

The Embrace between a Russian Bear and the Panda Bear An Emerging Sino-Russian Axis

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Summary:

During a three-day official visit to Moscow in June 2019 the Chinese President Xi Jinping described Russia's Vladimir Putin as his "best friend". While China-US relations are deteriorating over bitter trade disputes, the imposition of tit-for-tat tariffs and intellectual property rights, the Sino-Russian partnership is evolving and deepening in areas such as security and defense, bilateral energy cooperation as well as the Kremlin's expanding participation in China's Belt and Road Initiative (BRI).

Both Beijing and Moscow are building an alliance shaped by shared grievances and based on mutual strategic convenience. Against this background the following report argues that the strategic realignment underway between the Kremlin and Beijing is not one of equal partners. Status matters between the leadership of both countries. Moscow cannot compete with China's sweeping investment efforts and infrastructure projects in the context of the BRI. What is increasingly emerging in this relationship is a junior role for Moscow and senior status for Beijing. The trade balance is heavily tilted in China's favor. Chinese banks are key lenders to Russia. The energy cooperation is defined by China being able to command prices from Russia below market rates. Most importantly, China's BRI is a multi-decade vision, spacing continents and backed up by sheer unlimited financial resources which Russia cannot even contemplate to match.

With Russia and China strengthening their cooperation across policy fields, individual countries and sub-regions in continental Europe are faced with new and challenging strategic choices. As Moscow consolidates its economic footprint in Serbia and Montenegro, Beijing expands its presence across Central and Eastern Europe in the context of the 17+1 network. Policy makers are thus faced with daunting options. Some see Beijing as the more promising alternative, while others are tempted to seeking accommodation with both Russia and China.

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Abbreviations

ABC:	Agricultural Bank of China
APL:	Albanian Party of Labor
ASEAN:	Association of South-east Asian Nation
BARF:	Belt and Road Forum for International Cooperation
BRI:	Belt and Road Initiative
BRICS:	Brazil, Russia, India, China and South Africa
CCB:	China Construction Bank
CCP:	Chinese Communist Party
CCTV:	China Central Television
CDB:	China Development Bank
CESEE:	Central, Eastern and Southeast Europe
CGTN:	China Global Television Network
CI:	Confucius Institute
CMC:	Central Military Commission (of China)
CNPC:	China National Petroleum Corporation
CRBC:	China Road and Bridge Corporation
CSTO:	Collective Security Treaty Organization
DOD:	Department of Defense (U.S.)
EBRD:	European Bank for Reconstruction and Development
EEA:	European Economic Area
EEF:	Eastern Economic Forum
EEU/EEAU:	Eurasian Economic Union
EIB:	European Investment Bank
EU:	European Union
FDI:	Foreign Direct Investment

FTA:	Free Trade Agreement
HC:	Hrvatske Ceste (Croatian Highway Operator)
ICBC:	Industrial and Commercial Bank of China
LNG:	Liquified Natural Gas
MSR:	Maritime Silk Road
NATO:	North Atlantic Treaty Organization
OBOR:	One Belt – One Road
OECD:	Organization for Economic Cooperation and Development
Pdvsa:	Petróleos de Venezuela
PLA:	People’s Liberation Army (of China)
RDIF:	Russian Direct Investment Fund
RMB:	Renminbi (China’s currency)
SCO:	Shanghai Cooperation Organization
SiLKs:	Silk Road Think Tank Network
SRBG:	Sichuan Road & Bridge Group
SREB:	Silk Road EconomicBelt
SRTA:	Silk Road Think Tank Association
TEN-T:	Trans-European Transport Networks
UN:	United Nations
WTO:	World Trade Organization

The Embrace Between a Russian Bear and the Panda Bear

An Emerging Sino-Russian Axis

Executive Summary

Since 2014 Russia has gradually pivoted its economy towards Asia. High-profile meetings between President Vladimir Putin and China's President Xi Jinping during 2018 underline that travel diplomacy serves to advance a strategic realignment between both countries. The depth and momentum of Sino-Russian strategic cooperation is deepening and accelerating. Defense and security co-operation, various bilateral energy arrangements, identifying synergies emerging from the combination of the Eurasian Economic Union and the Belt and Road Initiative (BRI) illustrate the widening range of common activities.

The manner in which this expresses itself goes beyond rhetoric. The frequency with which both sides utilize the term "strategic" is telling in this regard. It suggests a process of strategic realignment or adjustment as a work in progress. It would, however, be premature to call this Sino-Russian development a "strategic alliance". The Chinese foreign minister, Wang Yi, prefers to use the terms "comprehensive strategic partners", based on the "strategic guidance of the two heads of state", while "bilateral ties... are becoming a strategic force".

Contrary to the public debates and legitimate concerns among many policy makers and analysts in Europe and the U.S., observers in Russia do not (yet) see the BRI as a geopolitical risk. Instead, starting from President Putin on downwards Russia identifies the opportunities that rest in the initiatives and the potential to join forces with China. This point of view is informed by the fact that China's economic performance is eight times larger than Russian GDP. Moreover, during the past decade China has become Russia's most important trading partner.

Against this background the following report argues that the strategic realignment underway between the Kremlin and Beijing is not one of equal partners. Status matters between the leadership of both countries. Moscow cannot compete with China's sweeping investment efforts and infrastructure projects in the context of the BRI. What is increasingly emerging in this relationship is a junior role for Moscow and senior status for Beijing. The trade balance is heavily tilted in China's favor. Chinese banks are key lenders to Russia. The energy cooperation is defined by China being able to command prices from Russia below market rates. Most importantly, China's

BRI is a multi-decade vision, spanning continents and backed up by sheer unlimited financial resources which Russia cannot even contemplate to match.

This asymmetry constitutes the greatest challenge for Sino-Russian cooperation as the power balance is increasingly shifting in Beijing's favor. The challenge consists in organizing and giving symbolic visibility to the partnership as one of equals while Moscow contemplates how long it can camouflage or tolerate such a junior status. In short, there are limits to the depths of this emerging realignment. The center of gravity lies in Beijing, not in Moscow.

Ignoring or downplaying the significance of such common activities would be strategically irresponsible and politically self-defeating. At least members of the U.S. Congress are not in any denial about the "increasingly robust and pragmatic relationship" between Russia and China in the course of 2018. This relationship is shaped by shared grievances vis-à-vis the U.S. and a growing alienation of Russia towards Europe. Moscow's pivot towards Beijing is taking place against the background of China's deteriorating ties with the U.S.

With Russia and China strengthening their cooperation across policy fields, individual countries and sub-regions in continental Europe are faced with new and challenging strategic choices. As Moscow consolidates its economic footprint in Serbia and Montenegro, Beijing expands its presence across Central and Eastern Europe. Policy makers are thus faced with daunting options. Some see Beijing as the more promising alternative, while others are tempted to seeking accommodation with both Russia and China.

Introduction:

2019 marks a symbolic year for Sino-Russian relations. Both countries will be celebrating the 70th anniversary of the establishment of diplomatic relations.² There is much to highlight between Moscow and Beijing as the strategic partnership between both countries is expanding. In an effort to lessen the impact of Western sanctions against Moscow following the annexation of Crimea Russia has gradually pivoted its economy towards Asia since 2014. Equally, Russia and China are finding common cause in sniping at Western liberal democracies.

Since its official inception in 2013 through China's President XI Jinping, the *Belt and Road Initiative* (BRI) comprises 171 cooperation documents with 29 international organizations and 123 countries (as of May 2019, Yu 2019). One of the first countries to embrace China's flagship infrastructure development project was Russia. In 2015, China and Russia signed the "Joint Statement on Cooperation on the Construction of Joint Eurasian Economic Union and the Silk Road Projects".

The depth of Sino-Russian strategic cooperation is frequently underestimated by policy-makers and analysts in Europe and beyond. Equally, while Moscow has economic, cultural and religious ties to countries in Central and Eastern Europe, Beijing is busy solidifying new spheres of influence in these sub-regions of the European continent. This development is creating new policy challenges. As the European Commissioner for European Neighborhood Policy and Enlargement Negotiations, Johannes Hahn remarked in March 2019, "maybe we have overestimated Russia and underestimated China, and we should give both their right place" (FT 2019).

As shall be illustrated in this report, the depth and momentum of this Sino-Russian strategic cooperation is deepening and accelerating. Defense and security co-operation, various bilateral energy arrangements, synergies emerging from the combination of the Eurasian Economic Union and the Belt and Road Initiative, or joint support in dispute resolution in the World Trade Organization illustrate the widening range of common activities.

High-profile meetings between President Vladimir Putin and President Xi Jinping underline that their travel diplomacy serves to advance a strategic realignment between both countries. After formally becoming president of China in early March 2013, Xi's first foreign trip took him to Moscow two weeks later. If it may have appeared premature to see this visit as a sign of a shifting foreign policy strategy, the subsequent years highlighted that President Xi Jinping's selection of Moscow carried

² More generally, 2019 marks a year of various anniversaries for China, some of which are politically sensitive for the authorities in Beijing. October 2019 commemorates the seventieth anniversary since chairman Mao Zedong founded the People's Republic of China. But 2019 also marks 60 years since a failed uprising against Chinese rule in Tibet. 30 years ago, in June 2019, the student protests across the country ended in a deadly government crackdown at Tiananmen Square in Beijing.

more than just symbolic weight. Moreover, the choice of Moscow reflected a level of continuity on the part of China's new president.³

During a three-day official visit to Moscow in June 2019 the Chinese President Xi Jinping described Russia's Vladimir Putin as his "best friend". The two Presidents Xi and Putin met four times in 2018. In June 2018, Putin visited Beijing and attended the *Shanghai Cooperation Organization (SCO) Summit* in east China's coastal city Qingdao.⁴ In July 2018, President Putin took part in the *BRICS Summit* together with President Xi in Johannesburg, South Africa. President Xi Jinping met his Russian counterpart Vladimir Putin in Vladivostok in September 2018 on the occasion of the fourth *Eastern Economic Forum (EEF)*.

The forum aimed to revive the economy in Russia's Far East by strengthening regional cooperation. During the forum, both presidents agreed to designate 2018 and 2019 as the years of China-Russia local cooperation and exchange. Both presidents also met in November 2018 on the sidelines of the 13th Group of 20 (G-20) summit in Buenos Aires, Argentina. China's ambassador to Moscow declared metaphorically that "China and Russia are together now like lips and teeth" (Allison 2018).

The dynamic of bilateral relations is being articulated in wording and metaphors that are unprecedented between both countries. Xu Qiliang, the vice-Chairman of China's Central Military Commission (CMC), declared in April 2018 that the relationship had reached "an all-time high". In June of the same year during the annual Shanghai Cooperation Organization meeting, President Xi characterized Sino-Russian ties as having reached "the highest level, most profound and *strategically* most significant relationship between major countries *in the world*" (emphasis added, Cheong, 2018).

Such quotes are not only made in front of microphones and cameras in order to please welcoming dignitaries. They illustrate a chemistry between political authorities, thereby serving notice to others that both sides mean business. They are also a statement of intent as regards future possibilities. In a word, when representatives from Moscow and Beijing talk about each other in such praising terms, they should be taken at face value in other countries and regions.

The growing intensity of collaboration sends a message to other countries and multi-lateral institutions. Namely, to demonstrate that more Sino-Russian joint ventures are to be reckoned with in the future. Ignoring or downplaying the significance of such common activities would be strategically irresponsible and politically self-defeating. At least members of the U.S. Congress are not in any denial about the "increasingly robust and pragmatic relationship" between Russia and China in the course of 2018 (U.S. Congress 2018, page 164).

³ In the interest of historical accuracy, it must be noted that Xi's predecessor, Hu Jintao, also selected Moscow as his first overseas destination in May 2003 after assuming office in November 2002.

⁴ During his visit President Putin received China's highest state honor. The Friendship Medal of the People's Republic of China was presented to Mr. Putin personally by Chinese President Xi Jinping during a grand ceremony held at the Great Hall of the People in Beijing.

When analyzing Chinese and Russian interactions in Europe and beyond we focus on the diplomatic, informational, military, economic and political sectors. Our inquiry asks if we should view China and Russia as two independent and separately acting entities or, should they be found to work in cooperation with each other, viewed and addressed jointly? Both countries have historical legacies in their bilateral relations. The issue of lacking trust is frequently mentioned as limiting the scope of such bilateral ties.

Against this background the report argues that the strategic realignment between the Kremlin and Beijing is not one of equal partners. Status matters between the leadership of both countries. Moscow cannot compete with China's sweeping investment efforts and infrastructure projects in the context of the BRI. What is increasingly emerging in this relationship is a junior role for Moscow and senior status for Beijing. The trade balance is heavily tilted in China's favor. Chinese banks are key lenders to Russia. The energy cooperation is defined by China being able to command prices from Russia below market rates. Most importantly, China's BRI is a multi-decade vision, spacing continents and backed up by sheer unlimited financial resources which Russia cannot even contemplate to match.

This report is divided into six chapters and concurrent sub-sections. It is based primarily on open source research and analysis as well as interviews with selected stakeholders. The report cannot claim to be exhaustive. It is a work in progress that develops as the debate about the Sino-Russian axis continues.

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1. Conceptual point of departure

The Sino-Russian strategic adjustment emerging since a decade constitutes a new factor in the international relations arena of the 21st century. Both countries have established and are expanding this alliance on the basis of mutually shared interests, a personal chemistry between the presidents residing in Beijing and the Kremlin as well as the recognition by both countries that there are policy-making areas where they can complement each other.

This line of argument does not downplay the significant asymmetries that exist in the bilateral relationship. They range from imbalances in the trade relations, the financial resources that banks in each country can mobilize for (joint) infrastructure projects and the global vision that Beijing has successfully mobilized under the heading *Belt and Road Initiative* (BRI). Moscow is not in a position to rival the BRI with its own *Eurasian Economic Union* (EAEU, also abbreviated as EEU). The reach of the BRI now surpasses 120 countries and promised infrastructure spending of more than USD one trillion. By contrast, the EEU counts less than ten participating members. In the parlance of the Cold War, the Russian-led EEU is no match for the infrastructural arms race of the BRI!

This asymmetry constitutes the greatest challenge for Sino-Russian cooperation as the power balance is increasingly shifting in Beijing's favor. The challenge consists in organizing and giving symbolic visibility to the partnership as one of equals while Moscow contemplates how long it can camouflage or tolerate such a junior status. In short, there are limits to the depths of this emerging realignment. The center of gravity lies in Beijing, not in Moscow.

Both countries have adopted lessons learned from the fraught relations of the past. The safety and well-being of Russia increasingly rests on maintaining constructive relations with China's leaders. Russia is learning from recent history that the deterioration of bilateral relations with the United States requires a gradual pivot towards its neighbor on the southern border. Equally, today's leadership in Beijing is well aware of the strategic importance of constructive bilateral relations with Russia. Given the ambivalent relations China shares with some of its immediate neighbors to the East and West, it is well advised to have its back covered in the North.

Russia and China hold similar positions on a number of foreign policy issues in international relations, e.g. concerning Syria, Venezuela or Kosovo. In the global marketplace of ideas Moscow and Beijing share the ideological reluctance to embrace an international order defined in the West's image and characterized by liberal political values and Western economic principles. The two largest countries by land mass, China and Russia, are brothers in arms when challenging the supposedly universal appeal of these values and principles (Frankopan, 2018).

In various arenas of international policy making we observe that despite diverging interests both countries can support the other diplomatically, e.g. in WTO commercial disputes (primarily against the U.S.) or regarding the ruling of the international arbitral tribunal in The Hague in 2016 against

China's territorial claims in the South China Sea.⁵ This highly strategic area is a corridor central to the international maritime order. Approximately one-third of global maritime commercial trade passes through the South China Sea.

If there is a defining point in time from which onwards the Sino-Russian alliance manifested itself on the international stage as a factor to be reckoned with, then it would be during the initial phase of the Ukraine crisis in early 2014. In light of the sanctions' regime adopted by the U.S. administration and the European Union following the annexation of Crimea, we can observe to what lengths Moscow went to seek economic backing and diplomatic support from Beijing. Seeking to limit its international isolation, Russia found a willing partner in China. The multi-decade energy agreement between Moscow and Beijing from May 2014 (see chapter 3.2) was the most visible illustration of this rapprochement. The availability of sophisticated weapons technology for China's *People's Liberation Army* (PLA) from Russia adds a significant defense and security dimension to this rapprochement (see chapter 3.3).

The establishment of a strategic cooperation between Russia and China also requires the advocacy from representatives outside the centers of government and ruling parties. Such soft power capacity to support policy initiatives are vital in autocratic countries where the recalibration of foreign policy priorities cannot be discussed in an open and controversial manner via free media and independent think tanks. One of the leading voices in support of China's pivot towards Russia is Yan Xuetong from Tsinghua University. Yan argues that the rapprochement is a strategic necessity in order to keep the strategic pressure from the U.S. at bay (Carlson 2018).

But this advocacy begs the question if an alliance between Moscow and Beijing could also backfire, namely by reducing the diplomatic leverage and thus creating a host of risks for one or both parties to the alliance? Put otherwise, is the classification of this rapprochement as an alliance the appropriate terminology, or should it not be viewed as an arrangement between partners, but not allies?

To address the matter at hand in these terms sheds some necessary light on the medium-term consequences of joint ventures between China and Russia. Both countries are intensifying their economic relations. Their national interests converge in selected areas of foreign policy and the ideologies underlying these. The links that bring both together rest in refuting an international order defined and administered 'by the West' (Khanna, 2018). This view constitutes a cornerstone for the bilateral relations of both countries. This shared interpretation opens new avenues for joint activities ranging from the energy sector, military cooperation to infrastructure synergies emanating from China's Belt and Road Initiative and Russia's Eurasian Economic Union.

