



## **IMPLICATIONS OF THE GROWING CHINA-RUSSIA AXIS ON EUROPEAN AND UK INTERESTS**

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### **SPEAKERS:**

**Richard Connolly** is the director of Eastern Advisory Group, and an associate fellow at RUSI.

**Henry Foy** is the Financial Times Moscow bureau chief.

**Alexander Gabuev** is a senior fellow and the chair of the Russia in the Asia-Pacific Program at the Carnegie Moscow Center.

**Natasha Kuhrt** is a lecturer in international peace and security in the Department of War Studies at King's College London.

**Foy.** Hello, good afternoon from Moscow, good morning and good evening to you, wherever you may be. My name is Henry Foy, I am the Moscow Bureau chief of the Financial Times, and it's my pleasure to be moderating this discussion today, hosted by Carnegie, on the Russia–China relationship and the implications for the EU and the UK.

We are very lucky to have a stellar trio of speakers today to help us understand, debunk, and analyze this theme. So please let me introduce, first, Richard Connolly, he's the director of the Eastern Advisory Group and an associate fellow at the Royal United Services Institute. Alexander Gabuev is the senior fellow and chair of the Russia in the Asia-Pacific Program at the Carnegie Moscow Center. And Natasha Kuhrt is a lecturer in International Peace and Security in the Department of War Studies at King's College London. Thank you, all three of you, for joining us today.

So, the Russia–China relationship has taken on an almost mythical geopolitical status in recent years, from Cold War frenemies to the ubiquitously cited nightmare of Henry Kissinger. It's back in vogue now, it seems, over the past decade, as relations between Moscow and the West have ruptured, ripped and been torn asunder, the Sino-Russian friendship has only strengthened. There is something there for everyone, really. You can sit in London and wave it away as a bromance of authoritarian strongmen. You can sit in Singapore and mourn about their deepening defense alliance. Now, from Riyadh, it looks ominously like recalibration of Beijing's energy policy. And in Brussels there is a fear that rising trade and technology collaboration is a cause for concern. But how much of it is geopolitics for dummies and pub chat for anyone who's glanced at a copy of the Economist recently, and how much of it is rooted in fact? One Moscow-based friend of mine responded to this event on Twitter by saying that they are starting to think that Carnegie wants a Russia–China axis more than Russia or China.

So, Sasha, on that note, please tell us, how real is this Sino-Russian rapprochement, and if so, how deep does it go?

**Gabuev.** Thanks, Henry, thrilled to be here. I think it's pretty real and getting more real. So there is much more there than it used to be. I remember joining Carnegie exactly six years ago, and my first travel to DC was still glorious Obama era, Crimea already part of Russia, but most of the people I saw on the NSC, both on China side and Russia side, were exactly saying that, not much there, they haven't read Bobo Lo's excellent book, and by the way, if Russia wants to become China's junior partner, it's none of the US problem or business, none of our allies, why should we be concerned about it? And it's not happening anyway.

So I think that if we try to compare the reality back then, 2013–2014, before Crimea annexation and sanctions, and now, we see a quantitative change in the relationship that slightly transforms into qualitative change. And I think that most people are saying that oh, Russia and China are partners only because they are enemies of the United States, and it's only the US that's driving the two together; absent the US, there would be a lot of animosity, suspicions, and competition. I would disagree. Despite suspicion and competition which is there, I think there are three fundamental drivers that are bringing the two powers together, regardless of the US.

So, if we remove West from the picture, there is this long continental border that both sides had been at confrontation about during the Sino-Soviet split, they know how really dangerous and expensive it is to be enemies, and once there was an opportunity to jump on this

issue, sort out the territorial dispute, and demilitarize the border, and keep the formula for the relationship “not always with each other, but never against each other,” both leaderships really seized the opportunity. And actually we recently celebrated Gorbachev’s anniversary; it started with Mikhail Gorbachev, it was continued with Yeltsin, and Putin basically inherited the policies of two previous administrations. So that’s one pillar.

The second pillar is really structural mutual attractiveness of the economies. Russia is a big oil, gas tank, with a lot of metals, fertilizers, a lot of natural resources, lack of capital, lack of infrastructure, and kind of doubtful capabilities to build technology, particularly the hardware. Like, on software we’re somewhat better, and France and the US government or investigators of SolarWinds can tell you a lot about it. But China is the exact match. It has enormous capital surplus, good technology, but really needs natural resources. So, for historical reasons, Russia was putting all of this trade and investment acts into basket “Europe” for centuries and definitely for decades, and now it’s starting to put some more acts into basket “China”.

And then finally, Russia is still a democracy, with separation of power, even according to the latest version of the Russian constitution. China is also a democracy, a socialist democracy with Chinese characteristics. In fact neither is a democracy in a UK or US or German sense. So there is a lot of mutual understanding on different issues. Why would Putin be concerned about Hong Kong? It’s just another attempt of colored revolution organized by Western intelligence agencies. Why would Mr. Xi Jinping be concerned about poisoning of Alexey Navalny? And then there is also a lot of room for cooperation on global fora, like the UN, on issues like Internet governance or data localization. Here China and Russia find each other in the same boat.

So I think that these three fundamental drivers would be there regardless of their confrontation with the West. And then on top of that came Crimea annexation, sanctions, and four years of Trump. And now the relationship between China and the US is still in competitive mode and will continue to be so, all the recent statements and program documents produced by the Biden administration very much point to that direction. It will be a different type of competition than under Trump, but definitely that’s the paramount task for the US and the new administration.

