suggesting that many of them—again if completed—will become part of the BRI vision.

When it comes to the BRI, China is not concerned about short-term profits and reportedly expects to lose up to 30 percent of its investment in Central Asia.20 Yet it continues to build roads, bridges, tunnels, and high-speed rail lines throughout the region with ambitious plans to connect them to other infrastructure projects closer to Europe—the final destination of the BRI, where Chinese investment is also on the rise in the transportation and logistics sectors.21 Chinese companies also have begun seeking opportunities to install fiber optic and other telecommunication networks across the region, creating digital connectivity from China to Central Asia and beyond. China hopes that some of these new physical and digital networks will become profitable and simultaneously help create a series of friendly, if not pro-Chinese, regimes along the way. The BRI is a vision of trade and information flow with China—not the United States or Europe—as its driving force. If successful, the initiative will help facilitate the common Russian-Chinese goals of accelerating the transfer of global power from West to East.

Kazakhstan features prominently in the BRI—a program Xi Jinping announced in Astana in 2013. Kazakhstan’s central geographic location on the Eurasian landmass makes it the most important Central Asian transit state for China’s efforts to link western China to markets in Europe and the Middle East by rail. China is interested in Kazakhstan, and by extension Central Asia, as a central part of the BRI because it is far more stable than the alternative land routes China is constructing, particularly the China-Pakistan economic corridor, which traverses one of the world’s most insecure regions. Kazakhstan
also figures prominently in the BRI because it complements Astana’s own Nurly Zhol plans for modernizing its infrastructure, which makes the country’s leadership particularly receptive to China’s initiative.

Furthermore, much of the heavy lifting on these infrastructure plans already has been completed. The first three lines of the Central Asia–China pipeline, which brings Central Asian gas to market in China, were all completed by 2014; they now have been repackaged as part of the BRI’s successes. China has promoted the China–Kazakhstan rail connection at Alashankou in northwestern China, which opened after the fall of the Soviet Union, as a key BRI outpost. Alashankou’s population has tripled in the last five years, and in 2016, 1,220 trains passed through the city on the way to Europe. At the second rail crossing, Kazakhstan’s Khorgos Gateway, the dry port through which Chinese exports are transshipped from Chinese to Kazakh trains, did not exist in 2010; today, however, it also features prominently as a BRI transit hub and handles an average of sixty-five trains a month, facilitating movement of Chinese goods westward to Europe across land. Yet the cargo loads transiting Khorgos are still a small number and the profitability of the project—to either Kazakhstan or China—remains unclear. For containers transported via both Alashankou and Khorgos by rail through Central Asia, China provides huge subsidies—at times up to 40 percent of the cost—to lower freight costs so that rail operations are just as competitive as the far cheaper alternative of shipping. While overland transportation reduces the delivery time of containers by half compared to ocean routes, rail freight is currently not economically viable without Chinese government subsidies.

Prospects for Coordinating the BRI With the Eurasian Economic Union

The Russian-dominated Eurasian Economic Union (EEU), which includes both Kazakhstan and Kyrgyzstan, has been the Kremlin’s answer to shoring up its economic influence in its immediate neighborhood. Yet Russia’s economic troubles have spread through the bloc since its establishment in 2015. The devaluation of the Russian ruble has led to a reduction of migrant worker remittances to Kyrgyzstan, while cheap Russian food and petroleum producers have undercut Kazakh producers, both of which raise questions about the EEU’s long-term viability. Existing members generally are unhappy with the integration project. In Central Asia, Tajikistan remains lukewarm to membership, although Russia eventually may pressure it to join. Turkmenistan and Uzbekistan seem unlikely to follow suit. Without Uzbekistan, it is unlikely that Central Asian EEU members will see much benefit from a bloc that excludes the region’s most populous country (with over 30 million people).

Given the EEU’s difficulties and the growing reality of China’s economic penetration of the region through the BRI, Presidents Putin and Xi repeatedly have pledged to coordinate their respective
economic visions for Eurasia, most recently in November 2017. How this coordination will occur remains to be seen, particularly because the projects have two different visions for the future. The BRI is an ambitious plan to connect multiple markets, while the EEU is an effort to create a single, closed market dominated by Russia. In addition, Central Asian countries generally conclude agreements with China on BRI projects bilaterally, avoiding any involvement of Moscow, despite Russia’s insistence that such agreements be done through the EEU framework. Thus far, there has been little-to-no progress on linking the two projects. This suggests that Beijing’s agreement to coordinate projects on a multilateral level with Russia at the table may be an effort to placate Russian concerns in public, as opposed to a real effort to integrate the two visions on equal terms.

While the BRI has become a broad framework to unite China’s current and future investment projects in the region, trade is what drives China’s relationship with Central Asia. Trade volumes have boomed between China and the five regional states since the 1990s, when they fluctuated between $350 million to $750 million annually. In 2016, trade volumes reached $30 billion, a figure that dwarfs Russian annual trade with the region. Energy exports and other natural resources have formed the basis of this growth, involving billions of dollars in energy-related infrastructure projects and acquisitions of Central Asian energy assets. Bilateral trade and investment between Astana and Beijing has been particularly robust. As of June 2017, Chinese total investment in Kazakhstan since independence amounts to $42.8 billion, and loans to the country have surpassed $50 billion.

China’s economic rise in the region took Russia and the West by surprise. While Moscow in the mid-2000s sought to thwart Western plans to construct a pipeline across the Caspian Sea to transport Turkmen and other Central Asian gas to Europe, China entered and quickly dominated the Turkmen market. Today, it is the country’s main market for gas and ultimately its primary source of foreign capital. Turkmenistan is now fully dependent on China for its gas sales, a dependency that has grown from zero in 2007, when the China National Petroleum Company (CNPC) first received a license to explore and extract onshore gas in Turkmenistan. CNPC remains the only foreign company ever to acquire such rights.

China’s emergence as the dominant actor in the region’s energy and infrastructure sectors, along with its growing presence as the lender of choice for Central Asia (and Russia), has deep political consequences that theoretically should concern Moscow. Ten years ago, the landlocked region depended on Russia for exporting its goods and natural resources to international markets. That gave Moscow enormous leverage to maintain a hold on what it considers its privileged sphere of influence. Yet it was China, not the West, that broke Moscow’s monopoly over Central Asian energy export routes with the Central
Asia–China pipelines, for which construction began in 2007. Furthermore, Beijing’s BRI, not Washington’s New Silk Road initiative, appears to have greater traction in the region and a good chance of linking Central Asia to external non-Russian markets.

Russia traditionally has been Central Asia’s main trading partner. But commercial ties between Russia and the region have atrophied over the past decade. Russia’s 2016 bilateral trade volume with the region amounted to $18.6 billion, compared to China’s $30 billion figure for the same period. Russia’s economic problems since 2014 have accelerated its weakening position in the region. In 2016, for example, Kyrgyzstan canceled a project with several Russian companies to build five hydropower plants, citing the Russian entities’ inability to secure financing. In Tajikistan, the Russian military has periodically been unable to pay its local Tajik staff at its base there, even though the base purportedly serves as a key bulwark in Russia’s defense against regional instability. That same year, Moscow pledged over $1 billion in security assistance to Dushanbe and promised to increase its troop presence in the country by 2,000 soldiers. Yet neither appears to have materialized, which raises questions about Russia’s true capacity and willingness to respond to a security crisis in the region and to project influence there.

Russia, however, strives to maintain its soft power—through historic and cultural connections and Russian-language television, film, and other media. It also seeks to preserve its political and military influence in the region and to limit the West’s role in these spheres. The latter is one of Beijing’s common goals in Central Asia, yet it is careful to be deferential to Moscow, refraining from projecting its own military power in the region and leaving most security issues to Moscow. When bilateral cooperation on security issues does occur between Central Asian states and China, it generally is done quietly and relates to individual security threats to Chinese economic or diplomatic facilities, or to allegations about extremist threats posed to China by members of the Uighur diaspora—an issue that is largely noncontroversial for Russia. Broader Chinese security concerns are addressed through the Shanghai Cooperation Organization (SCO), a forum dominated by Russia and China since its creation in 2001. Originally consisting of China, Kazakhstan, Kyrgyzstan, Russia, Uzbekistan, and Tajikistan, the SCO is neither a formal alliance nor a security organization, but rather a discussion and training forum, focusing primarily on counterterrorism, counternarcotics, and cyber issues. The four Central Asian states have long pushed for the organization to cooperate on economic development issues, but the track record on that front is minimal.