The bilateral readjustment between China and Russia has various political and strategic consequences for the European continent and institutions representing the European Union. For

⁵ The landmark ruling followed a case initiated by the Philippines against China in 2013 which brought the case under the U.N. Convention on the Law of the Sea. President Putin publicly declared in September 2016 after a G20 summit in China that he supported Beijing's rejection of the court's decision (Chellaney 2018).

one, with the BRI Beijing is making inroads in EU member states and non-EU members that both Russia and the EU – each for different reasons - have considered their spheres of influence since at least three decades. In the course of the past decade, China has invested in and provided loan funding for infrastructure projects across Central, Eastern and Southeast Europe. During this period Beijing has also established an institutional architecture across countries in these three European sub-regions. Founded in 2012, the 17+1 network organizes the yearly Central and Eastern Europe – China Summits (see chapter 5.4 for more details).

In practice, the network provides the institutional setting for China to engage on a bilateral basis with countries from different regions in Europe and with a diverse set of membership affiliations. The network is a hybrid amalgamation of states from Riga, Latvia in the Baltics to Sarajevo, Bosnia-Herzegovina in the Western Balkans. The network's secretariat is headquartered in Beijing. It is a top-down, state-driven, leader-to-leader network that negotiates project cooperation on a transactional basis ranging from transport infrastructure over educational initiatives to industrial park construction.

Secondly, China's expanding activities under the BRI open windows of opportunity for countries in Central, Eastern and Southeastern Europe. They can either play China off Russia or China off the EU. In particular the latter option creates numerous obstacles towards a unified European response to the BRI. The discords emerging among EU member states and those on the continent's periphery profit China.

Meanwhile, Russia is a participant observer to such developments. It has nothing comparable to the 17+1 network established by China in Central, Eastern and Southeast Europe. While China's network is expanding – Greece joined as the 17th member in April 2019 - Moscow can seek to garner collateral political benefits, even if they are not of its own making. This difference in regional institution building further highlights the asymmetry in the approaches undertaken by both Moscow and Beijing. While the former is increasingly passive and reactive, the latter is pro-actively engaging in establishing networks of interaction across Europe, irrespective of a country's membership in the EU. Garton Ash (2019) goes one step further by placing Russian and Chinese activities in European sub-regions in the context of Europe struggling

“to remain a subject rather than becoming merely an object of world politics.” He goes on to argue that non-EU external actors such as “*Russia and China merrily divide and rule across our continent*, using economic power to pick off weaker European states and disinformation to set nation against nation. In the 19th century, European powers engaged in what was called the scramble for Africa; *in the 21st, outside powers engage in a scramble for Europe* (emphasis added).”

Seen in this light, the strengthening Sino-Russian cooperation is taking place against the background of a continent looking for its *raison d'être* or *finalité* in the theatre of Great Power politics (Mearsheimer 2001). The alliance between the Kremlin and Beijing may thus indicate a revival of cold war antagonism between the U.S. administration on the one hand and the emerging détente linking Russia and China together on the other hand. The United States under

the Trump administration is engaged in a twofold clash with China and Russia which includes trade conflicts, security competition and more generally, ideological antagonism in the marketplace of ideas and innovation.

In the chapter that follows we will focus on the historical legacies and ideological rivalries that characterized Sino-Soviet relations in the 1960s. After avoiding military escalation in 1969 the normalization process in bilateral relations took more than three decades and involved shifting alliances. One country illustrating this contested ideological space between the former Soviet Union and China was Albania.

2. The rapprochement of the Russian Federation with China

The rapprochement between two major powers across the Eurasian landmass during the past decade comes with considerable historical baggage. The legacies of the past are significant, covering ideological rivalries, diverging national interests and differences in values as well as cultural heritage. This history of rivalries slowly escalated at the beginning of the 1960s, bringing the former Soviet Union and China to the brink of nuclear war in 1969. Against this background it is all the more noteworthy that China and Russia have learned the lessons of five decades ago and are now engaged in expanding Sino-Russian cooperation.

Back in the 1960s, the growing Sino-Soviet rift was partly ideologically motivated. The Kremlin and Beijing advocated divergent brands of Communism, “each accusing the other of betraying Marxism” (Radchenko 2019). Both countries sought strategic partners as they fought for ideological supremacy. One telling example of these conflicts concerned a small country in Southeast Europe. Albania’s shift of allegiance from the Soviet Union to Sinophilia serves as a revealing illustration of this ideological rivalry.

2.1 Between a rock and a stone: China - Albania - The Soviet Union

Over the course of almost 30 years - between 1949 and 1978 – the Sino-Albanian relationship can be characterized as the latter playing proxy for the former. The nature of their ideological, diplomatic and economic partnership was such that it gave Albania an importance on the international stage of Communist party leaders that never corresponded with the country’s size or economic performance.

Both countries established diplomatic relations in November 1949. In fact, Albania was the first country to recognize the People's Republic of China. They proceeded with the creation of the *China - Albania Friendship Association* which sought to strengthen bilateral relations. Both states joined as brothers in ideological arms to denounce ‘Soviet revisionism’ after the 20th Congress of the Communist Party of the Soviet Union in 1956 (Zickel and Iwaskiw 1994). A further cornerstone of their ideological cooperation consisted in the condemnation of Tito’s Yugoslavia undertaking a “separate road to socialism”.⁶

Until 1961 the *Albanian Party of Labour* (APL) had sought an ideological co-existence with the Soviet Union and China. The former, under the leadership of Nikita Khrushchev, regarded Albania as an economy primarily based on agricultural production. Soviet lines of credit, construction assistance and grain deliveries to Albania characterized the nature of imbalance and dependence in the bilateral relations between Moscow and Tirana. But with the APL’s Fourth Party

⁶The irony of that criticism is that the politburo of the APL initially approved in March 1948 a union between Albania and Yugoslavia. It was withdrawn three months later when Stalin denounced Yugoslavia for trying to set up a regional powerhouse linking Albania, Bulgaria and Greece (Steele 2016).

Congress in early 1961, APL's leader Enver Hoxha introduced a Five-Year Plan (1961-1965) which sought to radically change course with a new emphasis on the rapid industrialization of the country.

The reaction from Moscow was swift and uncompromising. In the course of 1961 promised wheat shipments were cancelled, financial assistance terminated, Soviet construction workers withdrawn and in December of that year diplomatic relations with Albania broken off (Fevziu 2016). This unprecedented rupture between former close allies put Albania in a precarious economic situation, most acutely regarding its foreign trade reliance with the *Comecon* trading bloc. It was China that came to its rescue, compensating "for the loss of Soviet economic support, supplying about 90 percent of the parts, foodstuffs, and other goods the Soviet Union had promised" (Zickel and Iwaskiw 1994).

Sino-Albanian relations gradually deteriorated from the early 1970s onwards. Albania's leadership under Enver Hoxha disagreed with certain aspects of Chinese foreign policy making, in particularly the path breaking visit of the U.S. President Richard Nixon to China in February 1972. Hoxha also distanced himself from the Chinese "Three Worlds Theory".⁷ The breakup finally arrived in 1978 when China under Deng Xiaoping terminated its special trade relations and diplomatic tête-à-tête with Albania.

2.2 From the brink of war in 1969 to normalization in 2004

This brief historical excursion underlines how the Soviet Union and China not only differed in ideological terms, but simultaneously sought to establish spheres of influence. This rivalry turned into a direct militarized confrontation in the Spring of 1969. The Ussuri River was the demarcation line between the former Soviet Union and China in the Far East. Soviet border guards were taken by surprise when in early March 1969 the Chinese army ambushed the crossing.⁸ Radchenko (2019) has argued that the 1969 military provocation by China "was an effort to deter the Soviets from invading China, something that seemed only too possible after the Soviet invasion of Czechoslovakia in August 1968."⁹

The brief but explosive border war in 1969 between two geopolitical rivals did not escalate into a nuclear conflict. Strategic foresight and vigorous diplomacy by both sides contributed to establishing an uneasy truce after a seven-months undeclared military confrontation along the

⁷ The *Three Worlds Theory* was advocated by Mao Zedong. It argued that the international relations of China are characterized by three political economy worlds: the first world consisting of "superpowers", i.e. the United States and the Soviet Union, the second world of "lesser powers" (which included China), and the third world of "exploited nations". The Three Worlds Theory also served to justify the deepening of Sino-U.S. diplomatic and commercial relations following President Nixon's visit to China in 1972.

⁸ The confrontation between China and the Soviet in 1969 took place along a sealed military zone, north of Khorgos, in today's Kazakhstan. Fast forward to 2019 and it is China that has invested billions in USD to build a dry port in Khorgos (see chapter 4.1 for more details).

⁹ In other theaters of international conflict Russia (Soviet Union) and China supported opposite sides, e.g. in Vietnam and Afghanistan (Miller 2019).

Sino-Soviet border. It took until 1991 that the Sino-Soviet border treaty established mutually agreed demarcation lines and minor territorial changes along the contested border. This agreement owed much to the willingness of Mikhail Gorbachev to visit Beijing in May 1989 and personally commence a process of normalization in bilateral relations. The last outstanding issues along the 2,700-mile long border were resolved with President Putin's visit to Beijing in October 2004.

The final agreement concerning China's northeastern border with Russia's Far East can be interpreted as the steppingstone for both countries' transition from mutual fear to normalization and subsequently cooperation. This exercise in *Realpolitik* took more than three decades to execute. But once it was set in motion, both the Kremlin and Beijing understood that further confrontational Sino-Russian relations would benefit neither. Instead of attacking each other, Putin's 2004 visit to Beijing established the groundwork for the development of closer cooperation in the energy sector (see chapter 3.2). However, this rapprochement did not imply that both countries now trusted each other, despite the emerging chemistry between both leaders.

2.3 An emerging cooperation defined by grievances

Over the past decade following the financial crisis in the U.S. and Europe both Russia and China increasingly converged in their assessment of various constituent elements of the international, i.e. Western-dominated system. The 2008 Great Recession in the U.S. and the sovereign debt crisis in the euro area provided key benchmarks for Moscow and Beijing to stipulate that a "post-Western" multipolar international realignment was eminent. Despite a history of bilateral disagreements, the dislike and distrust of Washington became a shared emotion between Beijing and Moscow. In order to curtail American influence, the leadership in both countries was willing to engage in unprecedented levels of cooperation. As Bandow (2017) observed, a common Russo-Chinese front against the United States can "constrain Washington's responses, and increase the costs and risks if conflict resulted."

Such a realignment is a strategic interest shared by both current presidents. During the fourth Eastern Economic Forum in Vladivostok in September 2018, President Putin pledged that Russia would strengthen cooperation with China in order to "resolutely resist unilateralism". This statement was a veiled reference to the U.S. and sought to position the bilateral partnership in the context of a great powers' play (Allison 2018). Both Russia and China regard current and past U.S. administrations as a superpower seeking to impose economic sanctions, trade tariffs and in the case of NATO, integrating new members in what Russia considers its traditional sphere of influence in Central and Eastern Europe.

For its part, China frequently addresses grievances through the specter of historical memories, in particular its century of humiliation at the hands of 'the West' before Chinese Communist leader Mao Zedong declared the creation of the People's Republic of China (PRC) in October 1949. For many Chinese citizens the BRI symbolizes the determination of President Xi to underline that 'the West' can no longer claim a monopoly on (infrastructure development) modernization. In a word,

with the BRI Beijing is presenting an alternative vision for and version of such modernization on a global scale.

Apart from ideological differences and diverging political economy systems, the rapprochement in Sino-Russian relations can also be related to what observers in Washington label “no more Panda hugging”. Contrary to numerous policy areas in which Republicans and Democrats in the US Congress are adamantly opposed to each other, the ‘China challenge’ has united both parties. In the build-up to the presidential election in the U.S. in November 2020 the field of democratic contenders running for the presidential nomination is outbidding each other to appear as hawkish as possible on China. Neither President Trump nor the democratic candidates want to face the charge from voters during the primaries’ marathon that they are caving in to China in contentious issues such as the protection of intellectual property rights for U.S. companies, cybertheft by China or outright currency manipulation to counter the effects of rising trade tariffs.

As the commercial bonds between the world’s two largest economies are increasingly contested at the political level in Washington, the substance of Chimerica¹⁰ is being called into question. The increasingly adversarial nature of bilateral trade relations between Washington and Beijing is therefore opening a window of opportunity for enhanced cooperation between Moscow and Beijing. The bilateral trade disputes between the Trump administration and the Chinese authorities as well as the sanctions adopted by current and former U.S. administrations against Russian individuals and companies following the revelations of Moscow’s interventions in the presidential campaign of 2016 have further contributed to a siege mentality binding the Kremlin and Beijing together.

The manner in which this expresses itself goes beyond rhetoric. The frequency with which both sides utilize the term “strategic” is telling in this regard. It suggests a process of strategic realignment or adjustment as a work in progress. It would, however, be premature to call this Sino-Russian development a “strategic alliance”. The Chinese foreign minister, Wang Yi, prefers to use the terms “comprehensive strategic partners”, based on the “strategic guidance of the two heads of state”, while “bilateral ties... are becoming a strategic force” (People’s Daily Online 2019).

It is a matter of debate how resistant the glue of shared grievances can be between the Kremlin and Beijing. The ties that bind against a shared adversary are not made of the same fabric as the ties that define such bilateral relations in positive terms. The next chapter highlights five policy areas in which the emerging Sino-Russian cooperation is creating additionality and tangible benefits for both sides. These benefits are most advanced in Sino-Russian defense and security cooperation as

¹⁰ *Chimerica* is a term initially coined by Ferguson and Schularick (2009). The authors use the portmanteau to describe the growing interdependence of investment, market access and trade relations between the United States and China. Ferguson and Schularick argue that until the outbreak of the financial crisis in the U.S. in 2008 the world economic order combined Chinese export-led development with US over-consumption. In 2019, the term Chimerica served as the title for a four-part adaptation in the United Kingdom for the television Channel 4 by Lucy Kirkwood about the so-called ‘tank man’. It describes the unidentified citizen who stood in front of the tanks advancing towards Tiananmen Square in May 1989, the morning after the Chinese military opened fire on its own people to end the anti-government protests for human and press rights, killing hundreds, possibly thousands, of civilians (Mangan 2019).

well as selected areas of foreign policy making, while major imbalances persist in trade relations and financial sector arrangements.

3. Policy areas of the emerging Sino-Russian Axis

3.1 The economic dimension

Increasing Sino-Russian trade is a major objective in the countries' political economy relationship. The trade volumes have expanded considerably during the past decade. As Table 1 illustrates, the volume of total trade between Russia and China surpassed the symbolically significant threshold of USD 100 billion in 2018. The rising trend started almost a decade ago, suffered two successive years of decline in 2015 and 2016 and recovered to previous levels in 2017.

Table 1: Sino-Russian Total Trade Volume, 2012 – 2018

Year	Total Volume (in billion USD)
2012	87
2013	89
2014	88
2015	64
2016	66
2017	87
2018*	Over 100

Source: ING, October 2018. Data for 2018 is preliminary.

However, it is noteworthy to put this rising Sino-Russian trade volume in context, i.e. in comparison with how both countries trade with other major trading partners. Table 2 highlights trade flows between Russia and China with the U.S.A. and the European Union in 2016. What is striking is the enormous distance both countries will still have to cover before they even come close to reaching their respective trading volumes with the USA and/or the European Union.

Table 2: Trade Between Russia, China, the EU and the USA, 2016 (in billion USD)

	Russia	China
USA	20.4	552.1
European Union	205.8	560.6
China	66	
Russia		66

Source: IMF, reproduced by Neue Zürcher Zeitung (2018).

In 2016, China's total trade volume with Russia corresponded to 11.8 percent of trade with the EU and 11.9 percent with the United States, respectively. In Russia's case the numbers appear more favorable, but that is a result of a much lower point of departure. Russia's total trade with the U.S. corresponded to 31.2 percent of total trade with China. But the ratio is inverse as regards the EU. Russia's trade with its most important trading partner was more than 300 percent higher in 2016 than its total trade volume with China.

Another closer look at the presumed 'success story' reveals that the political support for the expansion of commercial trade is also constrained by a specific product mix. The Russian side of the trade to China is fuel-heavy on the exports and consumer-heavy on the imports. Bilateral trade between Russia and China is defined by major differences in what each country imports and exports from the other. Russia exports to China crude and refined oil products, fertilizers, coal, logs, iron ore and steel. By contrast, China exports to Russia mainly consumer-related products, namely textiles, shoes, lamps, auto parts and agricultural produce.

Since 2009, China has been Russia's biggest trading partner. In 2017 Russia ranked in 11th position among China's major trading partners. More specifically, a breakdown of trade volumes by country of origin highlights that China's share in Russia's external trade increased from 11 percent in 2013 to 15 percent in 2017. A recent factor in the increased trade volumes concerns a reorientation of Russian imports away from the EU and towards China after the adoption of economic sanctions against Moscow following the annexation of Crimea from Ukraine in 2014.

When analyzing the expansion of bilateral trade during the past decade one critical currency benchmark has to be borne in mind. As the table above illustrates, Sino-Russian trade volumes are marked in USD value. While total volumes have increased and show no sign of running out of steam, the USD value has in fact not (!) increased. What may appear as a statistical inconsistency is the combined effect of the oil price drop (between 30 to 50 percent during the past decade) and the depreciation of the Russian Rubel vis-à-vis the USD over that period.