I think that if we look at the quantitative and qualitative change of the relationship, we’ve seen that the trade between Russia and China has grown, and it’s not only important to look at the figures in absolute terms, but also in relative terms. 2013, right before Crimea annexation, share of China as Russia’s trading partner was 10.5 percent. Now it’s roughly 19 percent, so it nearly doubled over the course of seven years. And that’s happening at the expense of the European share. So, with sanctions in place and with decreasing demand and growing competition for hydrocarbons in Europe, it’s only natural to expect that Russia will try to explore this partnership with China, try to build more pipelines and attract more Chinese interests into resource exploration.

We’ve seen a qualitative change in Russia and China defense corporation. So, Russia, for the first time since the middle of, like, twenty... 2005 was the last big deal, so now Russia has resumed sales of its advanced weapons to China, and I think that’s pretty significant. And both moved into developing limited interoperability between the two militaries. So there is this patrol

of the strategic bombers, there are big military drills, and it's very likely that this will be continued.

And then one new area of cooperation is Chinese are learning the Russian way of disinformation and how to be kind of pushy on social media, how to copy RT style, and their diplomats are also copying the style of Maria Zakharova that we all enjoy. So, from this copying mode we are probably gradually moving into joint messaging strategy that will be targeted against European alliance and the Asian US alliances. And I think that is pretty significant.

My final point: This relationship is asymmetrical, and increasingly asymmetrical, because China is growing, Russia is having a sluggish growth, it's not very much progressing in terms of technology, so, Russia becomes increasingly reliant and dependent on China, rather than the other way around. But, first, there is never a symmetry in Russian foreign policy, Russia was always much more weaker than the US and the West, it was much more dependent on European market than it is dependent on China now. And that gives Russia a false, probably false, sense of confidence. That "hey, China's share of our trade is just 20 percent; before Crimea annexation, Europe was more than half of our trade; so it's still enormous capacity to explore the potential for Chinese market, and when it gets dangerous – we've been able to stand up to the Europeans and push them back when they cross our red lines, so we'll be able to do that to China any moment like we feel that it's encroaching on our sovereignty."

And I think here the final point is Russians are used to believe that the unipolar moment could be a challenge to Putin's regime, because the West operated on really globally attractive values and the US used to be the most powerful country in the world. Nobody in the Russian leadership believes that China will be able to replace the US where it was in the early 90s. So China will be not the unchallenged global superpower, and China doesn't have the ideology or values that are attractive to anybody else except for China. That's why Russia is far more relaxed when it comes to growing China as one of the superpowers, it believes that there will be two superpowers, the US and China, in the first tier league, but Russia will be able to maintain strategic autonomy being the second tier, which is, like, pretty exclusive club still of great powers that are still sovereign.

I'll stop here.

**Foy.** Thanks, Sasha, fascinating introduction. Natasha, assuming that you agree with Sasha, and please tell us if you don't, but assuming you do, how does this look from the EU and the UK? What are the strategic and security concerns that had to be borne in mind given this new alliance?

**Kuhrt.** Yeah, thank you. I mean, I broadly do agree with Sasha's take on this, and I think it's good to point out and remind us again as well that the ball started rolling in China's direction already with Gorbachev, and the absolute need to demarcate the border, in a way, kind of meant that they had to sort out all sorts of different facets of their relationship, and so that was the kind of starting point, I guess, so it was kind of an unavoidable partnership in that sense, completely and utterly necessary partnership, from that point of view. But I think Sasha is right to say that it has, you know, for a long time, I think it was qualitatively lacking, in some way, on the economic front as well, because the relationship was very much based on politics, politics was really driving the relationship. One can say that now politics is still very much, in a way, in the

driving seat, but I think economics has kind of come into the passenger seat, if you like, and is possibly even helping to drive things forward in a way that I don't think it did before.

But at the same time I think we need to be careful not to overestimate the economic dimension. I mean, yes, they are complementary, but there is still a certain kind of unease, I think, as to China's strategy, if you like. I mean, China doesn't need to put all its eggs into the Russian basket, I think, economically and in terms of energy, although it might look like that at times. So, Russia still remains, I think, a small part of China's overall strategy. And I won't talk too much about that, because I know Richard will be, but I think that's something to bear in mind looking at things particularly from the European side maybe, also from the US side to some extent.

So that, in a way, I suppose, you could argue, means that it's not necessarily bound together quite as tightly as we might think economically. And on that note, obviously, we know that the European Union has signed this investment agreement with China, which I think, you know, obviously it's still just in the making, it's a draft, but at the same time I think that this agreement really showed the kind of spectrum, if you like, of opinion on how the European Union should go forward in its relations with China, how deep should these relations be, and on what basis should they be negotiated, if you like, in the sense that clearly there was a lot of discomfort with the idea that they were essentially coming to an agreement with a regime that appears to be at the very least conducting crimes against humanity, against part of its population, if not genocide for some people. So this is, I think, going forward, going to be something very difficult for the European Union to come to a consensus on internally.

Now that, you could argue, doesn't necessarily stem from China's relationship with Russia, but I think it highlights the fact that both Russia and China are really quite comfortable with their world view, that that's not really going to change in the short term, and the basis, to some extent, of their relationship is becoming much more cemented in a kind of anti-Western view, a kind of opposition to Western ideas about human rights and liberal democratic order in a way that I don't think they were before. So, I think, before, one would have questioned the extent to which that was actually at the heart of their relationship, and it was very much in Bobo Lo's words in "Axis of Convenience", but I think that that dimension is becoming much more salient.

