Analyses OSW

CENTRE FOR EASTERN STUDIES 9.05.2012 www.osw.waw.pl

Russia – China: a shift in the balance of power is underway

Marcin Kaczmarski

On 26 – 30 April the Chinese Deputy Prime Minister Li Keqiang (the likely Prime Minister of the People's Republic of China from October this year) paid a visit to Russia. During the visit an economic forum was held and a series of agreements were concluded, their estimated value is US$ 15 billion. Among the agreements signed were: the contract for electricity supplies to China (its details were not disclosed) and the agreement under which a Chinese coal-mining company would take over 50% of shares in the projects for the extraction of metal ores by the Russian company Metals of Eastern Siberia (the company holds owns 47% of Russian zinc deposits and 24% of lead deposits). The Chinese officials also confirmed that they had put forward a new offer for gas co-operation. Negotiations have not borne much fruit for several years and this new development would help further the negotiations on the construction of a gas pipeline and gas supplies from Russia. Almost at the same time Russia and China held joint naval manoeuvres at the Yellow Sea (22 – 27 April). All these events also coincided with the visit to Beijing by the Russian Deputy Prime Minister Dmitry Rogozin, responsible for the military-industrial complex.

Commentary

- The dynamics of relations between Russia and China, both in the economic and political and military areas, confirms an ongoing shift in the balance of power in their bilateral relations to China's advantage. The agenda of these relations has been increasingly reflecting Chinese interests. Despite this, Moscow is consistent in tightening its co-operation with Beijing as it sees China's growing power more as an opportunity than a threat. It may be expected that this trend will be sustained under Vladimir Putin's third term in office.

- While strengthening economic co-operation with China, Russia has also been seeking – but without much success – ways which would help the country correct the model of economic relations with China. Nowadays this model is not fully beneficial to Russia. Under this model the role of the Russian economy is confined to supplies of natural resources and unprocessed goods to the Chinese market. Although turnover reached US$ 80 billion in 2011, mutual investments do not exceed US$ 4 billion. One of the solutions is to establish a Chinese-Russian investment company in June 2012 (with capital of US$ 4 billion) which would make 70% of its investments in Russia and in the Commonwealth of Independent States. At the same time, the agreements signed during the forum will contribute to a perpetuation of the present model.

- In the area of energy co-operation Moscow is determined to sign a gas contract with China, seeing it both as an instrument to apply pressure on Europe and a means of genuinely diversifying its exports of natural resources. The main obstacle to it is the lack of agreement regarding the price (Russia expects the price to be close to the European one, China is seeking to obtain a preferential price). China is not in a hurry to finalise the deal, but does not however wish to give up future supplies from Russia.

- The new situation is emerging in the political-military relations between the two countries. The Russian-Chinese naval manoeuvres have been unanimously interpreted in Asia and the US as a response to the analogous American-Filipino and American-Korean manoeuvres This means that Moscow accepts the fact that China is using its military co-operation with Russia in its contacts with the West, a move which has been a Russian speciality so far. It was also announced that in June this year Peace Mission 2012 manoeuvres under the auspices of the Shanghai Co-operation Organisation (SCO) will be conducted in northern Tajikistan (initially they were planned in 2011 but for unknown reasons they were not carried out). Thus the relation in the area of security in Central Asia between the SCO and the *Collective Security Treaty Organisation (CSTO),* dominated by Russia, remains unsettled. Moscow has failed to monopolise security in the region in spite of strengthening CSTO structures in the last year.