Both countries agree on the objective to increase the role of their respective national currencies in bilateral trade, i.e. the de-dollarization of bilateral trade. According to some estimates, the share of Sino-Russian trade conducted in national currencies outside the USD and euro stood at 18-19 percent in 2017 (ING 2018). The fact that this share does not (yet) surpass 20 percent is a reflection of the specific export product mix from Russia to China, i.e. the disproportionate share of crude and refined oil products where pricing is dominated in USD. For its part, China is active in elevating the role of its national currency, the *renminbi*.¹¹ Over the course of the past decade it has established foreign-exchange arrangements with a host of countries, including Canada, Britain, Brazil, and in December 2014, with Russia.

¹¹ In 2018 China created the first trading platform in Shanghai which enables crude oil to be purchased and traded in the renminbi.

3.2 Sino-Russian energy cooperation

Apart from rising bilateral trade volumes, the other major economic area of cooperation concerns the energy sector. In May 2014 Russia and China agreed that the former will supply the latter with 38 billion cubic meters of natural gas annually from 2018 onwards for 30 years. The timing of the agreement was politically significant as it came only three months after Russia's military incursion into Ukraine and the annexation of Crimea. The delivery of Russian gas to China from the Far East and via the western route is expected to commence in December 2019.

The multi-decade gas agreement – termed *The Power of Siberia* gas pipeline - was reported to be worth USD 400 billion. It gives Moscow access to one of the world's fastest growing (energy) markets and a guaranteed source of revenue from Chinese counterparties (Perlez 2014). The contract between Russian *Gazprom* and the *China National Petroleum Corporation* (CNPC) represents the biggest natural gas deal that Moscow has concluded since the collapse of the Soviet Union. A multi-year gas agreement of such financial magnitude carries major economic implications:

- **The energy pact** draws Russia and China economically closer together. In turning east, the Kremlin is also sending a message to the West. Moscow's economic pivot east has the potential of becoming a counterweight to Russia's energy exports to Europe. The message is that Russia has other options that are long-term, transactional and benefiting both sides.
- **Russia's energy pact with China is the biggest** in the history of its natural gas industry. It provided Mr. Putin with a new market for natural gas across China when various countries inside and outside the European Union sought to diminish their reliance on Russian gas imports. The agreement included a Chinese loan of USD 50 billion for the development of the gas fields and the construction of the pipeline by Russia leading to the Chinese border.
- For its part, **China was able to secure an important source of new energy supplies** over an extended period of time outside of its traditional suppliers in Central Asia and the Middle East. In so doing China ignored the evolving sanctions regime that the U.S. administration and the European Union had started to put in place against Russia.

Energy cooperation between both countries is expanding and diversifying across various projects and with sophisticated financial arrangements. For Russia this energy partnership is a necessity in terms of revenue generation and pivoting away from the former exclusive reliance on energy exports to Europe. For China the joint ventures are important ingredients to the mix of importing energy supplies from a variety of countries. The Russian contribution to this mix is growing, but it is far from being essential for China. China has alternatives with other countries and regions. Its energy outreach activities across continents during the past decade underlines this flexibility. But for Russia the newly formed energy alliance is critical to counter balance the sanctions regime in Europe. It also underscores Moscow's need to overcome political isolation.

The pipeline and transportation infrastructure both countries are establishing among each other to ship energy supplies connects with land-based BRI projects crossing Russia and Central Asia to China. The scale, scope and duration of energy cooperation between Moscow and Beijing fundamentally re-arranges the impact of both countries' collaborative footprint in a sector of mutual interest (see also chapter 4.2 and 4.3).

3.3 Sino-Russian financial cooperation:

The emerging Russia-China entente also includes extensive financial cooperation and banking services. According to data published by the College of William and Mary's AidData research lab in 2017, between 2000 and 2014, Beijing provided Moscow with a total of USD 36.6 billion in loans, grants, and other agreements (Allen-Ebrahimian 2017). During this period Russia was the single largest recipient of foreign financial assistance from China. A distant second was Pakistan, at USD 24.3 billion, followed by Angola at USD 16.6 billion (Aiddata 2017). Whereas most of the loans are energy-related and include oil-for-credit arrangements, more recently we can observe a growing diversification into other sectors and financial engineering instruments (see table below).

Since 2015 Russia has been implementing a de-dollarization policy by recalibrating parts of its foreign currency reserves held in US Dollars into other denominations, including the Chinese Yuan. According to the annual report 2018 published by the Russian Central Bank, the dollar's share of its international reserves stood at 24.4 percent in 2018 against nearly 50 percent in 2017 (Russia Briefing 2019). By contrast, the shareholding of the Chinese RMB Yuan reached 14.7 percent, "a share ten times the average for global central banks, and a reflection of China's growing importance for Russia's economy" (The Economist 2019).

The declining Russian holdings of the greenback serves as a hedge against existing and future U.S. sanctions. But such portfolio management by the Russian Central Bank towards the Chinese RMB Yuan is unprecedented in terms of speed and volume of execution. No other central bank across Europe has such high levels of foreign currency reserves denominated in RMB Yuan! We can expect that Yuan-denominated transactions will increase in Sino-Russian trade and banking affairs. However, a word of caution is in order. According to the Russian finance ministry, "three-quarters of bilateral trade with China still rides the greenback", in particular in energy transactions (The Economist 2019).

De-dollarization in trade requires political will and financial engineering between Moscow and Beijing. Attempts in that direction are underway. However, they primarily concern successful steps by Russia and China to become more independent of the dollar-based international payment infrastructure *Swift*.¹² The Russian government has developed an alternative payment card system outside US jurisdiction. Equally, the authorities in Moscow have established an alternative domestic financial messaging system. For its part, China is currently developing its own cross-border interbank

¹² Swift is based in Brussels and thereby operates under EU legislation. In operational terms it is characterized by the dominance of the USD over the euro in cross-border payment transactions.

payment system. But increasing the role of their national currencies in bilateral trade is ultimately contingent on greater diversification of the countries' product mix.

Table 3: Chinese - Russian Financial Sector Intermediation (2009 - 2017)

Year	Chinese Bank	Russian Counterparty	Transaction
2009	China Development Bank	Rosneft + Transneft	USD 25 billion loan package
2015	Exim Bank	Sberbank	Credit guarantee in yuan to Pharmasyntez
2015	Bank of China	PAO Gazprom	USD 2.1 billion loan
2016	Industrial and Commercial Bank of China + Bank of China	Gazprombank	Underwriting yuan-denominated sovereign bond
2016	China Development Bank	Vnesheconombank (VEB)	Loan USD 850 million
2017	China Silk Road Fund	Yamal LNG Terminal	9.9% stake
2017	China Development Bank	Russian Direct Investment Fund	China-Russia RMB Investment Corporation Fund USD10 billion

Source: Compiled by the author on the basis of company statements.

The table above highlights the extent of Sino-Russian cooperation in the financial sector. From lending arrangements to credit guarantees, underwriting of sovereign debt and outright equity investment, all means of financial intermediation are emerging between Russian and Chinese institutions. These activities are taking place despite extended sanctions against Russia and its banks by the U.S. administration and the EU. With the provision of loans and letters of credit as well as the creation of a joint investment fund in 2017 China is giving Russia a level of financial flexibility when it is most urgently needed in Moscow. Put otherwise, China's demand for energy resources connects with Russia's demand for financial sector funding.

3.4 Sino-Russian defense and security co-operation:

In January 2018, the U.S. administration's Department of Defense (DOD) published its annual *National Defense Strategy*. In the DOD's strategy report both China and Russia were termed "revisionist powers". The report further underlined the "re-emergence of long-term, strategic competition" with both countries as the key challenge for U.S. national security. Through their "authoritarian model" China and Russia are seeking to gain "veto authority over other nations' economic, diplomatic, and security decisions" (U.S. Department of Defense 2018, page 2). In September 2018, the then U.S. defense secretary James Mattis was confident enough to ascertain that "I see little in the long term that aligns Russia and China" (Gady 2019).

Contrast this strategic assessment by the DOD and the defense secretary's confidence with the increasing cooperation between China and Russia in the area of defense and security. In the course of 2018 China continued its efforts to deepen the military partnership with Russia. The growing bilateral relationship seeks to contest European and U.S. security arrangements and challenge economic interests. This co-operation now includes areas ranging from the defense industrial complex, joint military exercises and high-level security services contacts.

What is particularly noteworthy about this co-operation and should be a matter of concern to others are two observations. For one, the fact that this strategic axis in defense and security cooperation now includes some of the most sophisticated Russian-made weaponry that has not been previously fielded, let alone sold outside the country. The second observation is more of a strategic nature. As the Sino-Russian defense cooperation expands, it sends a deliberate signal to others (e.g. in NATO) that both countries' military command does not see the other (anymore) as a near-term security threat. To illustrate some examples of defense and security co-operation that focuses on 2018 only, consider the following:

- China has repeatedly purchased advanced weapons systems from Russia during the past decade. This included in May 2018 the delivery of sophisticated air defense systems such as the S-400 surface-to-air missile (SAM, based on a 2014 bilateral agreement). It was the first time that Russia's most advanced air defense system was exported to a third country.
- China has also agreed to purchase 24 Su-35, 4.5 generation fighter jets from Russia. Some of these Su-35 were received in 2016 and 2017.
- Both these Chinese purchases triggered sanctions¹³ by the U.S. administration in late 2018 against China's Equipment Development Department. The department is critical in the procurement process for China's military, the Peoples' Liberation Army (PLA).
- China and Russia are jointly constructing a heavy-lift helicopter for the Chinese navy that is expected to be operational by 2023.

¹³The sanctions are based on the provisions of the 2017 U.S. legislation known as the *Countering America's Adversaries Through Sanctions Act*. The countries explicitly identified in the Act concern Iran, Russia and North Korea.

Table 4: Joint Military Exercises Between China and Russia, 2017-2018

Date	Type of Exercise	Participants	Detail
Dec. 2017	Aerospace	China + Russia	Missile defense cooperation
Aug. 2018	Peace mission	China + Russia	Counter terrorism
Sept. 2018	Vostok-2018	China, Russia, Mongolia	Land, maritime, air
Dec. 2018	Joint sea	China + Russia	Maritime

Source: U.S. Congress (2018).

From the perspective of European NATO members, in particular in Northern Europe, another development in Sino-Russian military co-operation should be raising more than eyebrows. Both countries have steadily increased their bilateral naval activities by venturing into the Baltic Sea. More specifically, in July 2017 Russian and Chinese warships participated in the first joint naval exercise in the area. The naval drill included a Chinese destroyer passing through the *Great Belt* strait in Denmark, which is a founding member of NATO.¹⁴

Two aspects have to be underlined here. For one, the NATO alliance had received advance information on the details and timing of the joint exercise and monitored the naval drills in the Baltic Seas. On the other hand, such public exhibitions of military equipment and partnership in naval maneuvers underscore growing Sino-Russian defense capabilities and the expanding geographical areas in which these capabilities are on display. In short, power projections are in full view and are meant to underline the regularity of such a defense partnership.¹⁵

The more these joint ventures expand and become a regular annual feature the higher is the likelihood that they provide the groundwork for high-level military contacts between both countries' national security establishments. A further side effect of common military drills featuring

¹⁴ The NATO alliance has six member states on the Baltic. Venturing into the Baltic Sea is a first for the Chinese navy. But it has also held joint exercises with Russia in the Eastern Mediterranean in 2015 and closer to its own shores in the South China Sea in 2016 (Higgins 2017).

¹⁵ In September 2018 Russia held its *Vostok-2018* annual large-scale military exercise in Eastern Russia. For the first time, China was invited to participate. The *Peoples' Liberation Army* (PLA) sent the largest force ever deployed outside China!

advanced weapons systems consists in facilitating new defense contracts that subsequently procure additional military equipment.

The Russian sale of sophisticated weapons technology to China have not reached a tipping point to shift the balance of military power in China's favor in the Pacific Ocean or the South China Sea. But the growing volume of sales are a strategic challenge for the U.S. military and the State Department. The security promise of the U.S. for countries in the region continues to exist. But it is being met by improving naval capacities of the Chinese PLA which is being armed with advanced weapons systems made in Russia.

3.5. Sino-Russian alignment in foreign policy

There are various foreign policy arenas in which China and Russia have aligned their strategic interests. These include the non-recognition of the sovereignty of Kosovo. In addition, China has repeatedly refused to support resolutions in the UN Security Council that condemn Russia's military incursion into Ukraine and its illegal seizure of Crimea (Bechev 2018). Moreover, in the course of the past three years China is undertaking efforts to broaden its range of free trade agreements (FTA) with countries in the geographical proximity of Russia. In January 2018 the FTA between China and Georgia entered into force. Since November 2018 China and Ukraine have formally opened consultations about the conclusion of a FTA.

Russia, with a sizeable Muslim population has been silent on the issue of the mass detention of Uighurs, a Turkic Muslim minority in China. By some estimates the total Muslim population of Russia is approximately 16 million citizens, over ten percent of the total population (U.S. Department of State 2018). The silence in Moscow can be interpreted as a sign of China's increasing capacity to influence neighboring countries with Muslim populations to refrain from addressing the Uighur controversy in public.

Despite extensive economic and financial ties with China, Turkey is an outlier in this regard. The Turkish Foreign Ministry condemned in February 2019 China's "reintroduction of concentration camps in the 21st century and the policy of systematic assimilation" in its western region of Xinjiang (Qin 2019). Turkey is home to a large community of Chinese Uighurs. In reaction to the public criticism, China temporarily closed its Consulate General in Izmir in February 2019.

In the case of Syria, Russia's military intervention is neither condemned nor supported by China. Its presumed neutrality is a reflection of keeping a political and diplomatic distance from this conflict zone. China's focus in the Middle East is to continue expanding its lucrative economic relations with regional actors, in particular Iran, Saudi Arabia and more recently with Qatar. Both China and Russia were signatories of the agreement to curb Iran's nuclear program in 2015, along with the EU and the U.S. The Trump administration withdrew its support to the agreement in May 2018.

These different foreign policy arenas do not per se imply that Moscow and Beijing always have converging interests. But they underline the willingness of both countries to selectively cooperate with each other in certain foreign policy matters. Voting records in the UN Security Council highlight

that “Russia has backed every Chinese veto since 2007” (Allison 2018). A telling example of joint Sino-Russian foreign policy making can currently be observed in the case of Venezuela. Both Russia and China have approached the crisis in Venezuela by continuing to support the regime of President Nicolás Maduro despite international pressure for regime change and the adoption of economic sanctions.

In January 2019 the U.S. administration (Treasury Department) adopted far-reaching oil sanctions against Venezuela’s state-run oil company *Petróleos de Venezuela* (Pdvsa). Venezuela’s largest customer of oil exports before the sanctions was the United States, followed by China and India. The latter two countries responded to the U.S. sanctions by buying much of the Venezuelan oil that otherwise would have been exported to the United States. While the political isolation of President Maduro is growing in international relations, China, India and Russia continue to be his most important economic lifeline. They have refused to recognize Juan Guaidó, the elected leader of Venezuela’s National Assembly, as the legal “interim president” until fair and free elections are held in the country.¹⁶

As regards China’s and Russia’s support for Maduro’s regime, Beijing and Moscow have been Venezuela’s biggest lenders in loans-for-oil schemes during the past decade. Chinese and Russian state-owned companies are operating in the country’s oil industry since more than a decade. Both countries have backed up their rhetorical support for Maduro with various forms of financial assistance, thereby becoming lender of last resort for Venezuela. The different Russian loans to Venezuela between 2006 and 2017 amounted to approximately USD 17 billion, with more than USD 6 billion still outstanding, including USD 3.1 billion to the Russian Finance Ministry.

The biggest foreign oil investor in Venezuela is the Russian state-owned oil company *Rosneft*. Rosneft is reported to have provided the Maduro government lending totaling USD 7 billion. The Russian company continues to provide Pdvsa with vital refined oil products and receives in return Venezuelan crude oil. Official accounts (February 2019) show that Pdvsa still owes Rosneft USD 2.3 billion. The Rosneft subsidiary *Grupo Rosneft* is the lead operator of the *Patao* and *Mejillones* offshore gas fields in Venezuela.¹⁷

But not every state-owned Russian company is following Rosneft’s lead in providing fuel supplies to Venezuela. *Lukoil*, Russia’s second-largest oil producer terminated trading in Venezuelan oil in February 2019 (NYT 2019a). Similarly, the financial subsidiary of Russia’s state gas company *Gazprom*, namely *Gazprombank* froze financial transactions with Pdvsa. The fear of being subject to secondary sanctions by the U.S. administration influenced Gazprombank’s decision.

The strong relationship between China and Venezuela dates back to Maduro’s predecessor Hugo Chávez who repeatedly voiced his admiration for Mao Zedong. Beijing saw in Chávez’ Venezuela

¹⁶ By mid-February 2019 more than 20 countries had recognized Guaidó as Venezuela’s rightful leader, including the U.S., Canada, the U.K., France, Germany and all (!) the countries in Latin America, with the exception of Mexico. Mr. Maduro has been in power since 2013.

¹⁷ According to PDVSA’s own data, the principal amount of debt owed to Rosneft stood at USD 2.3 billion at the end of 2018, down from USD 3.1 billion in Q3-2018 (Reuters 2019).

a gateway to its gradual introduction into and expansion in Latin America. Key resources were available in the country, particularly crude oil and a prized “rare earths” commodity termed *Coltan*¹⁸. Between 2007 and 2017 China is reported to have provided Venezuela with credit tranches totaling more than USD 50 billion. This financial assistance was primarily structured as a series of oil-for-loan agreements. According to estimates by China’s Commerce Ministry Venezuela still owes Beijing around USD 20 billion.¹⁹

In September 2018 Maduro traveled to China to negotiate further credit lines. As a result of the state visit, China agreed to extend a USD 5 billion credit line to Venezuela. In essence, China thereby became Venezuela’s lender of last resort. Furthermore, the government in Caracas sold a 9.9 percent stake in the *Sinovensa* energy joint venture, in which *China National Petroleum Corporation* already held a 40 percent share. The energy cooperation includes further drilling rights for Chinese companies in Venezuela’s oil-rich Orinoco Belt.