And also then partly related to that the disinformation effort, as was mentioned, this is starting to be, if not directly coordinated, they are certainly learning from each other. In some areas, I think, it's not so much that they are coordinating, but there is a process of kind of mutual learning going on. And I know that Sir John Sawers, the other day, suggested that the biggest threats that we face are from Russia and China, rather than from Islamic terrorism, you know, the Russia-China relationship, if you like, is becoming a much more salient threat to the UK and to the West more broadly, through cyber attacks, as he said, we are paying for political division.

So I think, as with the EU trade deal, and other areas as well, it's the danger of a lack of unity, I guess, in the West, which I think was also demonstrated by the fact that Biden very much came into office on the basis that there would be this kind of coordinated transatlantic policy between Europe and the US. And I think the fact that the EU then kind of inked this trade deal with China shortly thereafter was possibly not a great sign, not a great signal to send. So I think we need to work on coordinating much more.

And NATO, again, you know, with NATO they came very late to the party in terms of actually really examining what China's strategic objectives might be and actually waking up to the Russia–China relationship. I think it's only really since about last year that they've really tackled that in any way or addressed it in any way.

So I think really that for me it's very much about coordinating strategy and very much about ensuring, trying to ensure that there are no obvious political divisions within the EU and within NATO. Because if we don't have a unified West, then it will become very much, as in the Cold War, that Russia or China can sort of try to divide the West.

And so I think that the regime type that Russia and China essentially are has become much more of a source of friction in their relations with the West, and I think that we need to understand that this isn't something that's going to go away. And so I think the question that somebody put recently was does the West want to economically feed the dragon and simultaneously ignore human rights abuses.

I think Indo-Pacific might be, although obviously a long way from Europe, clearly there are a number of European countries that are looking to the Indo-Pacific now, including the UK. And I think that's where there is a sense in which they can support the US there. I think Russia is still somewhat of an outsider in that region, but at the same time they can give China support in terms of military support, defense exercises and so on, but also giving China a kind of, you know, legitimizing, if you like, China's strategy there. And Lavrov has indicated that he sees the Indo-Pacific strategy as completely destructive. So while there may not be explicit coordination in that region, I think that it feels at the moment as if, if you like, in every area the two are stepping up and providing support, sometimes actual support, sometimes perhaps more rhetorical support, that at least legitimizes each other's policies.

**Foy.** Thanks, Natasha, some fantastic points, which I'm very keen to come back to a little later.

Richard, I wonder if we might be able to delve a little deeper into the economic sphere of this. I mean, of course, on one hand, if you take from one, you are taking from another, you are not giving that opportunity to another, but is it really a zero-sum game here? I mean, the gas that's coming to Europe is still coming, the gas that's going to China comes from a totally different part of Russia. I mean, are Europe and China really competing for the Russian market, and should Europe really care that Russia is doing more business with China?

**Connolly.** Yeah, speaking about the economic dimension, I broadly agree with Sasha's points on the quantitative side in terms of how there has been, certainly since 2013, 2014, the significant quantitative reorientation in economic terms, certainly in trade terms, from Europe towards China. So I agree with that. I don't think, as you've just asked the question now, whether it is necessarily accurate to see it in these zero-sum terms. In order to make that point, I'll make four relatively simple observations about the nature of the Russia-Chinese economic relationship to date, and what that might mean for the future, and from that I'll be able to sort of form a brief conclusion on what that might mean for Europe.

A first point, I think, that's very important to note about the relationship between the two of them at the moment, is that if we look at the nature of trade relations between Russia and

China, they broadly mirror Russia's relationships with Europe in qualitative terms. And by that I mean that Russia basically sells, as Sasha pointed out, raw and unprocessed materials, in particular energy, in exchange for manufactured goods from China. That's the sort of trade relationship that Russia had and has today with Europe. So it's not that different. There is a few areas where Russian exporters have achieved some high-tech success, Sasha mentioned some of the arms exports from Russia, although that's declined from the levels that we saw in the 1990s and the early 2000s. Russia exports the nuclear power plants, although it's one of a number of suppliers there. But by and large, Russia is an exporter of raw and unprocessed materials. And even if we look at projections for the future on growth in trade with China, they are based on Russia exporting yet more energy, and possibly more food. So, again, not really, I think, what Putin and other people in the Russian policy elite had in mind, in 2012 for instance, when Putin spoke of catching the Chinese wind in Russia's sales and using the growing Chinese market to make the Russian economy more dynamic. If anything, it's staying roughly as it was, is its relationships with Europe.

There is also an important difference between Russia's relationship with China and Russia's relationship with Europe, and that is that so far the capital relationship with China is very much unfulfilled, a story of unfulfilled potential. So if you look at Europe, there is a great deal, that's still Russia's single largest source of foreign direct investment, both in energy but also in other parts of the economy. Whereas if we look at China, China really so far has only invested in any large, meaningful scale in the energy industry. And this is a problem, because traditionally inward foreign direct investment is an important channel of technology and know-how transfer. And there isn't much of that going from China to Russia at the moment. China sells a lot to Russia, but so far hasn't exported much in the way of capital. Even though the official data are probably understated, I still think it's the case that Europe is overwhelmingly the largest source of that capital. So that's likely to be the case for a while.