With Russia’s strong support, the SCO expanded to include India and Pakistan in 2017. One could argue that the expansion was a Russian effort to temper Chinese influence in the organization and to focus its attention on
Afghanistan, as opposed to Central Asia.11 However, the expansion of the SCO to include two South Asian regional powers is transforming the SCO into a larger multilateral organization that serves the Russian-Chinese goal of creating a more multipolar world order. The expansion of the SCO to include South Asian states follows China’s push to create the Quadrilateral Cooperation and Coordination Mechanism (QDDM), a counterterrorism organization consisting of Afghanistan, China, Pakistan, and Tajikistan—the first meeting of which occurred in Urumqi, Xinjiang in 2016—a clear indication of Beijing’s concern that instability coming from the broader region’s most vulnerable states could impact China and that it may need to act on its own to prevent instability from South Asia from crossing into China itself.32 For better or worse, the SCO’s greater focus on Afghanistan and South Asia will give China and Russia a bigger role in the region and a seat at the table in any global efforts to address Afghanistan’s and South Asia’s security problems, although the QDDM and China’s increased efforts to cooperate quietly on security issues on a bilateral level with Central Asian partners suggests it sees the SCO as of limited value.

Central Asia’s political elites generally view China’s growing presence in the region as a stabilizing factor. They believe Chinese investment in infrastructure will help diversify their economies, promote broader economic development, and create jobs—all of which could help stabilize struggling economies that are presently dependent on natural resource extraction or remittances from migrant laborers. They welcome the BRI as part of a broad vision for increasing regional connectivity. Yet, with perhaps the exception of Kazakhstan, Central Asian states have not developed any broad-scale plans of their own to modernize internal infrastructure or to create new economic opportunities and industries that could benefit from the BRI’s vision of connectivity. This raises the question of whether the BRI will simply transform Central Asia into a series of transit states, or whether they can truly develop into more sustainable economies that can take advantage of the new infrastructure projects. It is not in Russia’s interest for them to do so, as it could further reduce Russia’s influence in the region. China is not actively pushing them to do so either; Beijing’s priority is ensuring that the BRI jump-starts industrialization on the Chinese side of the border, although few Chinese analysts expect that these border regions will become major industrial hubs anytime soon. This raises key questions about the overall goals of the BRI and whether it will be effective in promoting stability in Xinjiang or former Soviet Central Asia, or improving regional standards of living.

Furthermore, Chinese investment in Central Asia often is done in nontransparent ways that generally benefit the elite. Beijing’s economic development model for the region fuels corruption and enlists Chinese over local workers, which creates local resentment and risks not addressing one the region’s key security problems—high levels of unemployment or underemployment. Given that China’s investment efforts in Central Asia are largely to support
its Go Out strategy, find work opportunities for Chinese companies and citizens abroad, and to link China to markets in Europe, it is unclear whether China’s efforts can lead to a broad-based rise in living standards or the creation of jobs for Central Asians—both important for long-term regional stability. Socioeconomic dissatisfaction in the region is fueling dissent and forcing young Central Asians into lives as migrant workers—mostly in Russia but also in Turkey, Europe, and North America—where they appear to be at greater risk of radicalization than at home. Although extremist threats certainly do exist in Central Asia, local community and broad-based family networks have helped steer vulnerable young men away from extremism. In fact, recent high profile terrorist attacks with links to Central Asia—Boston (2013), Istanbul (2016), New York (2017), Stockholm (2017), and St. Petersburg (2017)—were committed by people who became radicalized after emigrating from the region. This suggests that the lack of economic opportunities in Central Asia is not just a domestic issue for regional states but may also have broader security implications for Russia, Europe, and other destination countries for Central Asian migrants.

Yet local governments still see China’s presence in the region as a potential guarantor of regime security. China has no expectations of any political liberalization that may loosen Central Asian regimes’ hold on power. China also makes no overt effort to question Russia’s role in the region, avoiding the zero-sum dynamics that have led to numerous conflicts between Russia and the West and could otherwise cause tension in the region. Central Asians even see China as a hedge against potential Russian aggression; they are keenly aware that Chinese investments and Moscow’s growing dependency on Beijing raise the costs to Moscow of conducting any sort of destabilization campaign in the region, along the lines of what Russia has done in Ukraine. This latter concern is most deeply felt in Kazakhstan, a country with a large Russian border, significant ethnic Russian population, and growing fears of Russian meddling. For these reasons, China has become a priority destination for Kazakh President Nazarbayev and his senior officials, as well as their counterparts from across the region.

Since China’s economic power in Central Asia generally is not matched by equally ambitious plans to enhance its security or political footprint in the region, China has been able to prevent public tensions with Russia in the region. China has conducted some small arms deals and has been active in providing border and military security assistance to several Central Asian states, but it concentrates these efforts on the region’s weakest states: Kyrgyzstan and Tajikistan. Both are countries of concern for Russia, and Chinese security efforts there are minor compared Russia’s, given Moscow’s military bases in both. Chinese weapons sales to Turkmenistan have not upset Moscow either,
given the long history of tension between Russia and Turkmenistan, as well as Ashgabat’s close economic ties to Beijing through energy sales and loans. China has also supported counterterrorism efforts in Afghanistan. In December 2017, China appears to have moved toward establishing a more permanent security presence in the region. Afghan officials recently claimed that Beijing agreed to finance and build a base for the Afghan armed forces in the province of Badakhshan. The province borders China’s Xinjiang province via the narrow Wakhan corridor, but because it is impassable by most vehicles, the easiest way to reach Badakhshan is through Tajikistan—a route Chinese military vehicles have already used to conduct patrols in Afghanistan. This likely will increase Chinese security presence in both countries. The Chinese Ministry of Defense has denied Afghan officials’ claims, and says that construction on the base has not yet started. If realized, the facility could lead to more Chinese activity in Afghanistan, as well as through and along the Tajik border. This move suggests that China increasingly is willing to act on its own, particularly in its weaker neighbors, to combat terror threats and serve as a regional stability provider.

Nevertheless, China mostly appears concerned with addressing direct threats to Xinjiang province, rather than increasing its security presence in Central Asia more broadly. Yet it is unclear how long Beijing will defer to Moscow on most Central Asian security issues. At some point it may need to develop greater capacity to protect its economic interests, companies, and citizens working in the region, particularly given the gradual weakening of Russia there. With its declining economy, Moscow has less bandwidth and fewer resources to devote to security concerns in Central Asia. It also has a poor track record when it comes to trying to stabilize the region. When ethnic clashes ravaged Kyrgyzstan in 2010, Russia failed to intervene, despite a formal request by the Kyrgyz government for CSTO assistance during the crisis. For now, however, China appears content to shore up its interests through economic soft power, rather than hard power—an approach that has successfully kept friction between Moscow and Beijing to a minimum in Central Asia.

