

The rising cost of getting closer to Beijing: New Russian-Chinese economic agreements

Witold Rodkiewicz, Szymon Kardaś, Ewa Fischer

During the Chinese Prime Minister Li Keqiang's visit to Moscow on 13 October, nearly 40 documents were signed, including over 30 economic agreements (in the areas of finance, investment and energy, among others). The economic agreements are another manifestation of Vladimir Putin's long-term policy of building closer relations with China in order to reduce the Russian economy's financial and technological dependence on the West, and of diversifying Russia's energy markets (mainly gas). The introduction of Western sanctions this year has only accelerated this process, and has also worsened Moscow's bargaining position with Beijing. Contrary to Russian propaganda, the agreements concluded do not constitute a real breakthrough in Russian-Chinese economic relations. For example, the gas agreement indicates that the parties have still not agreed on a number of issues relating to the implementation of the contract signed in Shanghai to supply Russian gas to China (mainly, the two parties cannot agree on the bases for financing the construction of a gas pipeline in Siberia). In turn, China's preliminary consent to hold talks on gas supplies from Western Siberia to the north-western regions of China, the so-called 'Western path' (a project which for Russia is mainly of political significance), is likely to be offset by significant economic concessions from Moscow to Beijing (low prices for Russian gas supplies to China).

Financial and investment agreements: a political response to Western sanctions

The financial and investment agreements signed in Moscow have greater political importance as propaganda, and do not constitute a real breakthrough in Russian-Chinese economic relations. On one hand, the agreements were made necessary by the deteriorating financial situation of Russian companies and banks, whose access to Western markets has been restricted; on the other, the agreements are a form of retaliation against strategic European suppliers in response to Western sanctions. One striking example of this is the memorandum signed by the Russian Railways (RZhD) with Chinese Railways on the construction of a high-speed railway line from Moscow to Kazan. Since the Russians are starting cooperation with a Chinese partner from scratch, one may legitimately suspect that Russia's real intention was to strike a blow at those Western businesses interested in investing in the project who had been operating on the Russian market for years: the German company Siemens (which had invested US\$800 million in Russia over the past two years, and whose annual export value reaches US\$2 billion) and France's Alstom, which had been holding talks on implementing and co-financing the project for many months.

These agreements also confirm China's improved position on the Russian market; it is currently Russia's largest trading partner, with an annual turnover of US\$90 billion. China is interested in gaining access to Russian raw materials, and in particular to energy deposits; it has confirmed its readiness to offer financial support by investing in Russian infrastructure projects, and by selling machines and technologies, taking advantage of the weakness of Russian banks and companies whose access to Western capital markets has been restricted by sanctions.

Chinese credit lines totalling US\$4 billion offered by the Export-Import Bank of China to the Russian state-owned banks (Vneshekonombank and Vneshtorgbank), and a loan of US\$300 million granted to Rosselkhozbank, will be used for investment projects involving Chinese partners, mainly in the oil/gas and agriculture sectors, as well as for purchasing Chinese goods, services and technology. In addition, an agreement worth US\$24.5 billion was signed between the central banks; this will enable the financing of commercial transactions in yuan and roubles instead of US dollars, on condition that they involve a Chinese supplier. Russian state-owned companies will be the main beneficiaries, while other companies will continue to have difficulty in obtaining funds from Chinese banks, which are afraid of the reaction from the West, with whom they have much larger financial interests.

The other agreements merely confirm the already existent cooperation (such as telecommunications), or constitute declarations of intent to develop cooperation on Chinese terms; their possible implementation will deepen the asymmetric nature of the bilateral trade between the two countries.

Inconclusive gas talks

During the visit, two documents on gas were signed: (1) an intergovernmental agreement on gas supplies from Russia to China via the eastern route (the 'Power of Siberia' pipeline running from Yakutia-Khabarovsk-Vladivostok, with a branch to China in the area of Blagoveshchensk), acceptance of which was a prerequisite for the gas contract signed by Gazprom and CNPC in May this year to come into force; (2) a technical annex to the gas contract.

However, according to available information, the parties still have not reached agreement on important issues connected to implementing the contract signed in Shanghai for the delivery of Russian gas to China. None of the agreements signed in Moscow resolves the question of the previously announced Chinese loan of US\$25 billion to Russia (for the purpose of building the 'Power of Siberia' pipeline). This means either that the principles for financing the project have not yet been definitively agreed upon, or that they are so unfavourable for Russia that Moscow preferred not to disclose them. Contrary to Gazprom's statement, the technical annex to the contract does not include the final terms for the construction of the 'Power of Siberia' pipeline. Evidence of this comes from the director-general of the Gazprom Transgaz Tomsk company, who stated that Russia and China have not yet agreed who will build the section of the pipeline crossing the border river Amur, or on what terms this will be done.

In turn, the announcement that talks will start on a contract to supply Russian gas to China via the 'Western path' (with annual deliveries of 30 bcm of gas, to be supplied via the

planned new gas pipeline from Western Siberia to the north-western regions of China, the so-called Altai pipeline) is proof of Russia's determination to implement an infrastructure project motivated solely by political considerations. In the absence of real demand from the Chinese side (the north-western parts of China are supplied by gas imported from Central Asia), the new pipeline is intended to serve Russia as an instrument for putting pressure on its European partners (by threatening to redirect supplies of Russian gas from Europe to China, as the potential base for Russian supplies would be the Western Siberia deposits, from which gas is currently being supplied to Europe). It is therefore possible that China's agreement to launch a consultation on constructing the so-called Altai pipeline (which does not mean that the actual construction will start soon) is a result of major economic concessions by Moscow concerning the terms for Russian gas supplies via the eastern route; the price for the gas has not yet been disclosed, which might confirm earlier signs that China is the main beneficiary of the agreement.

It would also be beneficial to China if Gazprom withdrew from the Vladivostok-LNG project in order to start deliveries to China via the existing Sakhalin-Khabarovsk-Vladivostok pipeline (including extending the pipeline by a section crossing the Russian-Chinese border). On 10 October, Gazprom's CEO Aleksei Miller announced that this had been suggested by China. By agreeing to this Chinese suggestion – which is likely because the sanctions make the company unattractive to investors – Gazprom would increase its dependence on the Chinese market. This would strengthen Beijing's position in negotiations on the price of imported Russian gas.

Conclusions

By forcing the pace of the development of economic relations with China, the Kremlin is primarily seeking to achieve a political objective: to reduce Russia's dependence on economic ties with the West. In the name of achieving this objective, it is willing to pay a high economic price by accepting cooperation with China on conditions which are being increasingly dictated by Beijing. However, the Russian authorities seem ready to pay the price and adopt the *de facto* position of China's 'junior partner', guided by the conviction that Beijing, in contrast to the West, will not use economic ties to implement a policy of 'regime change' towards Russia.