A second point that I want to make, and this is linked to the previous point, and that is: if we look at what Russia exports to China, it's dominated by energy. No surprise, this is what Russia has a comparative advantage in. But what's interesting about this, and not necessarily spoken as much about, is that Russia's future relationship is predicated on a further expansion of energy sales. So, Power of Siberia is at the moment delivering minuscule volumes of gas. There is gonna be a lot more, 38 billion cubic meters a year annually by the mid-2020s. We should expect to see a liquefied natural gas from Yamal head east; so far it's only headed west. And in the future we may see Power of Siberia 2, which may add a further 50 bcm a year. There is also plans to export a lot more coal.

Now, what's interesting about this is that this is really the Russian government seeking to perpetuate their current reliance on hydrocarbon exports to drive their own domestic system of political economy. And the Russians are banking that China will continue to consume large volumes of hydrogen carbons into the future, even as hydrocarbon demand plateaus and then potentially tails off in high income Europe. So Russia's going all in on the idea that it can continue to sell not just the current volume of energy, but a lot more into the future. We are seeing this in the development of the Vostok Oil deposit in the North Arctica, near Yamal, and also the development of the Northern Sea Route. All of this is part of Russia hoping that it could drive economic growth principally through hydrocarbons and through demand from Asia, but mainly through China.

Now, the problem here is that this is a gamble. If it doesn't pay off, if China's hydrocarbon demand does not grow as much as the Russian government think it will, then Russia may be developing extremely expensive deposits, in very expensive parts of the country, and then selling on a buyer's market later on in this decade. In which case the return on investment could be negative, given the scale of subsidies required to get these projects up and running. This threatens the very system of political economy in Russia that is essentially based on the redistribution of natural resource revenues around the economy. If these revenues dry up in the future, how will the leadership keep the elite and the population happy? On the other hand, if the gamble pays off and China continues to consume lots more hydrocarbons, then Russia could be very well-placed in the mid-2020s. It might be selling lots of very expensive hydrocarbons for lots of money, and that could mean that the system go for a long time.

I think this is also a gamble on the type of economic growth that we see in China, the gambling that China will continue to grow briskly, but also that the nature of economic growth in China will be much as it was before. In simple terms, we've seen China follow an investment-heavy and resource-intensive growth model over the past two decades. However, there are efforts, so far largely unsuccessful, to switch towards a more consumption-based, human-capital-intensive growth model. If this happens and we see a less resource-intensive, greener type of economic growth model in China, then that's not going to be good for Russia. Russia will be hoping, I think, that China doesn't change too much.

Third point. The emergence of technology blocks across the world, I think, is a threat to Russian sovereignty and independence. These are two concepts that are very important, of course, in Beijing and in Moscow. As we see the balkanization of technology blocks across the world deepen, where will Russia sit within this? It seems to me that these technology blocks are only really possible to crystallize around those countries with large enough markets to provide scale of demand for new technology, as well as enormous research and development funds and well-functioning innovation systems. Russia doesn't have any of those three features. The US does, China does, and possibly some collaboration between medium-sized states, like the European Union, might also. But Moscow will want to avoid being too close to any of these blocks, including China, I think. You know, things like AI, 5G infrastructure, and other emerging technologies.

So, what Moscow does about this, I think, is a very important question going forward. I think there'll be a reluctance, and we've seen this so far, to throw all of their eggs into the Chinese basket. And I think this problem is exemplified over the case of 5G. We can see here how the structure of Russia's system of political economy has so far prevented a decision being made about a more market-oriented, competitive and open 5G system; instead there are powerful lobbies resisting that. And not only resisting buying European infrastructure and letting that dominate the Russian market, but also allowing Huawei and the Chinese to dominate it as well. I think that in the end Moscow will choose to try to balance the different sources of 5G technology in a way that in the end will probably raise costs for consumers in Russia and result in the slower rollout of 5G, that might then undermine Russia's other areas of technology, sort of 5G-enabled areas, like the Internet of things, AI, et cetera. But I think this is very important a question going forward, where will Russia sit in this sort of tug of war. I think it will try to exercise as much independence as it can, but that I think will put a certain ceiling on how far relations will go with China.

Fourth and final point. And, you know, again linking in with this point about sovereignty and autonomy. There is a mutual desire in Moscow and Beijing for sovereignty and autonomy, in both an economic and a geopolitical sense. And for Russia this has characterized economic policy since at least 2014, if not before, and it is now increasingly in China, with things like the move towards the dual circulation economy, \* China strategy, et cetera.

So what, what does this mean? I think it means that both countries will seek to avoid dependence on any outside powers. They want to try to shape their economic destiny as much as they can, and not be shaped. And this, I think, will impose a ceiling on just how far relations can go in the future and how deep the relationship can go. So far it's been a very top-heavy relationship between Russia and China, dominated by state-owned enterprises for the most part; there is a few exceptions, but in order for integration to be even deeper you are going to need the whole of the economic base to be interacting with each other a lot more, a lot more foreign direct investment, a lot more in the way of capital flows. But I think Russia's desire to avoid that dependence on China will mean that Russia will seek to gain more from a more Asian-oriented, greater Asian-oriented economic policy rather than a China-centric one that we've seen over the last ten years.

So I think what we've seen so far is very important, and we've seen the two countries come together in economic terms, and I think that that will continue to grow, but I do think, in conclusion, that there are some important limits to that. And I'll leave it at that, Henry.