**The Russian Far East**

Within the past decade, Moscow has transitioned from seeing China as a threat to the Russian Far East to viewing it as a crucial partner in the region’s development. Ahead of the 2017 APEC Forum, Putin affirmed for the fourth consecutive year that the development of the Russian Far East is a “national priority for the 21st century.” Economic development of the Russian Far East is a key component of Russia’s goals to strengthen its security and increase its position in Northeast Asia.
Representing 36 percent of Russia’s territory, the Russian Far East is geopolitically significant for Russia due to its access to the Asia Pacific and the region’s wealth of natural resources, including oil and gas, iron ore and copper, other minerals, and precious metals. But the Russian Far East is vastly underdeveloped—the Far Eastern Federal District contributed 5.5 percent to Russia’s gross domestic product in 2015, while outmigration since 1991 has reduced the population by 20 percent. The 6.3 million inhabitants of the Russian Far East now face 110 million Chinese in the three provinces of Manchuria on the other side of the once fractious border. The Russian leadership and analysts have pointed to this demographic imbalance, as well as often exaggerated figures of illegal Chinese migration, to highlight the vulnerability of Russia’s Far East. Until the late nineteenth century, much of the Russian Far East remained under nominal Chinese rule, when the territories were ceded to Russia through what Beijing considered a series of “unequal treaties.” In the post-Soviet period, Russia has feared losing control of its Far East to China because of the latter’s economic and demographic dominance. Moscow has been skeptical of Beijing’s intentions in the Far East, specifically that Chinese economic activities and migration could trigger political influence and eventually territorial claims. Accordingly, Chinese businesses were long excluded from major mineral, construction, and infrastructure projects. Up until 2012, then president Dmitry Medvedev cautioned that the Russian Far East could become a raw materials appendage to China, at the mercy of Beijing’s “excessive expansion.”

Today, however, the Ministry for Development of the Russian Far East (MINVR)—established in May 2012—frequently emphasizes that China is essential to revitalizing the Russian Far East. To overcome the Russian Far East’s economic and territorial insecurities, Russia seeks to generate new economic activity and jobs that will not only stem the outflow of Russians from the region but also increase national exports to the Asia Pacific region. While natural resources inevitably constitute much of the Far East’s export flows, increasing the region’s nonresource exports through expanding secondary production capabilities and infrastructure improvements are also a priority for sustainable economic development. Beyond raw materials, China has expressed interest in developing infrastructure and logistics, agriculture, and tourism in the Russian Far East; its investments and financing are essential for transforming the Far East into “Russia’s Shenzhen.” To this end, since 2014, Moscow and Beijing have established various cooperative mechanisms to advance China’s participation in developing the Russian Far East.

China’s hunger for natural resources drives much of its interest in the Russian Far East, and the energy sphere has been the pillar of Sino-Russian engagement
in the region. While Chinese financing has helped unlock Russia’s eastern oil reserves, China has also leveraged its economic clout to diversify its energy sources under favorable terms. In 2009, Russia and China agreed to construct a spur pipeline of Russia’s Eastern Siberia–Pacific Ocean (ESPO) pipeline to Daqing, China, for which Rosneft and Transneft borrowed $25 billion from the China Development Bank for construction. Negotiations around the ESPO-1 pipeline demonstrated that China could at once assist but also corner Russian parties into acquiescing to its terms. Disputes around the commercial terms of oil supplied through ESPO-1—after which Rosneft and Transneft relented to a “country” discount for China—revealed Russia’s vulnerability vis-à-vis China, a monopoly buyer. At the same time, however, China has also provided Rosneft with billions of dollars of financial assistance to service its debt burden in the form of advanced payments for future oil supplies. From 2013 to 2016, Russian oil exports to China more than doubled, with Russia overtaking Saudi Arabia to become China’s top crude oil supplier in 2016. Concurrently, major Chinese equity investments in energy assets and oil fields have also increased, with a Chinese energy company most recently purchasing a 14.6 percent stake in Rosneft for $9 billion in September 2017.

Gas is subject to the same maneuvering and has required more state direction: it took Putin’s intervention after a decade of disagreements between Russian and Chinese companies on prices, pipeline routes, and financing agreements to seal a gas agreement between the two countries. In May 2014, Putin and Xi signed a $400 billion agreement for Gazprom to supply CNPC with up to 38 billion cubic meters of gas for thirty years through the Power of Siberia pipeline. However, due to China’s lower urgency for gas and Russia’s isolation from the West, Beijing has been able to push for favorable terms at the expense of Moscow. Although Gazprom has not disclosed the price China will pay for natural gas supplied through the Power of Siberia pipeline, given the known terms of the 2014 deal, China is most likely paying less than Western Europe per cubic meter of gas. Even with Putin and Xi’s intervention, the pipeline has still faced delays. Initially hoping to receive a $25 billion financing package from China to build the $55 billion pipeline, Gazprom turned down Chinese financing for the project, because China reportedly had pushed for higher interest rates than Gazprom would accept. Only two years after Xi and Putin’s agreement did Gazprom secure a $2.2 billion loan from the Bank of China for the pipeline. The Power of Siberia pipeline is now slated to be completed by the end of 2019. However, talks on two additional gas pipelines to China—the Sakhalin pipeline and Power of Siberia 2 in Altai—have stalled, because of the slowdown in China’s economic growth and subsequent uncertainty over its energy needs. Low gas prices also call into question the profitability of these energy deals for Russia.

Beyond oil and gas, Chinese investment could help Russia realize the second prong of its development strategy for the Russian Far East—developing
infrastructure and secondary sector enterprises to increase nonhydrocarbon exports to the Asia Pacific region. Such economic activity could help the Russian Far East move beyond being a mere exporter of non-value-added materials to China, as well as facilitate its long-term and sustainable development. Since 2014, Russia has established vehicles to attract domestic and foreign investment in the Far East, such as the Free Port of Vladivostok and the Priority Development Areas (PDAs). They offer fiscal incentives, free customs zones, deregulation, and other favorable conditions for long durations to incentivize business activities.46

Over the last three years, Moscow and Beijing have promoted China’s eagerness to participate in the development of the Far East’s nonhydrocarbon sectors, citing numbers that ostensibly demonstrate progress. In 2016, the Far East Federal District’s trade with China amounted to $6 billion, accounting for 25 percent of its foreign trade volumes.47 In a meeting with the vice premier of China’s State Council, Putin stated that Chinese investment in the Russian Far East has exceeded $3 billion since 2015.48 According to Minister for the Development of the Russian Far East Alexander Galushka, as of November 2017, the number of projects in the PDAs and the Free Port of Vladivostok involving Chinese capital tripled in the past year to twenty-eight projects worth $4 billion that account for 85 percent of foreign investment attracted to the Russian Far East since 2015.49 At the Third Eastern Economic Forum in September 2017—an annual conference to attract foreign investment to the Russian Far East—Putin even used these investment figures in jest to encourage Japanese Prime Minister Shinzo Abe to increase Japanese investments in the Russian Far East.50

Though strong political will and rhetoric exists on both sides for Sino-Russian cooperation in the Far East, there are serious doubts surrounding the realization of pledged investments. There are few reliable or consistent figures on realized Chinese foreign direct investment (FDI) to Russia generally; however, Vedomosti reported that in 2016, realized FDI from the Asia Pacific region constituted just $300 million.51 Announced projects, like those of the PDAs, often stall in the memorandum of understanding phase and may not always reflect realized investments. Before moving to the implementation phase, Chinese projects often require five to seven years of preparation and negotiation with Russian counterparts.52 As of September 2017, only half of the fourteen projects that submitted applications to the PDAs and involved Chinese companies had begun to be implemented.53 Barriers to Chinese investment and participation in the Far East’s development range from cost concerns, to inadequate infrastructure, poor knowledge and distrust between Russian and Chinese business communities, and local political dynamics.
Currently, much of Chinese investment and trade with the Far East and Siberian Federal Districts is concentrated in natural resources, which could entrench the Russian Far East as a resource appendage of China. In 2016, minerals constituted 33 percent of the Far East’s exports to China. Of the realized FDI from the Asia Pacific region, 85 percent of investments are in primary sectors of the economy with low value-add, including mining, chemicals, and petrochemicals. There has been demonstrated progress in resource extraction initiatives, because China has strategic interests in securing a long-term supply of natural resources from the north. China’s economy is dependent on natural resource imports, and the Russian Far East provides not only a diversified source, but also possible access to rare earth deposits. As China currently receives most of its primary imports through sea lanes from the south, a reliable and rich supply from its northern borders could also function as a hedge against a U.S. Navy blockade. Russia has granted Chinese investors equity stakes in previously closed-off sectors, and in return, China has provided financing, technology, equipment, and even labor to bring these projects to fruition. For example, in May 2015, Norilsk Nickel sold a 13 percent stake in a copper, iron, and gold mine 400 kilometers from the Chinese border to a consortium of Chinese investors, which marked the first Chinese purchase of an equity stake in a Russian mining project. A Russian bank received a $1.5 billion loan from the China Development Bank to invest in the project, while the mine’s entire output is expected to go to China.