In light of the political turmoil and economic mismanagement in Venezuela, the risks for both China and Russia to continue supporting its embattled president Maduro are considerable. There is more at stake for Moscow and Beijing than the economics of lending and oil contracts with Caracas. Reputational costs for both countries are also in play. Protecting their interests and investments in Venezuela does not exclude reaching out to representatives of Guaidó. Establishing an open line of communication with representatives of the opposition should a negotiated transition in the country materialize in the course of 2019 is in the interest of both Russia and China.

These five policy areas underscore the extent to which Russia and China are joining forces. Beyond these sectors of cooperation, the Sino-Russian partnership is also defined by various attempts to identify synergies between the BRI and the EEU. To what degree both initiatives are competing, or complementary visions will be elaborated in the next chapter.

¹⁸ Coltan is described as the “blue gold”. Refined coltan includes the high-grade metal known as *tantalum*. Tantalum is the metal used in capacitors that store energy in high-technology products like smart phones, laptops, tablets but also sophisticated military weaponry. China produces more than 80 percent of the world’s rare earths but lacks the availability of Coltan.

¹⁹ The details and terms of China’s oil-for-loan agreements with Venezuela remain a matter of debate. Equally, given the outstanding repayment amounts China is not in a position to take losses on these loans through write offs. Hence, the need for Chinese representatives to also reach out to representatives of Venezuela’s political opposition (Vyas 2019).

4. The BRI and the EEU: Competing or complementary visions?

During the inaugural *Belt and Road Forum for International Cooperation* (BARF), held in Beijing in May 2017, Chinese President Xi Jinping praised the BRI as the “project of the century.” The Forum gathered delegates from more than 100 countries, including 28 heads of state. Pride of place went to the Russian President Vladimir Putin. The BRI’s geo-economic dimensions cannot be separated from its foreign policy implications. Five years after its official proclamation by President Xi, the BRI is recalibrating China’s connectivity, trade and infrastructure investments with countries, regions and entire continents. Since October 2017, the BRI is written into the Communist Party Constitution of China.

But the BRI also competes for influence with other countries’ plans and economic outreach activities. One region where this competitive aspect is evident concerns Central Asia. How Beijing and Moscow can solidify closer strategic links over time will also depend on the potential for synergies in a region that both consider as their traditional spheres of influence. Historical links, political and security issues constitute key policy areas where the navigation of such competition is a testing ground for both Russia and China.

While pledging support for China’s BRI, Russia has sought during the past decade to advance its own versions of regional cooperation in Central Asia. In 2010 a Customs Union was established between Russia, Belarus and Kazakhstan. This Union was the precursor to a much larger infrastructure initiative termed the *Eurasian Economic Union* (EEU).²⁰ The EEU was formally inaugurated in January 2015, again with Russia, Kazakhstan and Belarus as the founding members. Two other post-Soviet states - Armenia and Kyrgyzstan - joined the EEU later that same year. Tajikistan has expressed its interest in acceding to the EEU. However, two other countries in Central Asia, Uzbekistan and Turkmenistan, have declined to join the EEU. In August 2013 then president Viktor Yanukovich of Ukraine formally submitted an application to participate in the EEU as an observer country.

From the list of participating countries, it is obvious that the primary objective of the EEU is to integrate as many of the 15 former republics of the Soviet Union as politically possible. However, this goal excludes the three Baltic states who are members of the European Union (since 2004) and have also joined the euro area (Estonia in 2011, Latvia in 2014 and Lithuania in 2015). To date, the EEU has concluded three free trade zone agreements, namely with Iran, Vietnam and China. Negotiations for a similar agreement with India and Israel are ongoing.

As a regional vision for infrastructure initiatives the EEU has had limited visibility on the international stage. Lack of suitable projects, funding constraints and the effects of the economic crisis in Russia have adversely impacted on the projection of the EEU as a regional success story (Crisis Group

²⁰ The Russian acronym for the EEU is EAEU.

Europe 2017). Where it has made a difference, and this could prove beneficial in the longer-term for the BRI, are improvements in areas such as cross-border transit procedures and labor migration among participating countries.

Russia understands that the BRI constitutes a major policy initiative by China to stimulate interest in and demand for global infrastructure requirements. However, neither can Beijing proceed with the BRI by ignoring the existence of and need for coordination with Russia's EEU. It was therefore only politically consequential that in May 2015 China and Russia agreed to align their respective visions in Central Asia. Russia's EEU trade connectivity agenda and China's *Silk Road Economic Belt* component of the BRI were formerly "synergized" (Putz 2018).

The reality on the ground of this 'docking process' suggests that the synergies are primarily political and of a rhetorical nature. The identification of joint projects has been slow as is the coordination of projects that have different points of departure across borders. Specific financial arrangements have gradually emerged, e.g. an agreement between the *Russia Direct Investment Fund* and the *China Development Bank* to establish a USD 10 billion cooperation fund for cross border projects.

But the branding of the BRI and EEU as providing synergies underlines the aspirations of two 'Great Powers' stretching all the way from Eastern Europe to East Asia. Moreover, presenting the EEU and BRI as synergies helps the Russian side to create the imagery of a common platform on which Beijing and Moscow stand to form "Greater Eurasia" (Kassenova 2018). But the joint platform still requires a delicate balancing act by the participating partners.

Different routes and characteristics of BRI are emerging which provide entry points and linkages for expanding cooperation between China and Russia. The *Digital Silk Road* and the *Polar Silk Road* are two such examples which connect both countries and highlight the potential of strategic partnerships (see also chapter 4.3 and 4.4). Both road projects further underline what efforts Moscow is undertaking to strengthen its trade relations with Beijing and solidify its gradual geopolitical pivot east.

4.1 Kazakhstan at the crossroads of EEU and BRI

Kazakhstan is a telling example how the BRI and the EEU not only intersect with each other, but how Russia and China can complement their respective activities in the Central Asian country. Both share long borders with Kazakhstan, the world's largest land-locked country. Since its independence from the Soviet Union in December 1991, the political authorities in Astana have considered Moscow as providing the security umbrella and the core of trade relations, while Beijing is increasingly seen as offering incentives for economic development and infrastructure modernization. As an oil and gas rich country, its post-Soviet period has been based on petrodollar-fueled prosperity, in particular in the capital city Astana.

Kazakhstan is part of the so-called *Collective Security Treaty Organization* (CSTO), an intergovernmental military alliance founded in 1992. Its members include Russia, Armenia and the other Central Asian nations of Kyrgyzstan, Uzbekistan and Tajikistan. Kazakhstan also regularly

purchases sophisticated weaponry from Russia, most recently a squadron of Su-30SM aircraft in 2015 and 2018, respectively.

Kazakhstan is also a founding member of the *Shanghai Cooperation Organization* (SCO) in 2001. In 2002, Kazakhstan and China signed a "Treaty of Good Neighborliness and Friendly Cooperation" It was therefore not a coincidence that President Xi announced the broad outlines of the *Silk Road Economic Belt* (SREB) in September 2013 in Astana, the Kazakh capital. A month later, during his visit to Indonesia, President Xi coined the 21st century *Maritime Silk Road* (MSR). Both announcements came to be known as the *One Belt – One Road* (OBOR). By 2017, OBOR was rebranded as the Belt and Road Initiative (BRI).²¹ Both Kazakhstan and Indonesia can be considered as "core" BRI countries (Constantinescu and Ruta 2018).

Even before the SREB announcement in Astana, commercial trade between Kazakhstan and China expanded significantly. According to World Bank data, Chinese exports of infrastructure-related goods to Kazakhstan "increased five times" from 2001 to 2007 (Constantinescu and Ruta 2018). Kazakhstan's pivot towards China came at the expense of trade with Russia. From the outset, the former president of Kazakhstan, Nursultan Nazarbayev²² supported China's OBOR initiative. Under his watch the country received billions of USD investments in infrastructure building projects from China, in particular in transport, agriculture and hydrocarbons (Davarinou 2019).

Apart from being a commodity exporter to its neighbor in the south, the flagship project that epitomizes Sino-Kazak cooperation is the *Khorgos Gateway*. The container port project connects Kazakhstan to China by rail across their respective borders. The multi-modal logistics hub is expected to become the largest dry port in the world. The former desert location is now an accumulation of factories, warehouses, schools and new towns such as Nurkent for workers from both Kazakhstan and China (Higgins 2018). In 2017, two Chinese companies, *China COSCO Shipping Corporation* and *Jiangsu Lianyungang Port Co.* each acquired a 24.5 percent stake in the Khorgos Dry Port (Rapoza 2017).

It is the connectivity potential that matters for China and Kazakhstan. At present, in trans-Eurasian railway transport, the traditional Northern Route via Russia and the Southern Route via Kazakhstan carry the bulk of goods exchanged between European and Chinese markets. They are expected to continue doing so in the future (Gräfer and Banning 2019). Chinese trains arriving at the Khorgos Gateway, loading and unloading in the terminal port and subsequently traveling to neighboring Uzbekistan, Iran and European destinations offer commercial perspectives hitherto unprecedented.

²¹ While the English language rebranding of OBOR into BRI has taken place, the original Chinese title remained unchanged and continues to refer to the English OBOR.

²² Nazarbayev (78 years old) ruled Kazakhstan since 1989 and became president after independence in 1991. He stepped down from office in March 2019. The Senate Chairman, former prime minister and foreign secretary, Mr. Kassym-Jomart Tobayev (65 years old) succeeded him as acting head of state. Tobayev was elected President of Kazakhstan on June 9, 2019 with a 70.7 percent mandate.

For Kazakhstan, there is also a welcome side-effect in the construction of this connectivity hub. The political capital invested by China and Kazakhstan not only enables greater economic integration. It also “offers the only viable way to balance the power of Russia” (Higgins 2018). Put otherwise, China’s BRI is expanding in Kazakhstan which Russia traditionally considered within its region of influence. By being a member of the EEU and supporting in material ways the BRI Kazakhstan can simultaneously manage relations with Russia and bridge its outreach activities to China.

As the example of Kazakhstan illustrates, being a core link in the BRI architecture and a member of the EEU can be complementary. They geographically intersect and overlap as they crisscross through the Eurasian landmass in search of infrastructure projects, energy cooperation and transport routes. Moreover, even if the EEU does not have the geographical outreach, conceptual ambition and financial resources of the BRI, its existence underlines that China cannot expect to be the sole planner and executioner of infrastructure connectivity across Eurasia. The policy challenge both Russia and China therefore face is how to synchronize the EEU with the BRI, identifying synergies instead of project duplication and overlap. In a word, the latter is not incompatible with the former, neither at the strategic level nor in terms of project execution.

4.2 Sino-Russia cooperation along the BRI

Much of the international attention about China’s expanding BRI has tended to focus on numerous infrastructure projects spanning regions and connecting countries. But a geo-economic initiative with such a geographical extension not only impacts materially on countries’ political economies. The BRI also redefines cross-border and regional economic space, thus obliging individual countries to re-evaluate their traditional spheres of influence. It may therefore come as a surprise to some observers and analysts that **the single largest BRI project** is in fact a Sino-Russian cooperation with an estimated total cost of USD 21.4 billion (see table 5, next page).

The **Moscow to Kazan high speed railway project** is a 770 KM long infrastructure initiative with an expected completion date of 2023. It represents the first segment of an even more ambitious transnational high-speed railway project that seeks to connect the capital cities of Beijing and Moscow over a distance of more than 7,000 kilometers. The viability of the Moscow to Kazan rail line rests on the financing arrangements and international consortia that must be mobilized. The start of construction has repeatedly been delayed, most recently until late 2018. Such a flagship project has been in the making since 2009.

Table 5: Top Five BRI Projects by Expenditure (USD billions)

Country	Project	Company	Cost	Financing	Status
Russia	Eurasian Land Bridge Moscow – Kazan High Speed Railway	Contract not yet awarded	21.4	Joint Sino- Russian funding	Construction to be completed by 2023
Malaysia	East Coast Rail link	China Communication Construction Corp.	20	Exim Bank	Project under review
Malaysia	Melaka Gateway	Power China/ KAJ Dev.	11	Private financing	Construction to be completed by 2025
Cambodia	Preah Vilhear-Koh Kong Railway	China Railway Group	7.5	n/a	Construction delayed – Lack of funding
Pakistan	Karachi-Lahore Peshawar Railway	Contract not yet awarded	6.2	Terms unknown	Construction to be completed by 2022

Source: Compilation by the author.

Note however that so far it is a project that mostly exists on paper. Neither has the contract been awarded, nor have all the financing details been finalized for construction to begin. Russia's state budget is not in a position to finance all or the majority of the project. Foreign investors from Europe and Asia have expressed an interest to participate. But it is China that has provided the most detailed commitments for financing arrangements and the inclusion of the initiative in its BRI portfolio. *China Railway International Group* agreed to provide a loan of USD 6.2 billion for the construction of the Moscow-Kazan rail line over a 20-year period (Realnoevremya 2018).

Another major area of bilateral cooperation concerns agriculture. The driving force behind this growing cooperation is the Chinese objective to diversify and broaden its food imports by country. Traditionally, the U.S. has been China's most important trading partner as concerns food imports.

The BRI is not only about infrastructure projects to increase connectivity across countries and continents. It also provides the transport architecture to export and import products and services, including food supplies to China. According to statements made by the *Central Committee of the Chinese Communist Party* (CCP) in 2018, China is to “intensify [its] relation of agricultural product trade with the countries and regions along ‘The Belt and Road’” (U.S. Congress 2018, page 136).

Given the existing tariffs disputes between the U.S. administration and China, the CCP’s designation of such a specific policy objective attached to the BRI not only strives to diversify the country’s food supply imports. It also places the BRI in the context of bilateral trade disputes and its capacity to serve as a hedging instrument against mounting trade and tariff disputes with other countries. Beijing’s efforts to diversify its food imports does not only concern trade volumes. Providing financing through foreign investment and lending is equally critical. Such agricultural investments abroad include China’s northern periphery, i.e. eastern Russia. Gooch and Gale (2018) have shown how China’s public policy banks provide loans to facilitate such foreign agricultural investment.

Another area in which China and Russia pursue similar, but independent strategies concerns media broadcasting. Both Moscow and Beijing are using the publicity front through news outlets that have a broad international reach. For Russia this is *Sputnik International*, while China operates the *China Global Television Network* (CGTN). Sputnik was established in November 2014 by the Russian government-controlled news agency *Rossiya Segodnya*. CGTN is part of the international arm of *China Central Television* (CCTV). It was launched in December 2016.

Both media outlets help in building influence and frame policy issues relevant to China and Russia abroad. Sputnik has a broadcasting office in Beijing. On the occasion of the 60th anniversary of the establishment of diplomatic ties between Beijing and Moscow *CGTN Russian* (formerly *CCTV International Russian*) was launched as a Russian-language channel in September 2009. The Justice Department of the United States has obliged both Sputnik International and the CGTN subsidiary *CGTN America* to file under the *Foreign Agents Registration Act* (FARA). Russia also operates a second news outlet in the U.S., *RT America*.

4.3 The intergovernmental level:

It remains to be seen how the BRI and the EEU intersect and can create additionality in the interest of both Russia and China. But beyond this level of cooperation both countries are also joining forces at the intergovernmental level. Two such arenas in which intergovernmental cooperation is taking place concern the *Shanghai Cooperation Organization* (SCO) and the *World Trade Organization* (WTO).

The SCO was formerly established in 2001 to facilitate political economy and defense cooperation. The SCO currently comprises eight members, namely China, Russia, Kazakhstan, Kyrgyzstan,

Tajikistan, Uzbekistan, India and Pakistan.²³ In the course of the past 15 years the Eurasian organization has expanded and diversified its policy agenda. It now includes wide-reaching cooperation in security, military, anti-terrorism affairs as well as regional economic initiatives. Albert (2015) argues that “China and Russia are the twin engines of the SCO”. Frankopan (2015) rather optimistically argues that the SCO “is becoming increasingly influential and gradually turning into a viable alternative to the European Union” (page 503).

For China, the SCO provides security arrangements and multi-lateral cooperation arenas to combat what the authorities in Beijing term the “three evils”, namely terrorism, separatism, and religious extremism. While observers conclude that the SCO’s “operational capacity is limited”, they recognize that the expansion of the BRI across Central Asia will require greater alignment of security and defense policies (Crisis Group Europe 2017).

When China joined the WTO in 2001, it was classified as a “developing country” at the Geneva-based organization. This classification affords it “special and differential treatment”. In practice, it enables China to provide subsidies in agriculture and set higher barriers to market entry than more developed economies. Furthermore, this label allows China to impose high tariffs on imports in order to protect its own “emerging” economy. The 2001 classification – which remains in place at the WTO 18 years (!) later – grants China low tariffs on its own exports.

By contrast, Russia only joined the WTO a decade later in 2012, almost 19 years after first applying for membership. Similar to China, it is also classified by the WTO as a “developing country”. Both countries take advantage of the terms this status permits them to trade under and are not inclined to renounce it either. India and South Africa have the same classification in the WTO while Brazil is prepared to forgo the preferential status in order to join the Paris-based OECD.