**Foy.** Thanks, Richard, fascinating, and I'm very keen to come straight back to you on one of these points. But just for those watching, if you do have questions for the panelists, please put them in the chat box on the YouTube channel or send us a tweet at Carnegie Russia.

I'm struck by something you said there about this idea that China is perpetuating Russia's belief that it can continue to just pump out hydrocarbons for the rest of its existence. You compare the way we talk about Russia and China and the way we talk about China and certain African nations where they've invested heavily in natural assets. The West says, "This is terrible, you are handicapping these nations, you are treating them just as places to dig up resources, and you are taking away their power to choose their own economic destiny." With Russia, we say, "Oh, this is a terrible thing, we don't want to strengthen Russia." Surely if the West is keen to handicap Russia and to limit its ability to challenge Europe and to be a threat to global superpowers, this is good that China is essentially telling them, "It's fine, continue to dig up the ground, don't invest in high tech, don't try and compete with us in technology," because in ten, twenty, thirty years time Russia is going to turn around and realize it's way behind everybody else, because they've been duped into thinking that they can continue to just keep exporting raw materials. I guess, my wider point here and to the three of you is why is the West so determined to break up this alliance if actually what it's doing is weakening Russia slowly?

**Gabuev.** If I may start. I think that in direct reacting to Richard's excellent point, which I agree mostly. The problem is not Russia's China strategy. The problem is Russia's structural political economy, where you basically have a choice whether you want to capitalize the talents of the Russian people, obviously demonstrated during the SolarWinds, although we don't know who the mysterious hackers have been; like, you have pockets of human talents in this country still. What's the UK Google? What's the French Google? What's the German Google? Here we

have Yandex, and Yandex competes in the market with Google, unlike in China, where Baidu is the single dominant search engine because Google is not allowed to compete. You have this talent, but enabling this talent to become the real source of growth in the economy would require independent judiciary, and for that you need to relinquish some part of the political control. Where banking on natural resources means that you still, if you are smart about managing those resources and manage the cash flows, which definitely people like Elvira Nabiullina, Anton Siluanov and others are doing very well, you cannot relinquish the control and empower the other sectors of the economy, or keep them in place. So I think that the problem is structural.

Henry and I have been going to Saint Petersburg Economic Forums forever. And you hear all the right talking points by Prime Minister Medvedev, Prime Minister Mishustin, President Putin, that we need the bloody structural reform. And here we are in 2021, with pretty much the same structure, probably even more state and more reliance on oil and gas. And I think that the problem here is really structural and political rather than economic. So it's no surprise that Russia is repeating the same model of being a large oil and gas station, by and large, externally. Internally the economy is more sophisticated.

And I think that here, going back to Richard's point, the Russian government now realizes that the hydrocarbon era is about to end. Not mid-2020s, probably mid-30s, mid-40s, but that... like, oil and gas will be basically the source for petrochemical and gas chemical industry. But this is over, and now we need to dig all the expensive resources and get them out to the market when they are still worth something. Because ten years down the road probably there will be no economic incentive to do that. And along the way there are multiple people, all the Gennady Timchenkos and Arkady Rotenbergs of this world, who pocket a lot of gains by building the pipelines which we never know whether they will be kind of return on investment or not. So I think that's very much what informs the Russia's strategy.

To rationalize that, there will be people in the Russian government who will tell you, "Well, China indeed has this pledge to turn carbon neutral by 2060, and reach the peak of emissions before 2035. But the way to do so for China will be not massive investment into renewables, but also moving away from coal, which is still 60 percent of the national energy means, towards more environmentally friendly other hydrocarbons, which is the natural gas. So, there will be room for Russian gas in the future."

Russia's problem is exactly, I think that Natasha really nailed it, that Russia is only one source of hydrocarbons to China. China is pretty diversified, it can choose from multiple sources, be it LNG, be it indigenous domestic development of shale, be it Xinjiang, and Russia might really end up in the buyer's market where China will be able to dictate the price. To make things worse, China is trying... particularly Gazprom is trying to connect itself to China through land-based pipelines that lead to only one customer, which is China. Unlike smart people like Novatek, which build LNG plants. So, once you have this pipeline that goes to only one customer, and the market is increasingly buyer's market, you are in China's hands. So that's the long-term problem Russia will be facing, but it's not so acute in the coming decade, and that's why, with all the structural limitations here, Russia will continue to play this game. And it's really the political problem rather than economic problem.

I'll stop here.

**Foy.** I mean, you are right about Gazprom building a pipeline to one customer and Novatek having options, but let's not forget that Novatek only got built because of Chinese money and they own the debt.

Natasha, there is a question from the audience here about other areas where the UK and Russia could work together, and why should London care about China and Russia getting closer. I'll broaden that out a little bit, to follow up from what Sasha's just said. Has Europe, and the UK, and the West in general, I suppose, missed a trick here by taking such a belligerent attitude towards Russia that they are no longer able to play in this space where they can talk to the Russians and try to explain a little bit of what Sasha's just unpacked there? And that essentially we are now just bystanders waiting to see how this plays out.