To counter claims of Chinese resource extraction at Russia’s expense in the Far East, in 2016, Russia and China signed a memorandum of understanding for Chinese companies to move enterprises to the Russian Far East in twelve key sectors, including metallurgy, shipbuilding, textiles, and agriculture. In theory, Chinese enterprises would relocate to the Russian Far East because of domestic overproduction, access to the Russian market and its growth potential, the region’s natural resources, less stringent environmental oversight, and lower overhead costs due to the devaluation of the ruble. In turn, these factories could create new job opportunities for the region. While several initiatives have been announced, including China Paper Corporation’s intention to invest $1.5 billion in the construction of a pulp and paper mill in Khabarovsk, the cross-border transfer of Chinese enterprises has been limited.

For Russia, many of these initiatives have faced resistance at the local level. While at times misinformed, such opposition reveals the diverging perspectives between federal and local governments on China’s role in the Russian Far East. In 2015, large demonstrations erupted in the Baikal region against the leasing of more than 100,000 hectares of land for forty-nine years to a Chinese company. These concerns stem in part from the “farm rush” of the 1990s and early 2000s, when agricultural workers from China moved to the fertile land in the Far East along the border. Some Russians have pointed to this migration flow
as evidence of a Chinese takeover of the Russian Far East. In reality, land under cultivation in the region had declined by nearly 60 percent, while Chinese farms have been commercially motivated, primarily producing crops for the Russian market.\textsuperscript{59} To dispel these fears, Galushka has repeatedly emphasized that Russian workers will be the primary beneficiaries of the Chinese agriculture and production enterprises, while federal regulations require that 80 percent of jobs in these enterprises be reserved for Russian citizens. Russians also worry that the growing Chinese presence will facilitate Chinese economic domination of the Russian Far East at the expense of both foreign competitors and Russian enterprises. To try to assuage these concerns, MINVR has stated that Russian contractors and suppliers will receive priority in these enterprises.\textsuperscript{60} Locals have also voiced concerns over environmental pollution from the relocation of Chinese “dirty industries” to Russia. All of these concerns have contributed to the slow movement and imposition of bureaucratic hurdles on the Russian side. Furthermore, local officials may not view the implementation of these projects with the same expediency, because these value-added enterprises will not yield direct and immediate payoffs to local officials compared to natural resource extraction.

For the Chinese, distrust of Russia and the business environment impedes investment. Chinese businesses have expressed difficulties with adjusting to the specificities of business culture in Russia—likely referring to its slow pace and complex bureaucracy—compared to the business cultures in Europe, Asia, and Latin America.\textsuperscript{61} Even though Russian attitudes toward the Chinese may be improving, this change is only recent, and long-standing perceptions that Russians harbor anti-Chinese sentiment may still fuel Chinese doubts about the feasibility of pursuing business endeavors in Russia. Reports of local bureaucrats deliberately obstructing and inconveniencing Chinese laborers’ visa issuances and border entry are still recalled. Potential Chinese investors also cite concerns about the rule of law, insufficient investor protection, the unpredictability of Russian legislation, and their lack of knowledge of Russia as primary obstacles to investment.\textsuperscript{62} Due to these concerns, Chinese investors have preferred to pursue joint ventures with Russian partners, but even so, overall realized investments do not match Beijing’s promises or Moscow’s expectations. Furthermore, it is not clear that wages in the Russian Far East are lower than wages in northeastern China, and the declining Russian population has raised concerns over the supply of labor and the true potential of the domestic market. Concerns over sanctions, uncertainty surrounding macroeconomic stability, as well as the slowdown in China’s economic growth, have also contributed to investor reluctance.

Perhaps the most significant barrier to attracting foreign capital, not to mention the region’s broader economic development, is the inadequacy of
transportation infrastructure in the Russian Far East. Better transportation infrastructure could improve the region’s accessibility, lower transportation costs, and foster linkages between production facilities and existing rail lines and seaports, all of which would increase the region’s export capacity. In turn, these factors could improve the attractiveness of the region to China beyond resource extraction and foster more cross-border trade and local economic growth. Modernizing transportation infrastructure is therefore a high priority of Russia’s Far East Development Program.

Even though many Sino-Russian infrastructure projects could yield substantive economic benefits for both parties, they often face implementation challenges from Russia, which has frustrated China. Infrastructure deals are generally complex and take a significant period of time to complete, but the Russian bureaucratic maze and rent seeking have caused additional delays, in stark contrast to Chinese efficiency. The difficulties of infrastructure improvement are epitomized in the construction of the Tongjian–Nizhneleninskoye cross-border railway bridge over the Amur River. The bridge, discussions for which began in 2008, could reduce the distance of transporting iron ore from the Jewish Autonomous Republic in the Russian Far East to Chinese steel mills from 646 to 145 miles. China completed its section of the bridge on time for the scheduled opening in 2016. But construction of Russia’s portion of the bridge, however, stalled for several years due to funding issues, questions over the recipients of construction contracts and ownership structures, as well as permit difficulties. The bridge’s opening was most recently scheduled for 2018.63

Russia and China have announced additional ambitious infrastructure projects, yet they are all but destined for disappointment. The Primorye-1 and -2 international transport corridors (ITCs) could revitalize both the Russian Far East and China’s Northeastern provinces, but the projects are hampered by a lack of Chinese commitments and differences in perspectives on the ITCs’ economic appeal. The ITCs have a compelling strategic rationale. Currently, cargos from China’s landlocked northeast are transported long distances to the Chinese ports of Tianjin and Dalian for shipping, but the Primorye ITCs envision providing rail and highway links at significantly shorter distances from Jilin and Heilongjiang provinces to ports in Russia’s Primorsky region—for example, the Russian port of Zarubino, on the Primorye-2 ITC, is only 18 kilometers from the border.64 For China, the ITCs would provide long-coveted direct access to the Sea of Japan and ease the burden on China’s overloaded internal railways and ports, allowing China to export larger cargo volumes. MINVR has estimated that the ITCs could increase revenues for port operations and transportation companies by $1.6 billion annually.65 The cost of

Perhaps the most significant barrier to attracting foreign capital, not to mention the region’s broader economic development, is the inadequacy of transportation infrastructure in the Russian Far East.
infrastructure improvements for both corridors is at least $5.3 billion, and Russia expects that China will provide 80 percent of the required financing. But Chinese investments have not substantively materialized for the projects, even though both governments and the Export-Import (Exim) Bank of China have expressed their interest in the project.66 Despite the shorter transit routes via the ITCs, unless Russia improves its customs procedures, the ITCs may not yield substantial cost savings for Chinese cargos.67 Successful implementation of the ITCs also relies on Russia modernizing its roads, railways, ports, and logistics infrastructure along the route. Russia’s mediocre track record on implementing Sino-Russian infrastructure proposals, however, has dampened Chinese enthusiasm for Primorye.

Though both countries have much to gain from a revitalized Russian Far East, it is not clear when—if ever—Russia’s strategy of courting Beijing in the region to reduce its vulnerability to China will pay off. So far, China has bought into this design to appear a less threatening neighbor, but it has been slow to follow its promises with actual investments. Those that do occur are often ruled more by politics than economics. Beijing’s money is not free-flowing, and its own commercial and strategic interests will take precedence over rhetoric of partnership with Russia. The realization of Chinese capital will in part depend on Russia’s ability to change local perceptions and political bureaucracies on the ground, but this is an unlikely prospect. With a weak economy, Russia has little leverage to pressure China to meet its commitments, other than seeking investments from other Asian neighbors; Japan and South Korea, however, are even more reluctant investors than China, given their desire to maintain a united front with the United States on sanctions.