In March 2018, the United States’ introduced tariffs of 25 percent on steel and ten percent on aluminum imports from China, Russia, Japan, the United Arab Emirates, Taiwan, Turkey, Vietnam and India. A month later, China initiated a dispute process at the WTO against the U.S. administration. The Russian Federation, alongside India, Thailand, the EU and Hong Kong have requested to join the consultations, i.e. thereby expressing their support for China’s initiative against the U.S. tariffs (WTO 2018).

As the cornerstone of the multilateral trading system, the WTO has not been able to eliminate unfair practices deployed by China. In particular the thorny issues of performance requirements in exchange for investment approvals and forced technology transfers as a precondition for foreign companies doing business in China are two legal challenges launched by the EU in June and December 2018 in the WTO (European Commission 2018). To date, Russia has not supported the revised consultation process against China at the WTO.

²³ Apart from the member states, the SCO also has so-called Observer States. The five countries are Afghanistan, Belarus, Mongolia, Sri Lanka and Iran (which has submitted a request for full membership status). Turkey is seeking to join as a full member since 2013.

However, there are also other pending cases at the WTO where Russia is supporting member states, including the United States, who filed cases in January 2017 against Chinese subsidies to producers of primary aluminum. More specifically, Russia joined the consultations (i.e. dispute) initiated by the U.S. administration joining the EU, Japan and Canada. The issue at hand concerns Chinese aluminum producers and exporters receiving below-market interest rate loans from the 'big four' state-owned banks.²⁴

4.4 The Polar Silk Road:

Transport connectivity across countries, regions and continents is an essential part of the BRI. Towards that end, Russia and China have developed a number of joint infrastructure projects that include railway connections and port construction. As the BRI seeks to open new economic frontiers one geographical area of immense commercial and security interests to both Russia and China concerns the Arctic Sea. An Arctic strategy is gradually emerging within and between both countries. The Arctic accounts for roughly twenty percent of Russia's gross domestic product, mainly through minerals and fees on commercial shipping lane traffic. In addition, Russia has increased its military infrastructure in the Arctic. Not only is the Western military alliance NATO, but also China monitoring Russia's Arctic defense buildup. For its part Beijing has officially coined the term the *Polar Silk Road* (see below).

Moscow considers the *Northern Sea Route* (NSR) as its main national transport artery between Asia and Europe. It is a preferential shipping route for trade flows which Russia wants to monetize as an Arctic superhighway. The NSR also has a growing significance for energy policy. The melting polar ice cap has opened the Arctic for unprecedented levels of minerals extraction. It is said to hold vast amounts of untapped hydrocarbon reserves. Against this background, China is increasingly supporting Russia's efforts to manage access to the NSR and expand infrastructure development projects in the Arctic. To illustrate,

- China is a non-Arctic state. But it is increasingly active in the polar region. In 2013 it became an observer member of the Arctic Council. The Council comprises eight permanent members, namely those with territories above the Arctic Circle – Norway, Sweden, Finland, Russia, the U.S.A., Canada, Denmark (Greenland) and Iceland. Apart from China several European and East Asian countries have also been granted observer status in the Arctic Council.
- In order to advance transport routes for Polar shipping and fishing, China unveiled its official Arctic Policy White Paper in January 2018, calling itself a "near-Arctic state". While it acknowledges the geophysical consequences of climate change in the Arctic Circle,

²⁴ These four lenders are *Industrial and Commercial Bank of China* (ICBC), *China Construction Bank* (CCB), *Agricultural Bank of China* (ABC) and *Bank of China*. These banks are not to be confused with state-owned policy banks – such as *China Development Bank* (CDB) and *Export - Import Bank* - who primarily operate outside of mainland China. For more details see (WTO 2017).

China also highlights the economic opportunities and commercial feasibility resulting from this calamity.

- The white paper focuses on the promotion of sustainable development in the Polar region, building infrastructure and conducting commercial shipping voyages (Holland 2018). The policy paper explicitly links China's BRI with its new Polar Silk Road strategy. China views the Northern Sea Route as the shortest shipping lane linking Asia and Europe.
- A major breakthrough in Sino-Russian polar cooperation concerns the Russian *Yamal Liquefied Natural Gas* terminal project which is located in the Arctic ice cap. China's Silk Road Fund has a 9.9 percent stake in the Yamal LNG infrastructure project. Furthermore, the CNPC holds a 20 percent stake in the LNG terminal (approximately USD 12 billion invested). China is the largest non-European shareholder in the LNG project.²⁵
- Both countries are building a new seaport located in Russia's Far East, just 18 kilometers away from the Chinese border.

China is also facilitating the expansion of Russia's fleet of ice-breaking LNG supertankers for passage in the Arctic Circle. These icebreakers are necessary to accompany commercial ships during the passage in the Arctic regions.

These joint activities illustrate how China and Russia are seeking to lead the race to control shipping lanes, port accessibility and share natural resources in the High North. The fact that China has published a white paper on the Polar Silk Road illustrates that it needs to spell out its own Arctic ambitions in the region. Put otherwise, China is simultaneously seeking to ease anxieties among Arctic Council members as regards its policy objectives and at the same time gradually carve out a foothold in the region despite being a self-labeled near-Arctic state.

Russia's expansion through the Arctic Circle and China's financial contributions to make this objective operational are strategically complementary. The consequences of climate change are a major facilitator in this joint undertaking. The increasing melting of the ice cap in the Arctic territories has an unintended by-product: namely the transforming of global shipping routes and the race to accomplish new transport connections in the High North.

China and Russia have understood the significance of leading this race from the start and recalibrating the geography of the Polar Silk Road. The strategic rationale for the modernization and expansion of Arctic infrastructure is taking place against the background of increasing great power competition in the polar region. In April 2019 at the Arctic Forum²⁶ in St Petersburg, President

²⁵ France's oil company *Total* also holds a 20 percent stake in Yamal. *Novatek*, Russia's largest privately-owned gas-producer, is the majority owner of the Yamal LNG project, with a shareholding of 50.1 percent. Building the Yamal terminal and arranging an international consortium of equity investors is a reflection of the vast energy resources that are estimated to reside in the Arctic Circle. By some accounts the Arctic holds 13 percent of the world's undiscovered oil, and 30 percent of natural gas reserves (Spohr 2018, page 25).

²⁶ The 5th international Arctic forum in St Petersburg was held under the title: "Arctic: Territory of Dialogue". The leaders of Finland, Iceland, Sweden and Norway attended the Forum while China sent Arken Imirbaki, vice chairman of the National People's Congress Standing Committee.

Putin underlined the significance of the region when he argued that “one-tenth of all of Russia’s economic investment are currently in the Arctic region” (Astrasheuskaya and Foy 2019).

But as Spohr (2018, page 23) has argued, “unlike Antarctica – governed since 1959 by the Antarctic Treaty...the polar region of the north is one of the least regulated places on earth.” This lack of rules defining dos-and-don’ts has created openings for Arctic and non-Arctic states to join the race. As a non-Arctic state China is increasingly signaling to potential competitors that it has the strategic vision – aka Polar Silk Road, the partnership with Russia and the financial means to deliver on its own ambitions in the High North.

4.5 The Digital Silk Road

Next to the Polar Silk Road, a further route is starting to make its mark, albeit in the virtual landscape of bilateral cooperation between Russia and China. The vision of a *Digital Silk Road* across the Eurasian landscape – e.g. in telecommunication, Internet of Things and e-commerce - is starting to take shape. In particular prospective joint ventures in e-commerce are making inroads in Sino-Russian cooperation. Two recent examples illustrate developments on the ground. China’s *Alibaba* formed a partnership with the Russian internet company *Mail.ru* in September 2018. The sovereign wealth fund of Russia, the *Russian Direct Investment Fund* (RDIF) is also part of the consortium to establish a bilateral digital silk road connection between Moscow and Beijing.

Russian investments in internet logistics infrastructure with Alibaba are an ambitious undertaking. While Russia’s e-commerce market is enormous and comparatively underdeveloped vis-à-vis China’s, Alibaba’s foray is unprecedented. It does not face competition from western online retail giants such as *Amazon*. While internet usage in Russia is considerable, cash transactions continue to be the norm. Hence, the growth potential for Alibaba’s e-commerce, mobile phone and mobile payments markets along the digital silk road between China and Russia is considerable.

Alibaba’s cross-border e-commerce business subsidiary, *AliExpress* is already present in Russia. Alibaba also launched a trading platform for Russian customers in September 2017, *Tmall*. The roll out of a digital silk road commencing in China and passing through Russia is not possible without political support from the Russian government. The participation of RDIF in the e-commerce joint venture can be seen as financial evidence for the support of digital silk road investments.

These diverse activities and initiatives supporting a digital silk road need to be seen in the larger context of both Russia and China introducing regulations that claim to protect their citizens’ privacy. Consequently, they are building domestic internet services that limit the penetration of American and European companies to provide such services. What appears to be new e-commerce platforms, or the Internet of Things is also about how digital data flows can be privileged towards Sino-Russian companies at the expense of U.S. American and West European competitors. With the assistance of major Chinese online companies Russia is establishing a separate technology system. Put otherwise, the digital silk road is becoming a crucial element in the Great Powers competition.

Preventing or curtailing access for foreign companies and monopolizing data-related infrastructure is increasingly becoming a thorny issue between China, Russia and the U.S. administration as well as in EU-China bilateral relations. Websites such as *YouTube*, *Facebook* or *Google* are blocked in China. Instead, Chinese internet companies such as *Alibaba*, *Baidu* and *Tencent* have a quasi-monopoly from foreign competition in the country. In June 2019 it was reported by the *New York Times* (2019b) that the United States was stepping up digital incursions into Russia's electric power grid. The deployment of new cyber tools and the identification of a foreign country's power grid as a legitimate target marks a further escalation in the realms of the digital Cold War.²⁷

4.6 Sino-Russian soft power cooperation

President Xi Jinping's signature foreign policy project is not only about the construction of railroads, highways, bridges, ports, power plants and other large-scale infrastructure projects across countries, regions and continents. Rolling out the bricks and mortar also includes softer components and financial incentives that complement the BRI. One such instrument that China is investing in massively concerns educational programs and cultural exchanges, museum exhibitions and art shows. These initiatives enhance China's soft power capacity, an element of foreign policy-making that is frequently underestimated in its outreach activity and receptiveness across continents. They enable China to establish a sense of connectivity between the BRI and mythical references to the Silk Road, bridging ancient commerce routes with contemporary cultural exchanges (Millward 2013).

With the view to promoting cultural diplomacy in more than 140 countries worldwide, China has established *Confucius Institutes* (CIs) on university and college campuses. Their mandate is to highlight the Confucian heritage, Chinese language(s) and cultures. In Russia there are currently 17 such CIs. After the United States and the United Kingdom, this is the third largest contingent of CIs that China operates worldwide. 16 of these Institutes are located at universities across Russia and one is integrated into the *Diplomatic Academy of the Ministry of Foreign Affairs of the Russian Federation*. The Institutes are administered by *Hanban*, a division of China's education ministry. *Hanban* pays for the Institutes' operational costs, selects textbooks, hires, trains and pays for Chinese language teachers in Russia.

²⁷ Online intrusion into a country's electric grid is quickly becoming a new tool of 21st century gunboat diplomacy by other means. In December 2015 it was reported that a Russian intelligence unit temporarily shut off power to hundreds of thousands of citizens in western Ukraine.

Table 6: Chinese Confucius Institutes in Russia

Institution	Location	Year
University	Amur State University of Humanities and Pedagogy	
University	Blagoveshchensk National Pedagogical University	2007
Academy	Diplomatic Academy of the Ministry of Foreign Affairs of the Russian Federation	
University	Far Eastern National University	2006
University	Irkutsk State University	2006
University	Kazan State University	
University	Lomonosov Moscow State University	
University	Moscow State Linguistic University	2014
University	Nizhny Novgorod State Linguistic University	2010
University	Novosibirsk State University of Technology	
University	Russian State University for the Humanities	
University	Ryazan State University	
University	Saint-Petersburg State University	
University	The Kalmyk State University	2007
University	Tomsk State University	
University	Ural State University	2007
University	Volgograd State Pedagogical University	

Source: Compilation by the author, based on “Confucius Institutes Around the World – 2019” (Digmandarin 2019)

The spreading presence of Confucius Institutes across Russia’s university landscape is also important for another reason. They should not only be viewed as a network of language institutes. They can also serve as influence agencies. Towards that purpose, there is much work to be done in the Sino-Russian relationship at the ground level.

The chemistry between Putin and Xi does not per se translate into a mutual friendship between citizens of both countries. With their cultural activities Confucius Institutes can contribute to

curtailing sources of resentment that continue to exist, chiefly among Russian citizens vis-à-vis Chinese activities. To illustrate, there are regions in Russia where the growing influx of Chinese tourists and (construction) businesses is creating a backlash. Lake Baikal, which is only a two-hour flight away from Beijing has witnessed a surge in Chinese tourism.

The influx of Chinese tourists in southern Siberia revives fears and memories among Russians living in the border region to Mongolia of alleged land grabs. In China Lake Baikal is called by its ancient Han name, the “Northern Sea”. There are historical legacies in play with the UNESCO World Heritage site. The 1858 *Treaty of Aigun* between the empire of the Qing Dynasty (the Manchu rulers of China) and the Russian Empire (in Russian: Айгунский договор; Chinese: 璦琿条约) established the modern border between Russia’s Far East and Manchuria (the original homeland of the Manchu people) which now forms part of Northeast China. The Treaty transferred over 600,000 square kilometers (231,660 square miles) from China to the Russian empire. Generations of Chinese citizens have considered the Treaty of Aigun as deeply unfair and an act of Russia’s power politics bullying China in the 19th century (Wikipedia 2019).

Next to the Confucius Institutes’ cultural activities serving as reconciliation initiatives and dialog, China has also embarked on funding research institutes and think tanks “with Chinese characteristics”, university chairs and scholarships for university studies of Russian citizens in China. In February 2016 the International *Silk Road Think Tank Association* (SRTA) was launched in Shenzhen, Guangdong province. It seeks to provide intellectual support for China’s BRI. 29 international organizations are currently members of the SRTA which is under the auspices of the International Department of the Central Committee of China’s Communist Party.

In October 2015 the *Silk Road Think Tank Network* (SiLKS) was launched to provide intellectual support to the Belt and Road Initiative. SiLKS defines itself as an informal international network that was initiated jointly by think tanks, international organizations, and relevant institutions from more than thirty countries. It focuses on BRI-related research, information and knowledge sharing as well as capacity development on policy research and consultation. Among the 55 international members and partners (March 2019) are also two Russian participants, namely the *Primakov Institute of World Economy and International Relations* and the *Institute of Far Eastern Studies*. Both institutes are part of the *Russian Academy of Sciences*.

In the next chapter we will discuss the crossroads that China and Russia encounter in three sub-regions of the European continent, namely Central, Eastern and Southeastern Europe. Traditionally, Russia is embedded in the political economies of various countries in these three sub-regions. But what is sometimes underrated by analysts and observers is the fact that China is no stranger to these parts of the European continent. In addition, since almost a decade it is Beijing, and not Moscow, that is rapidly gaining economic leverage among countries in Central, Eastern and Southeastern Europe.

5. Russia meets China in Central, Eastern and Southeast Europe

Similar to China's BRI activities with countries in Central Asia, Beijing has also opened an investment bridgehead and is building a transport infrastructure network in the three regions comprising Central, Eastern and Southeast Europe (CESEE). The level of engagement by Chinese political representatives, embassies, policy banks, companies (state-owned and private), universities and cultural organisations in CESEE is gradually redefining the relationship between China and countries in the three sub-regions. As China's economic footprint across CESEE has grown over the course of the past decade, it was only a matter of time until its activities in various countries would be confronted with the presence of other international stakeholders, including Russia, Turkey, the Gulf states and the European Union.

But it would be misleading to argue that China's growing presence in CESEE appears to be of a more recent nature. For some countries, e.g. Croatia, Hungary or Bulgaria that assertion would be correct. But in the interest of historical accuracy, it is more appropriate to speak of a return by China to other countries. China's decades-long relationship with Albania under Enver Hoxha until the late 1970s and Beijing's level of cooperation with Yugoslavia prior to and after its disintegration in the early 1990s illustrate historical ties and economic legacies. In particular the long-standing collaboration between Maoist China and Hoxha's isolationist Albania stands out as peculiar (see chapter 2.1). The diplomatic relations and commercial ties between Beijing and Belgrade intensified under President Slobodan Milošević (Bastian 2018).

Historically, Russia is more adept at playing the political game in the Western Balkans than China.²⁸ In the course of the past two decades Russia has managed to establish influence in the region with a minimum of investment. Views differ over how malign Moscow's influence is in the Western Balkans. But the authorities in Moscow have considerable 'spoiler capacity' which they have repeatedly tried to utilize vis-à-vis Montenegro's accession to NATO, in the name dispute between Greece and North Macedonia or regarding Serbia and the non-recognition of Kosovo's independence.

In the case of Kosovo, Moscow's political activities and interventions have been successful to shape the desired outcome. This Russian position has been supported from the outset by the Chinese authorities. Rather uncharacteristically because Beijing seldom addresses domestic political issues of a host country in public, China has been very vocal to voice its support for Serbia's territorial integrity and its refusal to recognize the independence of Kosovo. The Chinese ambassador to Serbia, Li Manchang stated in July 2018 that "for China, Kosovo is Serbia, and so it shall remain" (Kurir2018).

²⁸ The term Western Balkans includes six countries, namely Albania, Serbia, North Macedonia, Kosovo, Montenegro, Bosnia and Hercegovina.