**Kuhrt.** Yeah, I mean, I don't know if we ever would have necessarily had much traction with Russia in terms of their relationship with China. Because I think it has its own momentum, really. I think, obviously, it's perhaps quite convenient for Russia to... you know, for us to overestimate the relationship, for us to think that we can drive a wedge between them and so on and so forth. I don't think that's necessarily going to happen, but clearly at the moment the kind of deterioration of relations... Well, I mean, actually Lukyanov, I think, just wrote an article suggesting that actually there is no relationship to resuscitate or revive, because since 2014 it's been in the doldrums anyway, but that's maybe another story.

But I mean, I think we don't have... It's difficult to see what levers we have, and I think actually just the other day Borrell suggested that the EU has no capacity, vis-à-vis China at least, and I think it's also been fairly evident regarding Russia as well, that in terms of disinformation, for example, the EU cannot... (a) it doesn't have capacity, and (b) it can't really coordinate responses to these sorts of disinformation campaigns. So I think that obviously is an issue going forward, and I think John Sawers the other day was suggesting essentially the UK only... you know, it can do a certain amount, but it can't stand up to China alone, and I guess the same would go for Russia-China.

So, yeah, it's hard to know really at the moment what the EU can do going forward, but I think in practice there will continue to be... I mean, the EU as a whole, you know, but in practice going forward there'll continue to be bilateral diplomacy between European countries and Russia. I mean, I think just a day or so ago, Germany had talks in Moscow. So, and this is as it has been for some time and will continue to be.

There's the interesting issue around the vaccine diplomacy as well in the Balkans, where essentially Russia and China have ended up rolling out the vaccine in Serbia and Montenegro and so on, because we are basically absent there. So, sometimes maybe there is little kind of those more niche areas or areas where we can remind people that Europe can get stuff done, and that Europe is in a kind of soft power dimension, I suppose, soft power diplomacy, if you like. We are hardly really showing ourselves to be very attractive, if you like, in the sense that we can't even roll out a vaccine to these countries. So I think we are lacking really in ideas at the moment.

**Foy.** Yeah, I mean, to defend the EU's vaccine response, more people in the EU and the UK are vaccinated than in Russia. So I just think Russia is using a lot of its own vaccines...

**Kuhrt.** I know that, that's \*, but I mean in the sense of, you know, these countries that are seeking to enter the EU, it doesn't send a great message to them if we allow Russia and China to enter. I mean, clearly, yes, our vaccination strategy is superior, but I just think there are all sorts of ways in which we perhaps send the wrong message.

**Foy.** Richard, one way in which Russian, I would say, clear-eyed politicians here in Moscow speak of is that while the Chinese relationship has been great, and over the last ten years or so has brought in huge amounts of extra trade that wasn't there before, the European Union is still where most of the expensive stuff goes and where most of the stuff comes in, and that relationship is still premier. In absence of any kind of political movement or any kind of efforts to try to get relations moving again on political level, is it the businesses, the European businesses and the trade flows, that are going to keep the EU having a voice in this space, and in many ways keeping Russia from moving as close to China as perhaps some would not like?

**Connolly.** Yeah, I think if we look at the change in Russia's relationship with Europe over the last... let's say 2013, to use Sasha's starting point earlier, because I think that really was the... 2014 was the inflection point. If we look at what drove this, let's say, 10 percentage point shift, swing from Europe to China, it wasn't that... you know, some of those were sanctioned goods, some high-tech electronic components and suchlike, I'd imagine that in the grand scheme of it the volume, financial volume, wouldn't have been that great. It's important in technological terms, but financially more marginal, maybe a couple of billion a year, tops, I would imagine, where you've no longer able to buy the higher quality ones from Europe and instead they have to be sourced from China, and Indonesia, and Vietnam, and places like this. But the overwhelming bulk of the percentage point shift away from Europe was actually come about because of so-called counter-sanctions, the food embargo. Right? And that was... Russian domestic production supplanted that. And so that's really what's accounted for this big knock-in in Europe and trade with Europe.

And in fact, once you remove that from it, if we look at the trading things like machinery and other goods that aren't sanctioned, that's been largely stable, notwithstanding any fluctuations caused by the decline in oil prices in 2014–15 and then again in 2020. If you take that out, those areas have pretty much stayed the same. So Russia is still buying many of those same European goods that it used to. And what's accounting for the increase in trade with China hasn't so much been energy, because the big energy export increase took place with the completion of ESPO earlier on in the decade, and then the second branch which expanded some of the oil sales. Gas sales, not so much. I mean, they've only just built the Power of Siberia 1, and the amount of gas going through it is barely anything. That remains to come online further in the decade.

Actually what's happened is Russia has just been buying more consumer goods and other types of things. If you break down the composition of the trade... what we haven't seen is China supplant Russia too much in the way of the really high-tech goods that it used to buy and still does buy from Europe. And that's because still, despite all of this effort and all of this talk of China being this sort of high-tech power, although it's making some progress in some areas, 5G infrastructure being one of them, it still isn't making the same degree of high-quality goods as you get in Europe and the United States. And that's still an area where China is relatively weaker.

So, I guess, the point I'm trying to make here is that we can identify some very specific reasons for this reorientation, this 10 percentage point swing in Russian trade, and it's not necessarily because China is suddenly shifting Europe out in areas that Europeans make a lot of money. They are still making money. And as I say, they are still very important as sources of capital and direct investment.