The Kremlin considers economic and social development of the Russian Far East essential to the region’s security, but the viability and feasibility of this strategy is in question, despite optimistic official Chinese and Russian rhetoric. An enduring weak position in this key strategic area could amplify Russian insecurities over its vulnerability in Northeast Asia. There has been little recent public discussion from officials or experts on the military threat posed by China, though Russia’s conventional weaknesses to China are known.68 Most of the steps Russia has taken in the past to shore up its security presence in Northeast Asia have been part of the process of military modernization or ostensibly directed toward other security goals. The deployment of S-400 systems to the Russian Far East over the past two years, most recently at the end of December 2017, in part constituted the scheduled process of replacing outdated S-300 units, a means of protecting Russia’s Pacific Fleet from U.S. systems, as well as a response to the escalating crisis on the Korean Peninsula.69 Still, these re-fittings may signal Russia’s desire to shore up its presence to all external
partners in Northeast Asia, China included. While some point to Russia’s decision to sell China S-400 systems—the first deliveries of which have begun this year—as a sign of growing military ties and trust between Russia and China, Russia’s commercial interests for tapping a rapidly advancing Chinese market, offset these claims. Nonetheless, Russia has little to gain from outright confrontation with China, while China prefers a secure northern border, so in the near term, the risk of any escalating tensions is close to zero. However, as it is not clear what China’s long-term intentions are with Russia, the Kremlin’s insecurity in Northeast Asia could increase if the Far East remains underdeveloped. Both countries may continue to exercise patience, in the short term, concerning expectations for development of the Russian Far East, but eventually, Russia could feel compelled to find an alternative means to demonstrate its presence in Asia.

The Arctic

As climate change and global warming open up the Arctic to greater human and commercial activity, international interest in accessing and exploiting the region’s economic potential has risen dramatically over the past decade. For China, its hunger for new transportation routes to support its exports, its interest in markets for Chinese telecommunication and logistics companies, and its need for natural resources drive much of its interest in the region. China, however, is not the only non-Arctic state eager to become more involved in the resource-rich far north. Since 2013, the Arctic Council, an international forum for Arctic governments and people, accepted China, Italy, India, Japan, Singapore, South Korea, and Switzerland as observers, increasing international participation in the forum and the potential for non-Arctic states to gain a greater say in how the region is governed and developed. For Russia, this increasingly globalized Arctic poses potential threats to its vision for the region—an area Russia still sees as part of its “privileged sphere of interest.” Moscow eagerly highlights its role as an Arctic power to global and domestic audiences. It famously planted its flag in the Arctic seabed in 2007 as a sign of its ambitions for the region; Putin and Prime Minister Medvedev held a photo-op a decade later, with both men exploring an Arctic glacier as they inspected a technologically advanced military facility there. In 2015, Moscow made additional territorial claims to a larger portion of the Arctic Ocean through the UN Convention on the Law of the Seas. Russian fighter jets frequently buzz Canadian, European, and U.S. Arctic territories, while Moscow is building up its military infrastructure across the region. Most of these actions appear to be the Russian leadership posturing to domestic audiences, although the military ones highlight Moscow’s desire to shore up its growing sense of vulnerability in the region, where ice melt is eroding the country’s natural defenses along its northern coast.
Until reversing its position in 2013, Moscow long resisted greater non-Arctic state participation in the Arctic Council; today, Russia still prefers to keep discussion of Arctic issues primarily among Arctic states, even though it has adversarial relationships with most of them. Moscow now also shows a preference for the smaller, more exclusive, Arctic Five format over the Arctic Council to discuss the Arctic. The former, which consists only of the five Arctic states with direct borders on the Arctic Ocean—Canada, Denmark (Greenland), Norway, Russia, and the United States—primarily deals with oceanic issues.\(^7\)\(^4\) Russian Defense Minister Sergei Shoigu even complained in 2015 about non-Arctic states using their military and economic power to “strive for greater roles in the Arctic,”\(^7\)\(^5\) which likely was an implicit reference to China. Russia still tightly guards its sovereignty in the region, while concerns over China’s growing presence in the region linger under the surface, particularly among defense and security officials.

The Arctic is believed to contain 13 percent of the world’s undiscovered oil and almost 30 percent of its undiscovered gas, making it a key strategic resource region for Russia—a country whose economy remains highly dependent on hydrocarbon extraction.\(^7\)\(^6\) As then president Medvedev articulated in the country’s Arctic state policy in 2009, one of Russia’s primary goals has been to use the Arctic as a “strategic resource base” to solve the country’s social and economic development problems. This policy has included gaining access to and extracting the region’s natural resources in part by creating a transportation and communication network along its Arctic coast, now known as the Northern Sea Route (NSR) or Northeast Passage.\(^7\)\(^7\) Moscow’s updated Arctic 2020 strategy, promulgated by Putin in 2013, further highlights the need to promote economic development and employment opportunities in the region to stem the outflow of Arctic peoples to other parts of Russia; to create regional transportation and communications infrastructure—including expanded icebreaking capabilities—to support the Arctic’s long-term development; and to ensure combat readiness and operational capabilities of the Russian military in the region to secure and protect Russia’s borders.\(^7\)\(^8\)

The Russian government’s November 2017 proposal to assign the task of developing the Arctic to Rosatom, the powerful yet financially struggling Russian state nuclear company, suggests a new policy approach toward the region may be in development.

Yet Russia struggles to realize many of its Arctic goals. The Arctic remains an isolated and treacherous environment in which to work, and Russia can do little to change that. This harsh reality has made it difficult to attract outside investment. The region is sparsely populated, and it is costly to the Russian state to supply Arctic cities and towns; with the exception of Murmansk, economic and industrial growth in the Russian Arctic is stunted or
declining. Yet even in Murmansk, a relatively prosperous city for the Russian far north, unemployment in October 2017 registered at 7.2 percent, which is over two percentage points higher than the Russian national average. Russia’s “militarization” of the Arctic appears worrying to other Arctic states, but its capabilities there are more defensive than offensive. Russia’s missile systems deployed in the region, which have attracted significant international attention, are short-ranged. Much of Russia’s efforts have instead involved refurbishing existing or closed Soviet-era military installations; however, many of these facilities appear to serve search and rescue purposes and to facilitate Russia’s goal of creating a passable Arctic shipping lane. To that end, its new technologically advanced icebreakers have limited military capabilities.

On the economic front, the NSR, when passable, might be faster than existing Asian-European shipping lanes through the Straits of Malacca and Suez Canal, but it is not necessarily a cheaper route. Only passable for a few months each year, the need for icebreaker support raises navigation costs and limits current international interest in using the corridor. The number of international ships sailing along the NSR has declined from a 2013 high of seventy-one per year to nineteen in 2016. Only six vessels of those nineteen, however, made the entire voyage in 2016, raising questions about the route’s feasibility. The best prospects for the NSR likely entail facilitating Russian ships’ access to Russia’s most remote Arctic cities and towns and the exploration of Arctic shelf resources—two endeavors that are presently costly to the Russian state and state-owned companies. Low oil and commodity prices also have reduced the incentive for outside energy companies—which have key technologies Russia lacks—to partner with Russian entities in finding and exploiting these resources. Sanctions against Russia and the country’s isolation from the West over its aggression in Ukraine further limit the commercial cooperation between Russia and its Arctic neighbors.

Russia’s growing struggles in the Arctic have led it to include the region in its “Asia pivot,” a remarkable turn for a country traditionally resistant to opening up its Arctic territory to foreigners. Yet Russia’s outreach to Asia on the Arctic has not been met with much success either. The Arctic in fact follows a similar pattern seen in the Russian Far East, where the rhetoric of partnership with multiple Asian states lags behind the reality of actual investments in the region. In 2016, for example, Putin and Indian Prime Minister Narendra Modi pledged to expand Arctic and Siberian energy cooperation, although there are limited details of Russian-Indian energy cooperation beyond an Indian investment in a Siberian oil field. Russia has engaged Japan and South Korea to attract their interest in Arctic LNG projects and developing the NSR, yet these efforts have been met with limited return interest thus far by Tokyo and Seoul, possibly due to high costs and their wariness of breaking solidarity over sanctions with the United States. Russian Special Presidential Representative for International Cooperation in the Arctic and Antarctic Artur
Chilingarov even called for greater Russian-Singaporean cooperation in the Arctic, specifically highlighting the potential for jointly developing drilling platform technologies for the Arctic shelf. While resource-poor Singapore is highly interested in the region’s hydrocarbons, it remains wary of Russian plans to develop the NSR, which could undercut the city-state’s key role as one of the main logistical and shipping hubs between Asia and Europe.