With the presence of Russia and China's growing footprint, our inquiry asks if geopolitics is returning to countries in Central, Eastern and Southeast Europe? Bruno Mações (2017) answers this question by arguing that the 21st century is being dominated by what he calls the "dawn of Eurasia", i.e. the interplay of China, Russia and the EU vying for influence in and support by countries in CESEE.

Federica Mogherini, the High Representative of the European Union for Foreign Affairs and Security Policy highlighted in March 2017 an imminent risk for countries in the Western Balkans. Asked about Russia's role in the region, Mogherini replied: "The Balkans can easily become one of the chessboards where the big power game can be played...So the concern is there... and it is profound" (Digital Journal 2017).

The strategic chess game underway in CESEE is characterized by established players and newcomers that seek a place at the table. The most recent arrival (or return) to the region's power games is China. The question thus arises if China's activities in CESEE are an attempt to position itself in European regions at the intersection of the EU and the land mass of Eurasia? Put otherwise, are these activities focused on establishing a strategic footprint in CESEE alongside or in competition with Moscow and Brussels?

There are manifest differences between the activities of Beijing and the Kremlin in CESEE. Russia's engagement comes with historical baggage, shared cultural reference points and the heritage of Orthodox religion (chiefly in Serbia). Ever since the breakup of the Yugoslav Federation the Kremlin has considered the region of the Western Balkans as a strategic sphere of influence.

Through investments in and lending to Serbia, Montenegro and Republika Srpska in Bosnia and Hercegovina, Russia has created economic leverage, in particular in the energy, tourism, media and financial sectors. Its economic footprint is not only reflected in the absolute volumes of FDI. Part of its strategy has also been to use subsidiaries of Russian companies based in the EU, in offshore destinations and the US for corporate interventions in this region. The case of the Russian oil company *Lukoil* highlights this approach most prominently (Center for the Study of Democracy, 2018).

For China, the point of departure to be involved in this part of Europe is a different matter. The manner in which China proceeds with infrastructure projects and concessional lending in countries as diverse as Hungary, Serbia, Montenegro or Bulgaria suggests that it is simultaneously offering an alternative development model and providing lending to countries, many of which have low investment grades on international capital markets. Furthermore, the establishment of an institutionalized framework for cooperation, namely the 17+1 network with 17 countries from the three regions underlines the long-term and strategic approach undertaken by Beijing (see chapter 5.4).

5.1 China, Russia and the former Yugoslav Federation:

The President of the Yugoslav Federation Marshal Tito visited China for the first time in 1977, with a return visit of President Hua Guofeng to Yugoslavia in 1978. Travel diplomacy continued throughout the 1980s and 1990s, with the Chinese Premier Zhao Ziyang visiting Belgrade in 1986, while President Milošević visited China in 1997.

The 1997 visit to Beijing yielded an important breakthrough in Sino-Yugoslav relations. Two years after the Dayton peace agreement in 1995, Milošević's visit to China was portrayed as a success story in Belgrade, seeking to lend credence to the claim that the international isolation of what remained of the Yugoslav Federation could be overcome. The diplomatic breakthrough for Milošević allowed him to challenge his Pariah status in Europe with political support from his traditional ally Russia and supplement this assistance through his Chinese interlocutors.

There was also material progress on the ground. Visa regulations between both countries were liberalized, allowing Chinese immigrants the opportunity to settle in Serbia. Many of the Chinese citizens visiting Yugoslavia in the late 1990s started small businesses in an area of Belgrade known as *Blok 70*. Over time this local business community grew into a microcosmos of Chinese migrant culture in Serbia, frequently termed Belgrade's Chinatown.

Official municipal census data are difficult to identify. But some estimates put the number of Chinese citizens in Serbia at 40,000 in 2010 (Mangat 2010). The arrival and settling in of Chinese citizens as merchants, restaurant owners, shopkeepers and open-market dealers in and around Blok 70 gave this Belgrade neighborhood an orientalist feel and Mandarin voice from the late 1990s onwards.

The Sino-Yugoslav cooperation during the different Milošević presidencies²⁹ from 1989 to 2000 contributed to enlarge his support in the UN Security Council. Apart from the steadfast backing from Russia, Milošević could also count on the assistance from a second permanent member in the UN Security Council that yielded veto power.

This Sino-Yugoslav diplomatic cooperation was strongly influenced by both countries' sense of grievance they shared in the city of Belgrade. The origin of this mutual perception of ill-treatment rested in the NATO bombing of Yugoslavia, which on May 7, 1999, included the destruction of the embassy of the People's Republic of China in the district of New Belgrade. The "accidental" bombing killed three Chinese reporters inside the embassy. There were also 27 injured citizens.³⁰

After the disintegration of Yugoslavia, Serbia's foreign [economic] policy was primarily defined by its reliance on "four pillars of diplomacy". Former president Boris Tadić (2004-2012) and his foreign

²⁹ Milošević was President of Serbia from 1989 to 1997 and President of the Federal Republic of Yugoslavia from 1997 to 2000.

³⁰ Then U.S. President Bill Clinton and NATO representatives repeatedly emphasized that the bombing of the Chinese embassy in Belgrade was "accidental" and later apologized for it.

minister Vuk Jeremić proclaimed that the four pillars of Serbia's³¹ foreign policy rested on the EU, the U.S.A., Russia and China. The principal goal of that foreign policy supported joining the EU. However, complimentary to that objective were "strategic partnerships" with America, Russia and China. These partnerships, according to President Tadić would "not get in the way of that goal" (Politika 2009).

5.2 Chinese footprints and Russian legacies

Over the course of the past decade China has incrementally penetrated the European continent, particularly through its periphery. Countries as diverse as Greece, Serbia, Bulgaria and Bosnia & Herzegovina have made concessions to Chinese investors and received sizeable loans from policy banks because they want China to be embedded in their economies. For these countries, Chinese loans for infrastructure projects and equity investments in ports and mining companies can also serve as a hedge against Russian involvement or present themselves as alternatives to what many perceive as cumbersome EU financing procedures.

Table 7 below highlights the inroads China is making among four countries in CESEE, two of which are EU member states (Greece and Bulgaria), one (Serbia) is in advanced negotiations as an EU candidate country and Bosnia & Herzegovina has an association status with the EU. The Chinese equity investments in companies, primarily in Greece, Bulgaria and Serbia, while bank lending for infrastructure projects is concentrated in Bosnia and Hercegovina illustrates the diversity of approaches, instruments and resources that Beijing brings to the table. Furthermore, all four countries offer visa or residency programs for non-EU nationals that include attracting Chinese and Russian foreign investment in real estate and/or the corporate sector.

As table 7 also underlines, it is not so much a binary choice, e.g. between the EU and China or Russia and China as seeking additional economic partnerships with Chinese companies, free-trade agreements with Beijing and lending alternatives from financial institutions such as *Exim Bank* and *China Development Bank*. Furthermore, as the rhetoric of "Gateways" illustrates which Chinese officials frequently use when explaining their European activities, BRI-related initiatives serve as a conduit for moving Chinese exports, loans and infrastructure projects from Europe's eastern and south eastern periphery closer to the continent's centre (Bastian 2017).

³¹ Until June 2006 Tadić was president of Serbia and Montenegro. The parliament in Podgorica declared independence from Serbia following the narrowly won referendum in May 2006.

Table 7: Selected Chinese Investments and Projects in CESEE in 2016 -2019

Greece	Serbia	Bulgaria	Bosnia & Herzegovina
Piraeus Port 51 % Shareholding USD 312.5 million COSCO Shipping	Belgrade–Budapest railway project USD 2.89billion	Bahovitsa car factory Opened in 2011 – Filed for bankruptcy in 2017 Great Wall Motor	Thermal power plant Banovici €388 million loan Dong Fang Electric Corp. + Industrial and Commercial Bank of China (ICBC)
Independent Power Transmission Operator (ADMIE) 24% Shareholding State Grid Corp.	Construction of a tire factory in Zrenjanin \$994.4 million Shandong Linglong	State energy company BEH €535 million loan Consortium led by Bank of China	Motorway construction Autoputevi Republic of Srpska (RS) €600 million loan Sinohydro + Eximbank
Folli Follie Duty Free 16.37% Shareholding Fosun	Copper mine RTB Bor \$1.26 billion 63 percent equity stake Zijin Mining Group*	Acquisition of MM Solutions €31 million Chinese Thunder Software Technology	Power utility Elektroprivreda BiH €722 million Exim Bank to cover 85% of costs
Korres Cosmetics 14% Shareholding Profex	Ikarbus Company 51% stake + Debt Yin Long	Belene nuclear plant Preliminary offer China National Nuclear Corp (CNNC)	Stanari thermal power plant Republika Srpska €350 million loan China Development Bank
Golden Visa Program	Visa freeregime	Chinese residency program	Golden Investor Visa

* In 2016, China’s Hesteel acquired a steel plant in the town of Smederevo for USD 40 million. Compilation by the author and Bastian (2017).

In 2018, Chinese companies broke new ground in Croatia, an EU member states since July 2013. For the first time, an infrastructure project which is 85 percent co-financed by funding from the EU, was awarded in a public tender to a winning bid from China. The Croatian state-owned highway operator *Hrvatske Ceste* (HC) awarded the contract to a Chinese consortium led by *China Road and Bridge Corporation* (CRBC). It will build the first phase of the 2.4 kilometers Peljesac Bridge and its surrounding access roads. The bridge crosses the Mali Ston Bay over the Adriatic Sea, thereby giving Croatia a direct land link instead of having to reroute traffic through a small stretch of Bosnia and Herzegovina (Xinhua 2018). The bridge is expected to open in 2021. Awarding the project to CRBC triggered a legal challenge by one of the losing competing firms, the Austrian company

Strabag. A Croatian court dismissed the legal challenge in mid-2018 arguing that the subsidized Chinese firm did not (!) charge a price lower than the value of the bridge project.

The Peljesac bridge project can be seen as a pilot project because of its EU-linked funding arrangements. But building a bridge in a European country with Chinese companies in the construction-lead has its precedents. In December 2014 the “Friendship Bridge” was inaugurated over the Danube in Belgrade, Serbia. The bridge was also built by the CRBC. But another element of innovation is also emerging in (bridge) infrastructure projects with Chinese participation. Based on experience gained on the ground Chinese companies are now starting to form joint ventures with firms from Southeast Europe to advance projects outside the region.

In December 2018, the *Chinese Sichuan Road & Bridge Group* (SRBG) in cooperation with VNG from Novi Sad in Serbia celebrated the official opening of the Hålogaland Bridge in the Arctic town of Narvick, Norway.³² This is Norway's second largest bridge with a total length of 1,533 meters. It is the longest suspension bridge within the Arctic Circle. It is also the first successful Sino-Serbian bridge construction consortium in Europe.

What is striking in this Sino-Serbian joint venture is that neither Serbia nor Norway are EU member states. The former is a candidate country currently negotiating membership with the Commission in Brussels. The latter has an Association Agreement with the Union since 1994 in the *European Economic Area* (EEA). Put otherwise, China is making inroads in a variety of institutional arrangements in Europe. Membership of the EU, while important, is not a condition *sine qua non* for China to become involved.

A further characteristic of China's expanding equity footprint in Serbia concerns the energy sector. The Chinese *Zijin Mining Company* – the third-largest copper and gold producer in China - was the winning bidder of the Serbian government's August 2018 tender process for the formerly state-owned *Rudarsko Topioncarski Basen Bor* (RTB Bor) copper mining and smelting complex. Zijin acquired a 63-percent stake in the complex located in eastern Serbia for US\$1.26 billion. According to Serbia's Minister of Energy and Mining Aleksandar Antic, as part of the agreement, Zijin also promised to cover RTB Bor's USD 200 million debt and keep 5,000 jobs at the mine.

The RTB Bor mining company was a pillar of Serbia's industrial sector before the collapse of communist Yugoslavia in the early 1990s. Obligated by IMF compliance requirements to disinvest from state-owned, loss-making companies, Serbia had tried to privatize the indebted copper mine three times since 2007. But several tenders failed due to a lack of interest of foreign investors. In 2016, a Serbian court approved a plan for the restructuring of RTB Bor, writing off 90 percent of its unsecured debt. Under the plan, the remaining 10 percent, or 300 million euro (\$317.6 million), would be paid back over the next eight years with a one-year grace period, and the secured debt will be converted into equity.

³² The SRBG-VNG cooperation delivered the steel constructions and was responsible for the mounting of the bridge. Hålogaland Bridge contributes to a significant shortcut on the European Transport Corridor route E6 — the main north-south road through Norway and the west coast of Sweden (GCR 2018).

With this acquisition, the Chinese Zijin Mining company is investing almost US\$3 billion to stake major claims in Serbian copper interests. The RTB Bor equity investment represents back-to-back mining transactions Zijin in Serbia. In October 2018, Zijin acquired the Canadian base metals producer *Nevsun Resources* for US\$1.4 billion. The acquisition included the *Timok* copper-gold mining exploration project in Cukar Peki near Bor in eastern Serbia.

Zijin is focusing on the resource-abundant area in eastern Serbia with a view to tap into the growing demand from China's New Energy Vehicle sector (NEV). This sector electric includes vehicles that are either partially or fully powered by electricity. The production of batteries for NEV cars, buses and trucks requires copper and zinc. RTB Bor and Timok are the second and third mining companies a Chinese firm buys in Serbia. In 2016, China's *Hebei Iron and Steel Group* (HBIS) acquired *Zelezara Smederevo*, a steel plant in the town of Smederevo.

The Fujian-based miner has mining interests around the world. It is active in joint ventures at the *Kamoa-Kakula* copper project in the Democratic Republic of Congo and with at the *Porgera* gold mine in Papua New Guinea. The unprecedented element in Zijin's acquisition is the fact that it submitted the winning bid in the final stage of the tender process against a Russian competitor, *U Gold*. Despite strong political economy ties with Russia, the government in Belgrade opted for the Chinese company as it pledged more follow-up investment after the acquisition RTB Bor mining complex.

Two conclusions can be drawn from this overview. For one, Chinese companies are winning tender projects in EU member states that are majority co-financed by the EU budget. This development in Croatia signals the capacity of Chinese state-owned and subsidized firms to adapt to the complexities of EU procurement rules, and ultimately be successful, mostly by submitting the lowest price offer. Furthermore, Chinese corporates are also prepared to outbid Russian competitors in non-EU countries such as Serbia, thus challenging the lead which Russian companies had established in the country's energy sector.

While China is making inroads across a diverse set of countries in Central and Eastern Europe, the Kremlin does not have anything comparable to offer participating countries. Lending by Russian banks for infrastructure development projects is very limited and mostly concentrated in Serbia. Russia is a traditional political ally in Belgrade. This was most recently underlined by the orchestrated reception President Putin received during his official state visit to Serbia in January 2019. Russia's investments focus primarily on the country's energy sector, media and finance (Brey, 2018). But the Serbian president Aleksander Vucic is simultaneously steering the country towards China while also negotiating the accession chapters with the EU. In that respect, the political authorities in Belgrade are undertaking a delicate balancing act between Moscow, Brussels and Beijing. Railway investments provide a telling example of such a 'ménage à trois'.

5.3 The Budapest – Belgrade railway project

Ever since the BRI was officially launched in 2013, one of its cornerstones for transport connectivity includes rail infrastructure. Transportation times by rail from Chinese cities of production to distribution centres on the European continent are faster than sending a container by sea. Furthermore, while slower, they are considerably cheaper than sending large volumes of cargo by air. Railway connectivity and the modernization of rail infrastructure form two critical elements for the transport of high-value and time-sensitive goods along the BRI. This significance was already illustrated by China's involvement in building the *Khorgos Gateway*, a dry port and logistics hub in Kazakhstan (see chapter 4.1). The Moscow to Kazan railway project is a further illustration of the importance given to rail infrastructure initiatives by a Sino-Russian partnership (see chapter 4.2).

The flagship project along the BRI rail route in CESEE concerns the construction of a China-backed cross-border high-speed railway connecting the capital cities of Budapest and Belgrade. The project would upgrade an existing rail line and construct a new one. The rail link seeks to reduce turnaround between both cities to less than half the current eight hours. When completed the new rail link would carry Chinese goods that arrive by sea at the Greek port of Piraeus to and from the Balkans as well as other parts of Europe.

Within this arrangement the trilateral project involves the EU candidate country Serbia, the EU member state Hungary and China. This combination of diverse parties involved in a cross-border rail project has attracted considerable attention by the European Commission, the executive arm of the European Union. Further lurking in the background is Russia which is also involved in another railway project in Serbia. But there is also a larger political economy dimension in this flagship infrastructure development project. Hungary's Prime minister Viktor Orban highlighted this dimension at the opening of the China – Central and Eastern Europe Summit in Budapest in 2017:

"Globalization's new world order has also brought with it new configurations. We look upon the President of China's One Belt One Road Initiative as one of globalisation's new configurations: one which will no longer divide the world into teachers and students, but which will provide the basis for mutual respect and mutual advantage" (The Hungarian Government 2017).

The initial Memorandum of Understanding between China, Serbia and Hungary was signed in December 2014. The construction contract for the Hungarian part of the project was then awarded in a non-competitive bid procedure to *China Railway International Corp.*, the state-owned Chinese rail company. According to government representatives in Budapest, Hungarian law permitted no-bid contracting when public land is involved and the investment results in wider economic benefits.

The project seeks to increase the traveling speed of passenger and freight trains between both cities from currently 80 KM to 160 KM per hour, at certain stretches even up to 200 KM per hour.³³ The traveling time between both capital cities is projected to decrease from today eight hours to under 3.5 hours in 2023 when the project is planned to be completed. The 370-km Belgrade-Budapest rail project is budgeted at 3.8 billion USD (USD 3.8 billion). For both cities, such a project has been on the agenda for more than a decade. Until recently, it did not take off, primarily for lack of financing capacity between Hungary and Serbia.

