

The Chinese leader in Moscow: geopolitical harmony, moderate progress on energy cooperation

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On 22-24 March, President Xi Jinping of the People's Republic of China paid an official visit to Moscow. The Chinese leader held talks in the Kremlin with President Vladimir Putin, and met Prime Minister Dmitri Medvedev, the defence minister Sergei Shoigu and the chief of the general staff Valery Gerasimov. During the visit, thirty-five documents of different legal status on cooperation between state bodies and companies from both countries were signed.

The visit was meant to demonstrate complete political harmony on global and regional issues between Russia and China, in order to strengthen the two countries' position towards the United States, and in the case of Russia, towards Europe also. In the economic sphere, the visit represented the continuation of the current model of economic relations, which is characterised by a significant imbalance in favour of China. In the energy sector, which is of key importance for economic relations, the visit opened up a real prospect for the further diversification of Russian oil exports, although cooperation in the gas sector is still blocked by a dispute over the price of gas.

Political aspects of the visit: the geopolitical game against Washington and Brussels

The joint declaration signed during the visit, together with the rhetoric from both leaders, was intended to emphasise the special nature of Sino-Russian relations, presented as a model example of a 'new type of relationship' between great powers which do not seek hegemony, treat each other as equal partners and are capable of amicably resolving all the contentious issues dividing them (which include the question of their current economic rivalry in Central Asia – something left undiscussed during the visit). The visit signalled the two 'strategic partners' joint opposition to the policies of Washington, which are perceived by both Beijing and Moscow as striving to consolidate, or impose, its hegemonic role in the international system. In the declaration, the two leaders expressed disapproval of current US plans to develop a missile defence system, and emphasised the principle of each country's freedom to choose a sovereign path of development; this represents a lightly veiled criticism of the policy of democratisation, in both the American and European variants.

By demonstrating mutual closeness and by signalling their intention to deepen cooperation on both diplomatic (on issues such as Syria, Afghanistan and North Korea) and especially

military matters, Moscow and Beijing are seeking to strengthen their position towards Washington. In this context, an important part of the visit was the demonstrative emphasis on the military component of the two states' relations. Defence Minister Sergei Shoigu was the only Russian minister to hold a separate meeting with the Chinese leader, who himself was the first foreign visitor to be shown the Russian armed forces' operational command HQ.

However, there is still uncertainty regarding the new deliveries of Russian Su-35 fighters and the joint construction of conventional submarines. Preliminary agreement on these issues was reached last year (on the submarines) and at the beginning of this year (on the fighters). However, reports by the Chinese media after the visit that the contracts have been signed were denied by the Russian side.

Stressing the relevance and exemplary nature of its relationship with China, the Kremlin has used the visit as a political demonstration against Brussels, showing that Russia may seek an alternative key partner in both the economic and the political spheres. In this context, there is a striking contrast between Xi Jinping's visit and the almost simultaneous visit from a delegation of the European Commission to Moscow (21-22 March). The latter was dominated by Russian claims and allegations against the EU over how to handle the financial crisis in Cyprus; disputes over the introduction of visa-free travel between Russia and the European Union and over the Third Energy Package; and by European criticism of Moscow for its failure to respect human rights, and the principles of the rule of law and of democracy. Only three minor or meaningless documents (including a vaguely worded EU-Russia Roadmap for Energy Cooperation by the year 2050) were signed during the visit.

Economic cooperation on Chinese terms

Although Russia has long been seeking to create a more solid economic foundation for its relationship with Beijing, the Kremlin does not have any real cause for satisfaction in this area. Although the volume of trade has increased by 12% in 2012, reaching almost US\$90 billion, its structure is still unfavourable to Russia, which exports almost exclusively raw materials to China, and in return imports manufactured goods. The Russians are also dissatisfied with the low levels of Chinese investment. Despite the signing of some 30 documents on economic cooperation, the visit did not bring a breakthrough in this regard, as most of them were just framework agreements or non-binding memoranda of cooperation.

Up to ten of the documents signed were related to energy (both at the intergovernmental level and also between business entities). The most important include the following: an intergovernmental agreement to expand cooperation in the oil trade and an agreement on the main principles for supplying oil on prepayment conditions, which were concluded between Rosneft and the China National Petroleum Corporation [CNPC] (envisaging a gradual increase in Russian oil exports from 15 million tonnes to a maximum level of 31 million tonnes over the next 25 years, with an option of future increases up to 50 million tonnes per year); an agreement between Rosneft and China's National Development Bank on a loan for Rosneft (US\$2 billion, earmarked for the exploitation of oil fields); and a memorandum between Gazprom and the CNPC (which foresees a supply of 38 bcm of

Russian gas to China starting from 2018, with an option to increase the supply to up to 60 bcm, and the construction of a pipeline connecting China and Russia by an eastern route, which would automatically mean the abandonment of the plans to build the so-called Altai gas pipeline from Western Siberia to China's Xinjiang region).

The agreements confirmed the ongoing gradual rise in the importance of energy issues in the two countries' relations. The most promising aspect seems to be the development of cooperation in the oil sector. This is linked on the one hand to the growing position of Rosneft, which is seeking to further expand into foreign markets, especially China; and on the other hand to very optimistic forecasts for rising oil demand in China (up to 755-800 million tons in 2030). However, the dynamic development of cooperation in the gas sector which Russia had expected seems less likely. Both the level (a non-binding memorandum) and the content of the agreements indicate that many of the key issues will continue to be the subject of further negotiations that would be quite difficult for the Russian side. These issues include the price of the gas which would be shipped by pipeline to China, and financial terms for constructing expensive infrastructure projects (the announcements that China is ready to grant loans for the construction of a new pipeline have not yet been confirmed). Gazprom's difficult situation on both the European and Russian markets (resulting from strong lobbying by Rosneft and the so-called independent gas producers, who are calling for a limit to Gazprom's export monopoly), is likely to force the Russian state gas company to make significant concessions to its Chinese partner. The deciding factor may prove to be Vladimir Putin's determination to achieve the geopolitical goal of an energy expansion in Asia. However, the possible implementation of this project will not create a viable alternative for Gazprom to Europe, which will remain the main market for Russian gas. Due to the rapid development of Chinese LNG projects, the demand for Russian 'pipeline' gas will not exceed 25-30 bcm annually, which is less than a quarter of Gazprom's current deliveries to Europe.