The greatest interest for Russian-Asian Arctic cooperation has come from China, although there too the results of pledges to cooperate pale in comparison to actualized deals, beyond a few showcase projects. Barriers to Chinese investment in the Arctic vary from cost concerns, inadequate infrastructure, distrust between Russian and Chinese business leaders over the Arctic, and convoluted Russian bureaucracy. The biggest success story for Chinese investment in the region thus far is the showcase Yamal LNG project. After sanctions limited Western financing and technology transfer to the project, China stepped in as lender of choice, covering two-thirds of external lending needs. Chinese banks lent the project $12 billion in 2016 alone; China’s National Petroleum Corporation now owns a 20 percent stake in the project, while its Silk Road Fund received an almost 10 percent stake in return for a $1 billion investment. Yamal was one of the Silk Road Fund’s first investments.

Beijing’s success in Yamal marks a reversal of fortune for China, which has long had difficulty breaking into Russian energy projects and the development of Arctic natural resources. Beyond the actual gas project and LNG sales, China’s state-run shipping conglomerate COSCO has also secured a 50 percent stake in the four LNG shipping carriers serving Yamal. Chinese engineers and workers have been deployed to the Yamal Peninsula to help construct surrounding infrastructure, which includes a Chinese-produced polar drilling rig. Moreover, a Chinese oil and gas rig producer now provides Russia with about 60 percent of its imported oil rig supplies, indicating that China is becoming a dominant player in this sphere.

Chinese media recently hailed Yamal as an example of China’s construction and engineering prowess and a symbol of its transformation into an Arctic player. In return for China stepping into support the project, senior officials from Novatek, the main shareholder of the project, announced that the first LNG shipment would symbolically go to China. But a British subsidiary of Malaysia’s Petronas purchased the first shipment of Yamal LNG and sold it to France’s Engie, which then shipped the cargo to its Boston import facility for American use. Western sanctions on Novatek, Russia’s largest independent national gas producer and a company with close ties to the Kremlin, made Yamal’s pivot to China possible, as sanctions forced Russia to find an alternative source of investment and technology.
Beyond energy and the NSR, Beijing is becoming more involved in the development of other transportation and logistics infrastructure in the Arctic, although its success there is far less certain than in Yamal. Beijing’s 2017 addition of an Arctic component to the BRI could boost its Arctic initiatives. After meeting with Russian Prime Minister Medvedev in July 2017, Xi called for the two countries to jointly build a “Silk Road” through the Arctic, highlighting the complementarity of the BRI and NSR, both of which have a common goal of fostering greater East-West trade. How, when, and whether integration of the BRI and NSR actually will occur remains uncertain, but senior officials of the two countries frequently speak publicly about this aspiration. Putin even highlighted China’s role in infrastructure, transportation, and energy in the Arctic during his annual televised press conference in December 2017.95

In the transportation sector, a Chinese company has signed an agreement of intent to build a deepwater port in the northern city of Arkhangelsk. That region’s governor Igor Orlov pronounced China as a “key partner” in the implementation of Arkhangelsk infrastructure projects.96 The deepwater port will be connected to the Belkomur Railway project, a long-stalled plan that has gained Chinese attention over the past few years. The railroad would reduce by 800 kilometers the distance of moving cargo by rail from Siberia to the new Arkhangelsk port on the White Sea in Russia’s northwest by routing trains via the Ural Mountains and Komi Republic.97 Both the port and railroad projects share the same investor, China Poly Group Corporation, and China’s Exim Bank in September 2017 confirmed its willingness to provide financing for the railway.98 COSCO has already held discussions with Arkhangelsk regional authorities about operating in the new deepwater port once it is operational.99 If implemented, the Arkhangelsk deepwater port and Belkomur railway likely will get folded into the BRI.

Yet recent actions by the Russian government suggest that both projects’ futures may be in doubt. Russia’s central government appears far less enthused than the Arkhangelsk regional authorities or their Chinese partners in getting the Belkomur and the Arkhangelsk port from the planning to the implementation phase. Moscow is supposed to contribute over $1.6 billion to the Belkomur project, which as of late 2017 had total planned construction costs of between $4.3 and $5 billion.100 Yet Russian Transportation Minister Maksim Solokov downplayed Russian government financial commitments to the railway, stating in spring 2017 that it would be financed through a public-private partnership. With stricter budget controls due to Russia’s recent stagnant economic performance, it is unclear whether the project can garner state resources. Solokov also appeared to slow roll the railroad, claiming that the general timeframe for Belkomur would be sometime “over the next decade.”101 The consortium working on Belkomur, however, envisions that the project will be operational by 2023, if a concession agreement is signed in early 2018 and construction then proceeds on schedule.
Russia’s eagerness to have Chinese ships sail through the NSR also appears to be uncertain due to the reorganization of Arctic responsibilities inside the Russian government, specifically the proposal to move oversight for the NSR and the Arctic overall from the Ministry of Transportation to Rosatom. Russian Deputy Prime Minister and head of Russia’s Arctic Commission Dmitry Rogozin in November 2017 indicated that the proposal would proceed as planned. The proposal gives Rosatom the responsibility for developing Arctic infrastructure, overseeing and regulating shipping along the NSR, improving communication lines across the region, and managing emergency response. Rosatom has strong ties to the security services, which suggests that Moscow may see a need to securitize the region. The move would shift massive amounts of state funds to Rosatom’s budget, give it discretion in spending these funds, and provide it with jurisdiction to determine which vessels can pass along Russia’s northern coast.\textsuperscript{102} Rosatom, which has an icebreaker fleet of its own, may show a preference for Russian-flagged tankers, LNG delivery ships, and icebreakers.\textsuperscript{103} It is unclear what impact this reorganization may have on Russia’s attempt to find outside investors to realize its Arctic ambitions, although Western shipbuilding companies, particularly those with expertise in icebreaker design, could benefit from any plans by Rosatom to increase the size of its icebreaker and LNG tanker fleet.\textsuperscript{104} Rosatom reportedly is looking at a Finnish company to design a new LNG tanker for Yamal as part of its efforts to expand its fleet of Arctic-capable vessels.\textsuperscript{105}

Meanwhile, China has begun to identify itself as a “near-Arctic state,” a label that likely unnerves some Russian officials. China’s January 2018 Arctic white paper underscores that although non-Arctic states do not enjoy territorial sovereignty in the region, they have “rights in respect of scientific research, navigation, overflight, fishing, laying of submarine cables and pipelines in the high seas and other relevant sea areas in the Arctic Ocean, and right to resource exploration and exploitation.”\textsuperscript{106} It further elaborates that China’s overall policy goals for the region are to develop and participate in Arctic governance through bilateral and multilateral cooperation with multiple Arctic states.\textsuperscript{107} To advance its Arctic ambitions, China is looking beyond Russia. It has succeeded in becoming a visible player in the Arctic by expanding its efforts to reach out to all Arctic states.

\textbf{To advance its Arctic ambitions, China is looking beyond Russia. It has succeeded in becoming a visible player in the Arctic by expanding its efforts to reach out to all Arctic states.}
both countries. China plans to open another research facility in Greenland and has participated in scientific studies with U.S., Canadian, and Russian scholars. Beijing’s research agenda across the Arctic is geared toward studying the impact of climate change on China. It also seeks to develop potential commercial opportunities in the region as part of its Go Out strategy. To this end, China has become active in the transportation, natural resources, and telecommunications sectors in the Arctic far beyond Russia, including creating new technologies to support deep-sea exploration, ice zone prospecting, and developing oil and gas drilling and exploitation. In telecommunications, China’s Huawei, for example, has partnered with TeleGreenland to lay a 100G network subsea cable in the Arctic to connect remote parts of the territory and upgrade existing telecommunication lines that link Greenland with Canada and Iceland. With Finland, the Chinese Ministry of Industry and Technology and state-owned China Telecom are in discussions to develop the 10,500 kilometer “Northeast Passage” fiber optic cable link on the polar seabed that would create the fastest data connection between Asia and Europe. Arctic digital connectivity now is to be part of Beijing’s broad BRI vision for the Arctic to link China with European markets in the high north.