In November 2016, China's *Exim Bank* agreed to fund 85 per cent of the Hungarian route of the railway project. The construction of the Hungarian stretch is budgeted at approximately 550 billion forints (USD 2.1 billion). The duration of the credit line is for 20 years and the annual interest rate fixed at 2.5 per cent. The Hungarian Prime Minister Viktor Orban asserted the need for the Belgrade-Budapest railway, and for Chinese investment in general, as follows:

“We need to carry out numerous investments for which *there is not enough capital* in the Hungarian economy or *in the European Union*...That is why we are financing the Budapest-Belgrade railway line with Chinese assistance” (GCR 2017, emphasis added).

For its part Serbia agreed in May 2017 to borrow USD 298 million from China's *Exim Bank* to finance the first components of the construction works (Garcevic 2018). The ceremonial start of the Serbian stretch took place in November 2017 in Belgrade's Zemun neighborhood. It includes the construction of a 34 km (18.6 miles) new line to the northern town of Stara-Pazova by *China Railway International*. Seen in conjunction with the credit line provided by *Exim Bank* of China, both the contractor and the financier of the project are not (!) from Serbia.

The project's rationale from the Chinese perspective consists in giving Beijing an alternative route of rail access to Central Europe starting from the Greek port of Piraeus with onward rail and highway connectivity through neighbouring countries. Since January 2018, China has also opened a new rail connection from Xiamen to Hungary. The new freight train service links the East China port city with Budapest and further on to the inland port of Duisburg in Germany. This additional China to Europe rail route takes 18 days and stretches for a total of 11,595 km (Posaner 2018).

However, in January 2017 the European Commission launched a preliminary investigation into the landmark railway project against the EU member state Hungary. The infringement proceedings focused on the procurement procedures and financial arrangements of the Hungarian part of the rail project. The Brussels probe contended that Hungary was in breach of EU procurement laws by not initiating a proper public tender for a transport infrastructure project of such a financial magnitude.

The allegation of having violated EU public procurement rules when initially awarding the project on the Hungarian side is a serious matter, both for the political authorities in Budapest as much as for the reputational capital that Chinese companies are seeking to build vis-à-vis EU institutions.

³³ From an engineering point of view there are considerable doubts about the feasibility of freight trains travelling at speeds of 200 KM per hour.

Failure to uphold EU legislation by a member state risked halting construction, incurring steep financial penalties and possible sanctions that can include the suspension of a country's voting rights for repeated non-compliance.

It is instructive what happened next. In reaction to the Commission's preliminary infringement proceedings the Hungarian authorities relaunched in November 2017 a formal procurement tender for the 152-kilometer (93-mile) railway route from Budapest to the border crossing with Serbia. The Hungarian minister for foreign affairs and trade, Péter Szijjártó announced on the occasion of the *Central and Eastern Europe – China Summit* (CEEC-China) in Budapest that the public tender would be re-launched. The winning bid would sign an EPC contract (engineering, procurement, construction) with the joint venture *Chinese-Hungarian Railway Nonprofit Ltd.*³⁴ According to the new terms of reference construction work is expected to start in 2020 and will take three years to complete.

In June 2019 the public tender was won by a Hungarian-Chinese group. The \$2.1 billion contract to build the high-speed rail project was awarded to the *CRE Consortium*, half of which is owned by a unit of the Hungarian holding company *Opus Global* (RM International Zrt.).³⁵ The Chinese half of the winning consortium is owned by *China Tiejiju Engineering & Construction Kft.* and *China Railway Electrification Engineering Group Kft.*, representing the Chinese state railways company. The five-year construction period is to start in the third quarter of 2019, provided the financing arrangements with *Exim Bank* can be finalized within the context of the new contract specifications.

What can we learn from this series of events in a flagship infrastructure project that involves China, an EU member state and an EU candidate country currently negotiating various accession chapters with the European Commission in Brussels? For one, both China and Hungary when faced with an infringement procedure by the Commission against EU law swiftly agreed to compromise and proceed in compliance with public procurement regulations defined in and monitored by Brussels. Apart from considerable financial resources, reputational capital was also at stake. It was therefore in the joint interest of Budapest and Beijing to engage in railway diplomacy and seek a fast-track resolution instead of confrontation and drawn out legal proceedings with authorities in Brussels.

Secondly, the regulatory arm of the Commission is long and strong. High-profile BRI projects across borders with a combination of an EU member state and an EU candidate country will find it rather impossible to proceed if doubts over tender procedures or non-transparent financing arrangements surface. Put otherwise, the investment screening toolbox which the Commission in

³⁴ The shareholding structure of the joint venture includes the Hungarian state railway *MAV* with 15 per cent and two Chinese companies – the *China Railway International Corporation* and the *China Railway International Group* – who together hold 85 per cent of the equity. The joint venture was established in October 2016.

³⁵ *Opus Global* is controlled by Lorinc Meszaros, an associate of Prime Minister Viktor Orban. Mr. Meszaros owns a 36.8-percent stake in *Opus Global*, making him the largest single shareholder in the company.

Brussels has at its disposal proved operational in the EU's procurement procedures vis-à-vis Hungary and China. Such legislation has teeth that can bite. Both China and Hungary quietly agreed to settle the issue as required by EU rules and legislation.

In March 2019 the European Commission and the EU's diplomatic unit, the *High Representative of the Union for Foreign Affairs and Security Policy*, issued a joint communication regarding EU-China relations (European Commission 2019). The strategic outlook provided by both European institutions explicitly stated that

"all Member States, individually and within sub-regional cooperation frameworks, such as the 16+1 format, have a responsibility to *ensure consistency with EU law, rules and policies*" (ibid. 2019, emphasis added).

We should also consider the following: cross border projects like the Budapest-Belgrade railway initiative create different sets of rules and compliance requirements for the parties involved. In other words, in the case of the Hungarian part of the project China and the government in Budapest ultimately agreed to play according to EU procurement legislation. But in such a cross-border project it is not a given that China and Serbia will do likewise, as the latter is an EU candidate country not (yet) fully subject to the requirements of a legislative rule book defined in and monitored by Brussels.

The more such cross-border projects encompass different regulatory regimes and varying institutional membership requirements, the less it is guaranteed that all parties involved will adhere to the same transparency standards as defined in EU procurement procedures. This interpretation implies that we can expect Chinese companies to adopt – at times reluctantly and with delay – localized approaches to European infrastructure projects within the BRI framework.

But China and the EU are not the only players to be involved in the modernization of Serbia's railway infrastructure. Since 2013, *Russian Railways International* and the state-owned *Serbian Railways* have a cooperation agreement to carry out the reconstruction of Serbia's railway infrastructure and deliver new diesel trains. The contract is part of a state export credit line guaranteed by the Russian Federation. The project has a total financing volume of USD 941.2 million, of which USD 800 million originate from a Russian loan to Serbia. The annual interest rate is 4.1 per cent, higher than what Serbia could receive when borrowing through the London-based EBRD or the financing arm of the European Commission, the EIB. The loan arrangement granted preferential status to Russian state-owned contractors. (Center for the Study of Democracy, 2018).

The works under way include upgrading 16 km of a second track on the Belgrade – Pancevo line and the reconstruction of six sections comprising 112 km on the Pan-European Corridor X. The infrastructure improvements also comprise the construction of bridges over the Tamiš river, a freight substation at Pancevo and the construction of a second new track on a 44 km railway section between Stara Pazova and Novi Sad. The project map concludes with the reconstruction of the Serbian section of the Belgrade – Bar line with a total length of 200 km and the acquisition of 26 new diesel trains manufactured by the Russian company *Metrovagonmash OJSC*.

Two observations follow from this Sino-Russian railway overview in Serbia. For one, they illustrate to what degree, at what speed and with increasing diversity China is making inroads in the political economies of countries in Central, Eastern and Southeast Europe. But the examples provided also highlight how Russia is simultaneously involved in these developments. The Kremlin has left its mark in these regions in the past. But it is not in a position to match China's level and diversity of activities with similar financial resources; with the exception of its activities in Serbia. Consequently, the narrative of many policy makers and the perception of citizens on the ground is that Beijing, and not Moscow, is the most promising new game in town.

It would be premature to interpret this development as China overtaking Russia in the Western Balkans. Russia's influence and interventions extend beyond finance and economics. This course of action sets it apart from China's activities in the region. The Kremlin's focus is also geared towards disrupting or discrediting existing institutional arrangements which countries in the region aspire to join, e.g. the EU and/or NATO. Despite these interventions they do not always go Russia's way. To illustrate, Montenegro is a member of NATO since June 2017. Greece expelled Russian diplomats in July 2018.³⁶ The protocol finalizing North Macedonia's accession to NATO was signed in February 2019. A month later, Moscow formally recognized the name change in Skopje. In all three cases Moscow vigorously objected to the countries' decisions. But to no avail. China, by contrast, has not involved itself in any of these internal developments, although it is increasingly investing in and lending to the aforementioned countries.

Neither has Moscow attempted to create a top-down institutional network with current EU member states in Central and Eastern Europe. When President Putin addresses the potential for synergies between the EEU and the EU, his speeches label such an economic space as stretching from "Lisbon to Vladivostok". But in view of the existing sanctions regime against Russia by the EU such a cooperation vision is mostly rhetorical (Emerson 2019). By contrast, in 2012 Beijing established the *Cooperation between China and Central and Eastern European Countries* platform. In the course of the past seven years China solidified an institutional architecture - initially termed the '16+1 network' - which organizes the yearly Central and Eastern Europe – China Summit.

5.4 Divide and rule? The 17+1 network

The 17+1 network of participating countries³⁷ is a hybrid amalgamation of states from Riga, Latvia in the Baltics to Sarajevo, Bosnia-Herzegovina in the Western Balkans. Apart from China which stands for the number one, the political and economic platform includes 14 NATO members, 12 of

³⁶ The July 2018 expulsion of four Russian diplomats from Greece was unprecedented as the Athens-Moscow relations were deemed cordial and constructive. But the Greek media revealed how Russia and Greeks with Russian passports were trying to foment opposition to the Prespes name agreement between Greece and North Macedonia.

³⁷ The participating countries are Albania, Bosnia and Herzegovina, Bulgaria, Croatia, the Czech Republic, Estonia, Greece, Hungary, Latvia, Lithuania, North Macedonia, Montenegro, Poland, Romania, Serbia, the Slovak Republic and Slovenia. Belarus has an observer status in the 17+1 since 2016.

which are also EU members, six of which are equally Euro area members as well as five countries from the Western Balkans. The only country which is not a member of the network is Kosovo. Like Russia, China supports Serbia's position that Kosovo's declaration of independence in February 2008 is illegitimate. Both Beijing and the Kremlin have consistently – and frequently jointly – refused to recognize Kosovo as a sovereign state in international bodies, thereby blocking its membership, e.g. in the UN and the WTO.

The CEEC-China summits take place on an annual basis. The first CEE-China 17+1 summit was held in Warsaw in 2012. The following summits were held in Bucharest (2013), Belgrade (2014), Suzhou (2015), Riga (2016) and Budapest (2017). In July 2018, the 17+1 members met in Sofia, only a few days after Bulgaria had concluded its six months stewardship of the rotating presidency of the Council of the European Union. In April 2019, the 17+1 caravan moved to the old city of Dubrovnik on the Adriatic Sea in Croatia. The summit in Dubrovnik was the last one in its original 16+1 composition. Greece applied in 2018 to join the 16+1 network, thereby becoming its seventeenth member in April 2019 (Bastian 2019a).

The regularity of these summits underlines the economic and regional ambitions of China in Europe. They also illustrate the expectations of countries participating in the 17+1 framework. In practice, the 17+1 network provides the institutional setting for China to engage on a bilateral basis with 17 countries from different regions in Europe and with a diverse set of membership affiliations. The 17+1 secretariat is headquartered in Beijing. The network is a top-down, state-driven, leader-to-leader platform which negotiates project cooperation on a transactional basis ranging from transport infrastructure over educational initiatives to industrial park construction (He 2018).

But the authorities in Beijing face a certain degree of push back from the Commission in Brussels and EU member states outside the 17+1 network. China therefore needs to reassure the Commission that the 17+1 platform creates “complementarity” with Sino-EU relations. Since 2017 the European Commission has an observer status at the 17+1 summits. This emphasis also appears necessary vis-à-vis EU member states such as Germany and France who have repeatedly raised concerns about the yearly summits and the substance of its proceedings.

For that matter the CEEC-China meetings now regularly provide “Guidelines” which refer to initiatives linked to parallel EU activities. One such guideline argues that the 17+1 network goes hand-in-hand with the so-called *Three Seas Initiative* established in 2016. Also known as the *Baltic, Adriatic, Black Sea Initiative*, it is a forum of twelve EU member states located in Central and Eastern Europe. The initiative aims to create a regional dialogue on a variety of policy issues affecting participating states. The 17+1 network guidelines further emphasize strengthening regional cooperation. In an acknowledgement to the European Commission the participating countries in the 17+1 network declared their willingness to increase synergies in infrastructure

projects, e.g. linking the Belgrade-Budapest railway project with the *Trans-European Transport Networks* (TEN-T).³⁸

With the 17+1 network Beijing's has created a platform for high-profile wallet diplomacy. Within less than a decade China has become a political factor and economic interlocutor in Central and Eastern Europe. The extent to which this has happened in two critical sub-regions of Europe has been underestimated by both Moscow and Brussels. The question thus arises, if the 17+1 framework can serve as a vehicle for China to create alternative arenas vis-à-vis the EU? Put otherwise, do decision makers in Beijing seek political leverage in a network such as the 17+1 platform? The flagship bilateral agreements that are regularly announced during the 17+1 summits have a signalling character. The aforementioned construction work on the Serbian side of the Belgrade – Budapest railway project is the first cross-border infrastructure initiative being implemented within the 17+1 framework.

However, it is necessary to underline that the 17+1 framework is not a harmonious cooperation arena with common interests and joint strategies. The race to claim pride of place in cooperation with China is a recurring characteristic of the summits. It is emblematic of a larger competition among participating countries to gain Chinese attention, attract investments and above all secure funding for country-specific infrastructure projects (Bastian 2019b). Against this background, the management of expectations represents a key challenge for the authorities in Beijing. Not only is the cohesion of the network tested. Similarly, discrepancies between the rhetoric of cooperation and the substance of verifiable projects are starting to emerge among members of the 17+1 network.³⁹

In conclusion, while Russia primarily focuses on Serbia and Montenegro, China is receiving more visibility across Central and Eastern Europe. At the same time China is negotiating with the European Commission to reach agreements in key policy areas such as a mutually-binding comprehensive investment framework or concerning steel and aluminum imports from China. The inherent contradiction in this approach by China consists in simultaneously expanding the 17+1 framework to reach bilateral agreements with EU member states on a case-by-case, country-by-country basis.

The resulting challenge from such a format consists in governments participating in the 17+1 arrangement assuming that they can simultaneously strengthen their bargaining position vis-à-vis the Commission in Brussels. However, that assumption may prove erroneous in practice. Furthermore, creating a narrative that engagement with China delivers additional financial resources and yields innovative infrastructure investments is a double-edged sword. It may appear inviting for political authorities in some member states of the 17+1 network to try and play Brussels off against Beijing to suit their own political agendas. But the Commission does take notice of such

³⁸ TEN-T is a wide set of road, rail, air and water transport networks under construction within the European Union. TEN-T also includes telecommunications and a proposed energy network. The European Commission adopted the first action plans on trans-European networks in 1990.

³⁹ See “Chinese Investment in Eastern EU will test Cohesion”, in Oxford Analytica Daily Brief, December 27th, 2017.

double play by individual EU member states. Neither can it be in the longer-term strategic interest of the Chinese authorities to be seen as driving a wedge between the Commission and EU member states.

The short-termism of some governments in the 17+1 network may temporarily benefit Chinese state-owned companies and policy banks seeking to do business in these regions. But the ultimate objective of China's leaders along the European routes of the BRI is not the expansion of business relations and trade ties with Hungary, Bulgaria or Poland. Rather, it rests in securing a critical mass of reputational capital among EU member states in order to arrive at watershed agreements with Brussels, e.g. a free trade agreement, or the coveted recognition as a 'market economy' which the Commission continues to withhold from Beijing in the WTO.

Ultimately, what the 17+1 network enables is for China to establish regular connectivity links and communication channels from Europe's periphery on the way to gradually reach the center of policy making which resides with the executive arm of the EU in Brussels. But the Chinese authorities have to tread carefully. Creating such institutional gateways as the 17+1 network should not be mistaken as advancing with 'Trojan horses' towards Brussels.

6. Conclusions

The second Belt and Road Forum took place in April 2019, two years after the inaugural summit in Beijing. President Xi stipulated that since the BRI had been officially launched in 2013 China had signed more than 170 BRI-related agreements with 125 countries. The 2019 Forum was attended by 37 leaders, including Russian President Vladimir Putin, Italian Prime Minister Giuseppe Conte and the heads of state of the 10 ASEAN states. But the list of attendees was also noteworthy for who was not attending the second Forum. India did not send a delegation. Neither did Turkey nor Spain. Somewhat surprisingly, Poland, which is a member of the China-led 17+1 network, did not participate in the 2019 BRI Forum. In light of the protracted trade disputes between Washington and Beijing, the Trump administration only sent a low-level delegation.