**Foy.** That's absolutely true. We spent a lot of time talking about all the good things about it. Let's touch on an area, there is a question here from the audience, where there might be room for things to go a little awry. What about in Central Asia? Is there potential for Russian-Chinese conflict there or at least a falling-out? From Moscow's point of view, how can they maintain influence there, while also condoning or in some, many ways praising their relationship with China? Kazakhstan is obviously the best example, given the new trading route that the Chinese have put a lot of money into there. But at the same time we are seeing some policies from Nur-Sultan that seem not anti-Chinese but at least an effort to try to restrict that amount of influence. How do you think Moscow has played that? Maybe, Sasha, you could kick off. And how much do you rate the potential for larger scale falling-out in that region?

**Gabuev.** I think that many analysts have been waiting for this major fallout, because oh, that's a kind of shared neighborhood and it will undergo the same dynamics that countries in between, particularly Moldova, Belarus, and Ukraine, will be the trigger for more competition between Russia and the West, same will happen to the stans and Russia and China. And I think that this prophecy is yet to be materialized.

So, there are a couple of reasons for this. I think that structurally, in terms of economy, the competition was lost by Russia before it even started. Because in grander scheme of things Russia and all five stans are competitors, except for labor. Russia is a giant producer of metals, oil and gas, and they are the same. If you try to put yourself in the shoes of Turkmenistan or Kazakhstan, where do they go with their commodities? Russia is their competitor, Europe is too far away, except for KTK, with Caspian pipeline. Iran – under sanctions, smaller version of themselves. TAPI, going to India – good luck talking to Taliban about it. So, basically it's only China. And I think that "Russia's relationship with the stans in terms of economy going forward" is to simplify that at relationship between Saudi Arabia and Oman. They are neighbors, they are Arabs, Sunni Muslims, been part of the same empires forever – they don't trade, because they have the same commodity to sell. It's oil.

So I think that, by and large, that's the future of the relationship. And China will be and already has become for all five – except for Kazakhstan, but it's also turning – number one source of trade, number one source of investment, number one source of loans. And there is nothing that Russia can do about it.

Russia was banking on being the security provider in the region, and China being kind of the economic engine. And that works so far. The security interests still overlap. So, both Moscow and Beijing are disinterested in these countries becoming unstable and breeding ground for terrorism, separatism, extremism, the tree evils. They believe that democracies don't really serve that purpose, so they are happy with the regimes the way they are, except for maybe Kyrgyzstan, but everybody learns how to live with the messy democracy out there. And they don't want to see American influence. So I think that these three interests really overlap.

But definitely there is a competition. And this competition is born by a more activist Chinese foreign policy that's driven by one paramount concern. So, Central Asia is next door to Xingjian. Whenever the current repressive policies in Xingjian will be sufficient and efficient in eliminating the Uyghur problem for China, is yet unknown. So we'll only learn 20–30 years down the road. If something happens in Central Asia, that will have dire consequences for stability in Xingjian. So, if Russia is the regional policeman, China is happy with that. But the concern in Beijing is, will Russia have the ability to play that role 10–20 years down the road, given lack of resources, anemic economic growth, it's overextension, so it has to fight wars in Ukraine, Syria, and conflict with the West. So, will it be a point where like Great Britain in Singapore, like the UK government said, "Sorry, guys, you are now on your own, with all of your nice neighbors," so, same will happen to Central Asia, that Russia will have to wind down its military presence and that will happen very swiftly.

So, China now wants to build its own tools to address its core security interests. And we've seen this growing military presence in Tajikistan, we've seen their effort to boost the capabilities of local armies and to put the private military companies on the ground. They have been not very successful so far. And I think that Russia is learning to live with that new reality. And also growing appetite to be involved in local politics. I think my Carnegie colleague Temur Umarov has written an excellent piece on their growing influence in Kyrgyzstan, and the way China played a role in Japarov's victory. So that's a new reality, and it's inevitable. The problem for Russia is how to live with a more activist and more powerful China in shared neighborhood.

And my final point will be that I think Russia has pretty strong cards to play. Because except for Tajikistan, all other four stans are very fearful of China because of what's happening in Xingjian. And because Russia is the old colonial great power that they have learned how to live with. They know that Russia will probably not colonize them again. With China, there is a lot of fear, probably irrational, that there will be this large kind of colonization, even if China doesn't formally overtake these countries.

So I think that Russia can play on this. Russia can treat these countries as sovereign, and invest into their sovereignty, and also talk to China that "hey, China, there are certain red lines and certain limits as far as you can go without stoking anti-Chinese sentiments in the elites and in the population, that these countries will try to bring more Americans or more forces that both you and I don't want to see here, and let's establish some division of labor and talk through the red lines."

So I think that Russia still has a lot of currency to play on. The problem is that, time and again, MPs like Nikonov go that "by the way, do you know that Northern Kazakhstan is not entirely Kazakhstan?" and that inflates anti-Russian sentiments. So Russia is foolish and stupid and needs to correct that in order to remain relevant and powerful.

**Foy.** Well, then Moscow only needs to look at what happened in Nagorno-Karabakh to see what happens if you lose control of what you considered to be a satellite state to a third party, in that case Turkey, and their much wider and much deeper defense relations than perhaps a lot of people outside of the region realized.

A question, perhaps best for Natasha, from the audience: What can be done to stop China–Russia cooperation on the disruption of democratic process in the West? Russian trolls

and hackware are much more sophisticated, but with China it can be much more devastating. I mean, do you agree with the premise of the question, and what's your answer in terms of how to deal with that?