In North America, China National Offshore Oil Corporation entered the Canadian market with its $15 billion takeover of oil and gas company Nexen. Chinese companies are also involved in mining operations in Greenland. President Xi even stopped in Alaska during his April 2017 visit to the United States to discuss trade issues with the state’s governor. China is Alaska’s top export market with over $1 billion worth of Alaskan products—fish, oil, minerals, and other natural resources—going to China in 2016. In November 2017, three Chinese state companies signed an agreement to invest in a $43 billion LNG project in Alaska. Xi’s engagement with Alaskan state officials may have been a way to mediate potential fallout from rising tensions over trade between China and U.S. President Donald Trump’s administration, yet it suggests that Beijing conducts careful diplomacy on Arctic issues on both the regional and national levels.

China’s multipronged outreach on the Arctic has won it international recognition as a stakeholder in the region and created commercial ties with all Arctic countries. For Russia, however, China’s diversified Arctic outreach means that it must compete with other Arctic nations—all of whom have more favorable investment climates and better infrastructure—to attract Chinese financing and attention. In the post-sanctions era, Beijing’s money has become key to realizing Moscow’s ambitions for the far north, but Beijing now has other options for where to invest in the Arctic. Moscow must now offer even more favorable conditions to attract Chinese investors to the Russian Arctic. This dynamic highlights the growing power asymmetry within the Russian-Chinese partnership and mandates that Moscow accept China’s ambitions for the Arctic, however begrudgingly.
Implications

Russia and China have become increasingly close partners on the global scene, driven to work together both to pushback at what they consider the United States’ pursuit of containment and to change a Western-dominated international system that they perceive as disadvantageous to them. They have resented Western efforts to promote human rights and good governance, seeing the West’s push to create more open political or economic systems as part of a broad and coordinated attempt by the United States and Europe to promote regime change for geopolitical advantage. These shared views have propelled the strengthening of their bilateral relations, efforts that have only accelerated since the start of the Ukraine conflict in 2014. The greatest threat to Western interests from the growing strategic partnership between Russia and China does not come from any of the three regions discussed above. It instead emanates from the two countries’ common efforts to adjust the international system to their advantage. This includes their collaboration in international institutions and their desire to reshape global governance—over the internet, over financial systems, and over development banks—to accelerate the shift of power from the transatlantic space to the East. Yet China keenly values Europe and the United States as key trading partners; if relations between Beijing and Washington deteriorate over trade, as is possible during the Trump administration, Europe’s importance as a key market for China will grow, which may soften China’s approach to challenging the current international system, or at least Europe’s place in it. This could create potential fissures in the Sino-Russian “strategic partnership.”

The two countries’ compatible economies underpin their relations. For Russia, China is a key market and source of financing. Unlike the West, Beijing makes no demands for any sort of political reform nor pushes for a change in Moscow’s Ukraine policies as a precondition for partnership or investment. In turn, China’s economic and industrial success is dependent on access to a steady supply of Russian hydrocarbons and other resources. With Russia desperate for external sources of capital following its isolation from the West and economic downturn, Beijing has been able to break into sectors of the Russian economy where it previously encountered barriers—particularly in upstream oil, gas, and other natural resource projects across the Russian Far East and the Arctic. Both President Xi and Putin laud the strength and progress of their bilateral relations, particularly in issues of trade and economics, in the public domain.

China’s growing economic presence inside Russia is a fact. This is most visibly seen in infrastructure, while China also recently surpassed Germany as the main exporter to Russia of machinery. Combined with Western sanctions policies that have made Russia a less attractive place to do business, China’s growing clout in Russia suggests that Chinese companies are able to undercut
Western competitors in Russia. In the Russian Far East, Huawei outcompeted Nokia in a 2017 open tender bidding process to lay an internet cable to the Kurile Islands by agreeing to complete the project at a cost that was 9 percent below Rostelecom’s stated maximum contract price. Though there have been no specific complaints surrounding the Kurile Islands tender, China’s investments in Russia at times do not adhere to market principles—an issue of concern for the West given long-standing U.S. and European criticism of unfair Chinese trade and investment practices. The EU previously has taken issue with China’s provision of large-scale subsidies to Huawei, but China’s growing role in the Russian economy likely will continue to facilitate Chinese companies’ ability to outbid their global competitors on Russia-related projects. With Huawei and China Telecom’s footprint growing in the Arctic and elsewhere across Eurasia, Western telecommunications firms will likely face growing competition from the east.

Over the past three years, Russia’s break with the West has cemented Beijing as the more powerful partner in the Russian-Chinese bilateral relationship. Chinese political elites, however, have been adept at managing this asymmetry—they remain deferential to Russia’s interests in the broader region and are sensitive to Russian concerns that Beijing is gaining the upper hand in the relationship. Chinese companies have invested or pledged to invest in key sectors of the economy that are important to the Russian leadership: Yamal, Rosneft, Gazprom, and the NSR. China has voiced its support for economic development of the Russian Far East, and thus far has not attempted to build a significant security presence in Central Asia. This tactic has won Beijing goodwill in the Kremlin and mediated some concerns about the shifting power dynamics in the relationship. Yet Chinese investments in companies, sectors, or regions of lesser importance to the Kremlin have struggled.

In Central Asia, Moscow’s annexation of Crimea and its aggression in eastern Ukraine alienated many Eurasian governments and caused Russia’s neighbors to step up their engagement with Beijing, seeing China as a key part of their security posture, particularly as the West disengages from Eurasia overall. This has further reduced Russian influence in Central Asia, and helped to expand Beijing’s. The prospects for Putin’s vision of a Eurasian Economic Union, for example, now look increasingly dim in comparison to China’s BRI, although that project’s long-term financial viability is not assured either. As it loses its economic clout in Central Asia, Russia is having greater success firming up its soft power through education, language, and culture. That too will atrophy in the coming years. Russia then will have to rely more and more on hard power—something that Beijing appears content to see occur, as it helps China avoid taking on the expense of securitizing the region. How long this arrangement—whereby China is the economic driver and Russia the security...
Russia and China are taking advantage of a growing vacuum of Western power, which began with the Obama administration's 2014 decision to drawdown U.S. troops in Afghanistan. The region's leaders generally want the United States and Europe involved, in part to keep Central Asia from being dominated by either Moscow or Beijing. Kazakhstan, for example, has long tried to pursue multi-vector diplomacy to gain maximum leverage from China, Russia, and the West. High-profile January 2018 visits to Washington by the Kazakh president and Uzbek foreign minister were clearly intended to get the Trump administration to reengage with the region. In November 2017, Central Asia's leaders likewise welcomed EU High Representative for Security and Foreign Affairs Federica Mogherini for discussions about regional cooperation and Central Asian–EU relations. The region is keen for greater EU and U.S. engagement because neither the Russian nor Chinese approach to the region will help build sustainable economies that can create jobs for the region's booming youth population and ensure the region's long-term stability.