This overview has provided various examples that illustrate the political will of Russia and China to establish a closer bilateral relationship, in both appearance and substance. Confidence-building efforts in numerous policy areas are testing the durability and practicality of this expanding cooperation. In practice, these joint activities continue to be shaped more by necessity and national interests than mutual trust. But the bilateral *détente* is real, even if some observers and policy-makers in the U.S. and Europe still question its relevance. As Allison (2018) has argued, Beijing and Moscow are “defying long-held convictions by Western analysts.” The edited volume by Ferrari and Ambrosetti (2019) is an exception to this observation and a welcome contribution to the anatomy of a Sino-Russian partnership that will impact on the international relations debate in the years to come.

Discounting the Sino-Russian cooperation carries risks and could prove self-defeating. Drawing attention to this expanding realignment has strategic implications for countries near and far from both China and Russia. Despite structural differences in their political economies and a history of rivalry – some of which led to armed conflict – Beijing and Moscow are executing a rapprochement that includes unprecedented levels of cooperation. Over the course of the past decade they have created new and extended existing areas of cooperation in sectors as diverse as energy, finance, defense and security as well as joint diplomatic activities.

If you can mobilize 300.000 Russian soldiers and have 3.000 military personnel from China participate in the ‘Vostok 2018’ military exercise in far-eastern Russia while both countries’ presidents are watching, then it is a matter of urgency to take notice that something major is developing in foreign and security policy between Moscow and Beijing. The expanding Sino-Russian cooperation in defense matters present manifest security challenges for NATO and the EU. If you hold joint navy exercises in the Mediterranean Sea in 2015, followed in 2016 in the South China Sea and in the Baltic Sea in 2017 then you start seeing a trend, a pattern of marching in formation together.

Contrary to the public debates and legitimate concerns among many policy makers and analysts in Europe and the U.S., observers in Russia do not (yet) see the BRI as a geopolitical risk. Instead, starting from President Putin on downwards Russia identifies the opportunities that rest in the

initiatives and the potential to join forces with China. This point of view is informed by the fact that China's economic performance is eight times larger than Russian GDP. Moreover, during the past decade China has become Russia's most important trading partner. The political authorities in the Kremlin understand that they lack the financial resources to build the energy and transport infrastructure along the Polar Silk Road. Beijing is a willing construction partner and able funding provider.

In expanding the Sino-Russian axis both Moscow and Beijing seek to assert their growing independence from an America-centered geopolitical order. Instead of converging with that order's rules, values and standards, they are crafting a bilateral axis that may sooner rather than later be able (or willing) to challenge it. As U.S. – China strategic competition intensifies across numerous policy fields, the rationale for Sino-Russian strategic cooperation is expanding and diversifying. The more Beijing views competition with Washington through the prism of Great Power rivalry (Mearsheimer 2001), the higher the likelihood that it will continue to recalibrate its growing partnership with Moscow. Both China and Russia are explicitly named as "revisionist powers" in the 2018 *National Security Strategy* and the *National Defense Strategy* of the U.S. administration (Department of Defense, DOD). Hence, China and Russia consider themselves as brothers in arms vis-à-vis the U.S.

The political and financial support that Russia and China continue to provide for the embattled Maduro regime in Venezuela can be interpreted as both countries engaging in a new sort of proxy conflict in America's backyard. The corporate interests of Russia's Rosneft and Chinese banks that have extended financing to Caracas are of such a magnitude that both countries cannot afford to unconditionally drop Maduro while the U.S. continues to impose gripping oil sanctions. Venezuela is China's largest overseas loan recipient.

How long both China and Russia will continue to stand with President Maduro remains to be seen. What is the inflection point when Moscow and Beijing start to review their support for the Maduro regime? What could trigger the perception that an asset is rapidly turning into a political and economic liability? At present the government in Caracas is only paying interest on the Chinese loans it received. In order to secure what is left of their energy investments and loan agreements both countries may now have enough incentives to reach out to representatives from the political opposition. Venezuela could be exhibit one to test the criticism that "debt-trap diplomacy" is being used by China strategically for its own benefit.

Is China becoming Russia's new "best friend"? This is how Chinese President Xi described his Russian counterpart on the occasion of an official three-day visit to Moscow and St. Petersburg in June 2019. The Sino-Russian entente is heavily centered on the personal relationship that the two presidents Xi Jinping and Vladimir Putin have developed over time. This cooperation is elite driven and reflects a top-down approach by both leaders.⁴⁰ They share grievances vis-à-vis other

⁴⁰ The articulation of a "strategic force" between both leaders is not necessarily shared to the same degree by citizens in China and Russia. Long-held grievances, in particular along the border regions of both countries are more difficult to overcome than obstacles in the political relationship (Messmer & Hsin-Mei Chuang 2019).

countries and ideological systems in 'the West', particularly against the U.S. and to a lesser degree the EU. They also know how to support the other in times of need. While the Trump administration and the Commission in Brussels are applying sanctions against Russia, China is providing the Kremlin with financial remedies to mitigate their impact.

Let us back-up for a moment on the issue what this Sino-Russian realignment means for Sino-American relations? The rapprochement between the Kremlin and Beijing has consequences for the substance of the United States-Chinese relationship. Before President Xi every Chinese president since 1971 engaged in what came to be termed "ping-pong" diplomacy with Washington.⁴¹ The paramount importance of improving and stable bilateral relations with the U.S. was underlined by Chairman Mao, Deng Xiaoping, the leaders Hu Yaobang, Zhao Ziyang and Jiang Zemin as well as Hu Jintao (2003-2013), the predecessor of Xi. *Chimerica* became a reference point for the growing rapprochement between the United States and China, not only in commercial terms, but also regarding political realignment between the world's two largest economies.

After assuming the presidency in 2013, Xi proposed to President Barack Obama the establishment of a '*New Model of Major Country Relations*'. The ambitious proposal by President Xi towards the U.S. was contradicted in substance a year later when China declined to support UN Security Council resolutions condemning Russia's annexation of Crimea. Instead, President Xi signed high-profile energy agreements with the Russian leadership in 2014 and intensified the security and defense cooperation between Russia and China. A former Cold War ally of the U.S. against the Soviet Union started a process of engagement with Russia which increasingly lets the Xi-Putin axis appear as 'brothers in arms'. To the degree that a "pivot" has taken place, it is one involving Russia towards China. Time will tell if this rebalancing is an act of political overreach that could prove counterproductive in the medium-term.

In the United States, a pivot of a different kind is arising during the Trump administration. Using tariffs as the initial means of contestation in the Sino-American commercial conflicts, trade hawks in Washington are revisiting a policy term from the past century, namely *decoupling* economies. In essence it seeks to fundamentally recalibrate a bilateral political economy relationship that the decoupling advocates judge as posing a medium- and long-term strategic threat to the United States. Shifting production facilities, re-orienting supply chains and logistics networks away from China⁴² is the stated objective. At the same time, the decoupling strategy focuses on restricting Chinese investment in the U.S., curtailing visa issuance and academic cooperation. In short, doves in China and the United States are keeping a low profile at present.

⁴¹ The term was coined in 1971 with the first official visit of an American table tennis team to China. Such ping-pong diplomacy resulted in major policy U-turns and the possible escalation of warfare. In 1979, then President Jimmy Carter switched recognition of China from Taipei to Beijing. This was a precondition for formal diplomatic ties. A decade earlier, at the height of the bitter border conflict between the Soviet Union and China, President Nixon is said to have warned the leadership in Moscow to refrain from launching a nuclear attack against China (Mataconis 2010).

⁴² The decoupling objective is also creating its own terminology as regards China policy in the U.S. The abbreviation 'ABC' now stands for *Anything But China* among trade hawks in Washington.

What are the strategic consequences if the two countries indeed decouple further? If Sino-American relations continue to strain, international economic diplomacy faces a crossroad. The more decoupling becomes a political objective, the more it creates incentives or the urgency to identify alternatives. One Plan B search mission includes the Sino-Russian elite cooperation. What President Xi cannot achieve in solving trade disputes with the Trump administration may propel him towards greater cooperation with Russia as a strategic – but not economic - backstop. Against this background, the deteriorating Chinese-American relationship is only on the surface about trade, tit-for-tat tariffs and theft of corporate secrets from U.S. companies. Lurking beneath these manifest conflicts is a rivalry of political systems, definitions of capitalism and a fundamental reorientation of international relations (Watkins 2019).

The Sino-Russian entente is heavily centered on the personal relationship that the two presidents Xi Jinping and Vladimir Putin have developed over time. This cooperation is elite driven and reflects a top-down approach by both leaders.⁴³ There are plenty of incentives to further advance this elite cooperation. President Xi succeeded in abolishing term limits for his presidency at China's national legislature in 2018. Meanwhile, President Putin has rewritten the rules of succession between prime minister and head of state in Russia. Both office holders in the Kremlin and in Beijing are now brothers in arms to establish their rule as life-long presidencies. Durability at the top matters and further aligns Russia with China. They share grievances vis-à-vis other countries and ideological systems in 'the West', particularly against the U.S. and to a lesser degree the EU. They also know how to support the other in times of need. While the Trump administration and the Commission in Brussels are applying sanctions against Russia, China is providing the Kremlin with financial remedies to mitigate their impact.

Despite formal alignment between the EEU and the BRI, the reality on the ground suggests so far that Sino-Russian cooperation has its limitations and obstacles. Similar to the 17+1 arrangement with countries in Central and Eastern Europe, China's cooperation in Central Asia is primarily based on top-down bilateral agreements and MoUs. China has not signed any EEU-wide infrastructure deal. Moreover, contrary to political rhetoric China and Russia have not been able to entice or nudge participating countries to adopt an encompassing Free Trade Area (FTA). Russia views the EEU as a customs union with "high tariffs and has launched anti-dumping investigations against Chinese products" (Crisis Group Europe 2017). These political downsides limit the reach and impact of both initiatives as being complementary to each other.

Russia and China are implementing their EEU and BRI initiatives in parallel. This process is characterized by significant economic asymmetries and institutional imbalances as the geographical reach of the BRI and the number of participating countries is far greater than Russia's EEU. But the existence of both initiatives alongside each other underlines the fact that neither

⁴³ The articulation of a "strategic force" between both leaders is not necessarily shared to the same degree by citizens in China and Russia. Long-held grievances, in particular along the border regions of both countries are more difficult to overcome than obstacles in the political relationship (Messmer & Hsin-Mei Chuang 2019).

country can claim to hold a monopoly on plans to facilitate connectivity and enlarge its sphere of influence across Eurasia towards Europe.

With Russia and China strengthening their cooperation across policy fields, individual countries and sub-regions in continental Europe are faced with new and challenging strategic choices. As Moscow consolidates its economic footprint in Serbia and Montenegro, Beijing expands its presence across Central and Eastern Europe. Policy makers are thus faced with daunting options. Some see Beijing as the more promising alternative, while others are tempted to seeking accommodation with both Russia and China (Drozdiak, 2017, p. 260). The 17+1 framework established by China provides the kind of institutional links and transactional arena that enables such accommodation. The Greek government of Prime Minister Alexis Tsipras was eager to join the club in April 2019 as its 17th member.

A key aim of the 17+1 network consists in institutionalizing a regional sphere of influence for China in Central and Eastern Europe. The debate over the purpose and consequences of the 17+1 initiative continues to illustrate how much China fascinates and frustrates policy makers in Europe. Critics in Brussels, Berlin and Paris point to the initiative as a controversial wedge strategy. Adherents of the 17+1 network in Beijing, Belgrade or Budapest praise it as underlining economic statecraft in Sino-European relations.

In the annual summit meetings, the rhetoric of promoting economic development, regional stability and prosperity dominate the agenda. But the 17+1 network does not represent a common market and lacks an encompassing economic rationale. The potential for territorial disputes still exists among some of its members, an issue to which China is highly sensitive. Many of the 17 countries from Central and Eastern Europe face the challenge – of their own making – to balance triangular policy making between Brussels, Beijing and Moscow. This balance between divergent, at times centrifugal interests, is rather unstable and bears political risks, in particular for participating EU member states and EU candidate countries.

There are also some key differences in the manner how Russia and China approach separate countries in these sub-regions. China does not seek to undermine various countries' political objectives to join NATO. Russia's footprint in Europe's eastern and southeastern periphery includes meddling in countries' internal politics, e.g. in Montenegro, or more recently concerning the NATO accession protocol of North Macedonia. With the 17 + 1 platform China has established an institutional architecture in Central, Eastern and Southeast Europe in which it actively promotes cooperation with participating countries. Russia is not in a position to match such institution-building efforts in the three sub-regions. Moreover, numerous countries, e.g. Poland, the Baltic states or Croatia and Slovenia, who are all members of the 17+1 network, would resist any attempt by Moscow to duplicate Beijing's efforts.

As the Budapest-Belgrade railway project controversy illustrates, China is learning the rules of engagement with EU member states and the (belated) adherence to EU procurement standards. This lesson learned (and applied) is also instructive for another reason. China's business with Hungary in the railway project underlines that it is not in a position to define the rules of

engagement. Trying to circumvent EU standards and regulations with the assistance of the Hungarian authorities triggered an investigation by the Commission in Brussels. Awarding a no-bid contract to Chinese companies also proved counterproductive to China's determination to increase its reputational capital in Europe. It may therefore be premature to argue that divisions among countries in Europe are there for China to leverage. In fact, trying to do so can backfire *against* Beijing.

But the amount of railway diplomacy necessary for the Budapest-Belgrade project illustrates that China is starting to face a much more pro-active European Commission in Brussels. This assertiveness is not only confined to the enforcement of transparent financing arrangements, adherence to EU procurement standards and open tender procedures. The Commission in Brussels is also recalibrating its strategic outlook vis-à-vis China. In its March 2019 communication, the Commission labelled China

"simultaneously, in different policy areas, a cooperation partner with whom the EU has closely aligned objectives, a negotiating partner with whom the EU needs to find a balance of interests, an economic competitor in the pursuit of technological leadership, and a systemic rival promoting alternative models of governance" (European Commission 2019, emphasis added).

For those familiar with the diplomatic wording and rhetorical compromises necessary in Commission communications, the March 2019 EU-China strategic outlook represented a robust and, in many respects new departure of describing the current and future relationship between the EU and China. To back up this strategic recalibration, the Commission in Brussels adopted new regulations that establish a framework for screening non-EU foreign direct investment.

The regulation entered into force in April 2019 and will fully apply across member states eighteen months later, i.e. from November 2020 onwards. The 28 EU member states, including the 12 countries that are part of the 17+1 platform, will have to adapt their national legislation to reflect the Commission's investment screening regulations (Mayerbrown 2018). While the EU regulation provides a framework, the right of each member state to decide whether or not to screen a particular non-EU foreign direct investment cannot be curtailed by the Commission in Brussels.

For its part, Russia should be asking itself a different set of questions vis-à-vis China. Critical among these is if the 17+1 network gradually shifts the strategic balance in Central, Eastern and Southeastern Europe? Beijing's growing political economy footprint is a product of Chinese design. But these advances are equally the result of Moscow's lack of being able to provide investments, institutional networks and visions on the scale of Beijing's diverse set of activities and interventions.

The construction of the Polar Silk Road in the Arctic Circle is seen as a critical cornerstone of China's BRI. It provides enormous scope for territorial connectivity, lucrative shipping lanes and new trading routes as a result of melting ice and thawing glaciers in Siberia, from the coastline of Murmansk to the Bering Strait. The race for resource acquisition is a marathon requiring considerable financial means, technological expertise, time and the declaration of a mission

statement. China offers all such prerequisites and is finding in Russia a willing collaborator to implement the Polar ends of the BRI.

There can be no doubt that the Arctic Circle constitutes a new frontier for Russia's and China's ambitions. But there are differences emerging as regards approach and execution. Russia mixes its energy and shipping ambitions in the region with military power projections, holding full-scale maneuvers in the Arctic. By contrast, China focuses on providing the financial firepower to execute key infrastructure projects that are seen as cornerstones of its Polar Silk Road strategy.

The Sino-Russian alliance in the Arctic is a well-executed example of combining Moscow's *Realpolitik* with Beijing's financial resources and markets. Realizing what President Xi Jinping called a "Silk Road on Ice" in November 2017 is a work in progress that fits well into China's long-term BRI vision. The Beijing-Moscow polar axis may be termed a "marriage of mutual convenience" (Spohr 2018, page 27), but it is being held together through long-term shared interests.

As China expands its foothold in sub-regions of Europe, its investment, lending and infrastructure profile requires to further bilateral relations with the host countries. This is where the 17+1 network pays dividends for Beijing's BRI ambitions. But as has been shown in the previous chapters, China will also have to reckon with other players and institutions whose footprint in these sub-regions is well established since 1990. It is therefore only a matter of time until China will meet other external actors such as Russia, Turkey and the European Commission who are key power brokers, investors or regulators in Central, Eastern and Southeast Europe. Competition between Russia and China for influence in these areas of geopolitical importance exists. Arriving at a *modus operandi* with external stakeholders must be a key objective for Chinese authorities.

As we have tried to argue, a stable and predictable Sino-Russian partnership is critical in this respect. Seen from the perspective of Beijing, any tensions between Russia and China in a common theatre of operations would represent strategic risks to its regional ambitions. Viewed from the Kremlin the point of departure is obvious. Russia cannot match China's BRI-related activities in terms of financial resources, infrastructure development projects and visionary objectives. The geopolitical and economic interests both countries have jointly developed over the course of the past decade suggests that the elite-driven cooperation will critically rests on tangible project implementation. Overcoming obstacles that could impede their economic, energy and defense initiatives is key, particularly where Sino-Russian projects overlap. The strategic realignment between Moscow and Beijing remains a work in progress.

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