**Kuhrt.** Well, I think I partly touched on it before, but yeah. I mean, the EU clearly doesn't have the capacity, they've said they don't, and I don't think they do. I mean, okay, the EU, I think, did start a few years ago to develop some kind of strategy for countering Russian disinformation. But I mean, obviously, practically it has to really, probably, be done by the individual member states. I think it's difficult to coordinate something like that.

I think NATO perhaps has a better sense of things and has actually now a strategy that it has rolled out with regard to Russia. I think the problem is that they've been very slow, as I said before, in waking up to the challenge from China much slower, and I don't know whether the fact that they are continuing to economically feed the dragon comes into that.

I think it will be key to coordinate with the US, you know, coordination with the US, transatlantic unity will need to be key. And I think Biden has addressed, in some form at least, preliminarily, if you like, there are challenge from Russia and China. He seems to suggest that China is a kind of competitor or challenger, whereas Russia is characterized more as a disruptor, if you like. So, in a way, he seems to be suggesting that Russia is still more disruptive than China. China, in a way, is quite new to the disinformation game, I guess. I mean, obviously we've seen some disinformation coming out around coronavirus and so on.

I suppose the key is whether they are actually coordinating actively, and I don't know enough about that \*, I mean, so I think the Five Eyes can also perhaps help. The Baltic states are very good on Russia, China espionage, and I believe... I mean, obviously they've had a lot more experience, you could argue, with Russia than other member states. So I think that learning from them will be key as well. So, obviously sharing information. I mean, hopefully it's not going to be a problem, an obstacle, for the UK going forward that we are no longer part of the EU, but the Five Eyes intelligence sharing, I suppose, can perhaps mitigate that.

As Sasha said, China is actually learning from Russia in terms of disinformation, so, I guess, and in a way they really just started. So we definitely need to coordinate on this, and as I said, I think the Baltic states are perhaps much more aware, if you like, and advanced. And I think in Estonia, for example, there's been a lot of harassment of Chinese expats and so on. And that's obviously another area that we know about, as in Chinese expats \* what extent can China use those as a sort of fifth column, if you like, in terms of limiting freedom of speech and so on in academic institutions and elsewhere.

Yeah, that's all, really.

**Foy.** Great, thank you, Natasha. We are almost out of time, so just to wrap up, I thought I'd ask all three of you the same question, and if you could answer as succinctly as possible, and that would be to return to the central theme of this discussion. If you were advising policymakers in the UK and the EU, what would be one or two key steps that you would advise to either benefit from the Russia–China relationship or seek to protect from any negative fallout from it? So, perhaps, Sasha, you could start.

**Gabuev.** First, I think you should understand the fundamental drivers that are there to authoritarian regimes, a lot of mutual economic benefits, so, trying to drive a grand wedge or trying to do Kissinger reverse just won't help, that will be not successful. And the West needs to address the core security challenges coming from this relationship, through kind of more deterrence, building alliance and capabilities. That's one.

And on the other hand, I don't think that driving Russia more dependent on China technologically is to the Western advantage. And to the extent possible, restricting this overdrive on sanctions in civilian technology, and saying that "we will punish Russia through this and that targeted names and stuff," but not the civilian technology, and keeping Russia more dependent on kind of German tech(?), allowing Nokia and Ericsson to be in the market rather than give the market to Huawei or import substituted base stations that will carry Rostec logo but will be de facto China-produced, is definitely in Europe's interest both from commercial and security standpoints.

Thanks.

**Foy.** Thanks. Richard?

**Connolly.** Yeah, echoing Sasha's points there, I think understanding the structural dynamics underway, and not being too sensationalist and simplistic in how you interpret it, is an important starting point.

And to Sasha's second point, now that was the one point that I was going to make, and that is that I think, given my own assessment that Moscow does not desire to go all in with Beijing, I think this gives plenty of opportunity for European firms and states to continue to have influence and presence and profit from the Russian market in the future, in particular in the area of technology, also other forms of natural resources, maybe greener ones, like hydrogen, in the future perhaps to replace gas pipelines and suchlike. So I think staying engaged, staying engaged in as many areas as is possible, beyond the obvious ones which would be, you know, such as military technology, so that European firms and states can continue to stay relevant in Russia.

**Foy.** Thank you, and finally Natasha.

**Kuhrt.** Yeah, thank you. We haven't mentioned the Arctic, and I think perhaps that might be an area where, I mean, Russia really does actually need to cooperate with NATO in the Arctic. It doesn't really, I think, have much of a choice, and also as neighbors in the Western Arctic, it needs to keep the Northern Sea Route open. I mean, China is cooperating there, but only... you know, and providing some loans, but Russia doesn't allow China to dominate in the Arctic. And there is room, I think, for cooperation in that region. So that's a sort of potential bright spot going forward.

Also if there is some way to somehow facilitate a bit more of cooperation between Russia and Japan in some way, with that obviously one has to tread carefully because of the US-Japan alliance, but you know, Abe in 2016 did create this new post for economic cooperation with Russia and identified energy as a priority for cooperation. Clearly things are oriented towards China, but there are possibilities of cooperation with Japan on energy and on other issues, and perhaps somehow related to the sort of Indo-Pacific strategy, which more and more European

states are plugging into, if you like. So there may be also opportunities through that kind of route.

**Foy.** An excellent and uplifting point to end on. So, thank you, Natasha, thank you, Richard, and thank you, Sasha, and thank you, all of you who've tuned in to watch. This has been a great session, and I think the main outcome would be: yes, Russia–China friendship is real, but the EU and the UK don't need to freak out about it.