This is a problem because Central Asia's socioeconomic problems are growing; Soviet-era infrastructure has been neglected for far too long. China's BRI will improve physical infrastructure—roads, rail, and digital links. Yet the healthcare and education systems are in desperate need of investment, and there is a growing divide between the region's major urban centers and rural area. However, no Central Asian state has the knowledge or capacity to address these issues, and neither is China addressing these issues in its broad vision for the BRI. The West should welcome Central Asia's incorporation into the BRI as it is increasing the region's connections to global markets and reducing its reliance on Russia, but China's vision for connectivity is not necessarily solving the region's internal problems. The BRI instead will create winners and losers in Central Asia. Kazakhstan's central location guarantees that it will figure prominently in China's plans to link the region; Uzbekistan, with its large population and newfound desire for greater integration, will likely also benefit. Yet Central Asia's smaller states are geographically isolated and their inclusion into wider BRI projects may not be realized, particularly if China's economy continues to slow. Furthermore, Chinese investment likely will continue to fuel regional corruption and is mainly geared to benefit elites, a trend that is likely adding to socioeconomic cleavages between Central Asian states and their societies. This is a potentially toxic mix.
China, as one of the region’s main investors, clearly should do more to make sure that the economic benefits of its various projects in the region trickle down to average Central Asians and give them a stake in the BRI’s success. Western states also have potential roles to play in helping Central Asian states mitigate some of the region’s growing socioeconomic problems with tailored assistance programs focusing on improving investor climates and creating sustainable economies that can take advantage of the BRI’s infrastructure and offer jobs to Central Asia’s citizens. China, Russia, and the West all share a common goal of promoting regional stability in Central Asia. Although their approaches to the problem differ, their efforts need not work at cross-purposes. Furthermore, Western assistance to improve healthcare and education could help alleviate the region’s socioeconomic tensions and prepare the Central Asians to participate in a more globalized economy.

In the Russian Far East and Arctic, China’s increased role does not come without risks to the Russian state or the West. The Russian leadership is cognizant of its security vulnerabilities in the east. Moscow is keen on bolstering its position in Northeast Asia as it sees global power shifting to the region amid Russia’s isolation from the West. An economically developed and populated Russian Far East will provide Moscow a key outpost to engage more actively in the region, but that prospect is out of reach without foreign investment. Chinese investment has been slow to follow Beijing’s public support for developing the Russian Far East, and when it does, Russian business leaders are often forced to accept difficult terms that cut into their profits to get deals done. Although local pushback against Chinese involvement in the Russian Far East has declined as official discourse on possible Chinese threats has become muted, some wariness remains. Russian nationalists, for example, worry about undocumented fears of Chinese laborers colonizing the Russian Far East. Russian citizens living there have grown resentful of Chinese agribusiness gaining long-term agricultural land leases in the region.

Russia does not want Beijing to be its only option in Northeast Asia, and Chinese dominance over the Russian Far East would increase Russian dependence on China. In this context, the West and its allies could have opportunities to dilute China’s growing regional power. It would not be in South Korea’s or Japan’s interests for Russia’s energy or natural resources to come under Beijing’s total control, nor do they want Moscow to defer to China’s regional hegemonic aspirations. Europe and the United States could encourage Japan and South Korea to take advantage of Russian interest in their financial capital and technology, and commit more to developing the Russian Far East. Tokyo and Seoul, however, will need to navigate territorial disputes, Russian objections to ballistic missile defense plans, and Western sanctions.

While the Russian military-industrial complex is now willing to sell some of the country’s most modern weapons systems to China, this decision is facilitating China’s rise and may ultimately transform it into a competitor in global
arms markets. Russia’s willingness to sell advanced military technology to China also has implications for the West, particularly as it increases China’s ability to punch back at the West in the event of a military crisis in the South China Sea. The dynamic of unfulfilled expectations, as in the Russian Far East, is also clearly seen in the Arctic, where Russian defense officials also worry about Beijing’s Arctic posture and growing prowess as an arms producer. Yet, in both the Russian Far East and the Arctic, mutual interests, Russian financial needs, and broader common desire to contain U.S. power have mitigated most of Russia’s strategic insecurities about Beijing. Russia and China also remain focused on the increasingly fragile situation on the Korean Peninsula. Both countries oppose any solution to the North Korean crisis that could lead to regime change but also seek to prevent the crisis from escalating; a conflict on the Korean Peninsula could lead to potentially destabilizing migrant flows into northeast China and the Russian Far East, as well as a growing U.S. security presence in the region. Yet Russia is also willing to use the North Korean crisis to its advantage to strengthen the perception that it is a crucial player in the Asia Pacific.

In the Arctic, the West should be mindful not to exaggerate the importance of the Russian-China relationship. In many ways, it will have limited negative impacts on other Arctic states at least for the immediate future. Calls to expand the BRI through the Arctic might appear alarming for security and environmental reasons, yet they likely will remain in the planning stages for years to come due to the high costs of operating in the region; given the harsh climate, the window each year for shipping through the Northern Sea Route each year is narrow and the operating environment is treacherous. The maritime insurance industry is reticent to support Arctic shipping due to a variety of safety and navigational concerns. The risk of ice damage to ships transiting the Arctic and additional expenses incurred for icebreaker escorts will remain a break on Arctic shipping in the near future. It’s simply easier and cheaper to move goods across land or through existing maritime routes between Asia and Europe through the Straits of Malacca and Suez Canal. In addition, competing interests within the Russian government have stymied plans for Chinese companies to modernize and build new Arctic rail lines, raising questions about plans to expand land-based routes across the Russian Arctic. Given Russia’s lackluster economic performance, the future of these projects remain uncertain.

For China, the potential returns to its investments in Russia, even in the energy sector, are increasingly uncertain because of its economic slowdown and the likelihood of low hydrocarbon prices for the immediate future. In addition to gaining stable supplies of oil and gas from Russia, China is likely improving its technological prowess through its investments in the Russian oil and gas sector. That itself will likely bring dividends, particularly if China is able to use its success in developing technologies for Russian oil and gas extraction to market itself in this sector globally.
The status quo between Russia and China is likely to endure for some time, though several uncertain factors could challenge this stability. President Xi’s view that China should put its power into practice and take an active role in regional and global affairs, which was solidified at the 19th Party Congress with his consolidation of power, creates greater uncertainty in Russia about China’s long-term ambitions. China envisions becoming the pre-dominant leader at least in Asia. If promises of China’s BRI do not materialize or if they bypass Russia, Russian insecurity might increase in the face of an assertive China. Russia may also find it more difficult to demonstrate its value to China. Russia will need to contend with an increasingly assertive China, a prospect it has begun to address by attempting to cultivate relations with other nations, including India. How China will respond to the BRI’s financial viability and its economic slowdown remain to be seen. Yet it is China’s decisions, not Russia’s, that will largely set the course for the Sino-Russian relationship, while Russia will remain in a position to react. Beijing’s activities in Russia and Central Asia are part of its new global activism.

In the near future, however, barring an unlikely course correction in Russia’s relations with the West, Moscow’s dependency on Beijing will continue to grow. Each finds the other useful internationally. Russia, when it cooperates with China globally, can punch above its weight, while China often avoids direct spats with its most important trading partners—the United States and Europe—by allowing Russia to take the lead on contentious global issues. With both countries seeing greater threats to their security emanating from the West than from each other, it is unlikely that the shifting power dynamics in the Russian-Chinese bilateral relationship will cause the partnership between Moscow and Beijing to slow. Both in fact have more to gain from working together to try to contain the West—specifically U.S. power—than in confronting each other. Western policy needs to come to terms with that reality.
Notes

2. Author interview, Almaty, November 18, 2017.


44. Farchy, “Gazprom Secures €2bn Loan From Bank of China.”


balancing-resource-expectations-russian-far-east.

60. Strelavina, “Chinese Businesses See Russian Far East as Manufacturing Hub.”


65. Luzyanin and Zhao, “Russian-Chinese Dialogue.”


107. Ibid.


Carnegie Endowment for International Peace

The Carnegie Endowment for International Peace is a unique global network of policy research centers in Russia, China, Europe, the Middle East, India, and the United States. Our mission, dating back more than a century, is to advance peace through analysis and development of fresh policy ideas and direct engagement and collaboration with decisionmakers in government, business, and civil society. Working together, our centers bring the inestimable benefit of multiple national viewpoints to bilateral, regional, and global issues.

The Carnegie Russia and Eurasia Program has, since the end of the Cold War, led the field on Eurasian security, including strategic nuclear weapons and nonproliferation, development, economic and social issues, governance, and the rule of law.