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Ambitions Dashed

Why Sino-Russian Economic Cooperation Is Not Working

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Summary

November 2021

Economic cooperation between Russia and China is widely seen as the backbone of an emerging global alliance between Moscow and Beijing. Since 2014 and the emergence of the current rift with the West over Russia's aggression against Ukraine, the Kremlin has been eager to promote the idea of strengthening economic ties with China as a viable alternative to strained relations with the West, and as a sign that a new, less West-centred global economic order is emerging. Concerns about this growing Sino-Russian economic activity have scared many Western politicians, who have rushed to appease Moscow to prevent its further integration with China. However, a cross-check of the implementation of the ambitious economic agenda set out in 2014 by Russian President Vladimir Putin and Chinese President Xi Jinping shows that no real integration is happening and that fundamental problems lie behind this failure. This paper explains why Russia and China's economic cooperation plans have failed since 2014 and are not likely to succeed in the future.

Keywords Russia – China – Economic cooperation – Economic integration – Investment – Trade – Oil – Natural gas

Introduction

Since the rift that developed between Russia and the West in the wake of the Ukraine crisis in 2014, many eyes have focused on the re-energised partnership between Russia and China. This partnership was aggressively presented by Russia as a viable alternative to its economic relations with the West, which had become strained by conflict and sanctions. Following the aggression against Ukraine, Russian President Vladimir Putin personally met Chinese President Xi Jinping four times in 2014 (as opposed to seeing him only once in 2013), and spoke of an 'enormous volume of cooperation [between Russia and China], growing from year to year and gaining speed in nearly all areas'.[1] An ambitious portfolio of new projects across various economic sectors was announced during those meetings and beyond, with the purpose of creating the illusion that Russia and China would indeed be able to swiftly build a new joint economic reality, a serious counterweight to the Western economic system.

Many in the Western media, and political and expert circles were so fascinated by the scale of the announced economic cooperation that they have simply repeated and often amplified this fanfare, without thorough examination of what is actually happening between Russia and China economically. This paper argues that Sino-Russian economic activity is still at a very low level, and that there are fundamental obstacles to further progress and deeper integration. These include objective geographical barriers (the main economic activity in Russia is concentrated in the European part of the country, far away from the Chinese border), the significant lack of trust between the two regimes, their differing foreign policy agendas and other factors, all of which are discussed in detail below.

This paper describes the situation and explains the reasons for the lack of strengthened Sino-Russian economic ties, with statistics and data on specific projects which were supposed to elevate the Sino-Russian economic relationship to a new level but have failed to do so. The data used for this analysis was taken from official Russian and Chinese sources—the Russian Central Bank and Federal Customs Service and the Chinese General Administration of Customs—as well as from the BP *Statistical Review of World Energy* and media reports on the progress of specific Sino-Russian projects.

1 President of Russia, 'Meeting with President of China Xi Jinping' (15 July 2014).

If ties are strengthening, why no investment?

If one wants to measure the real level of economic activity between Russia and China seven years after their ambitious new economic agenda was announced in 2014, one of the best indicators is accumulated foreign direct investment (FDI) stock. The media fanfare about growing Sino-Russian economic cooperation, and the array of joint economic projects discussed, would probably lead everyone to believe that mutual investment must be thriving. Not only is it not, but it has, in fact, significantly* reduced since 2014, as shown in Table 1. On 1 January 2014, total accumulated Chinese FDI stock in Russia was $4.6 billion, just 0.8% of the total accumulated FDI stock in Russia at the time ($566 billion), or 0.2% of Russian GDP.[2] Since then, however, Chinese direct investment in Russia has fallen by more than 50%. On 1 January 2021, it totalled $2.2 billion, just 0.4% of the total accumulated FDI stock in Russia, or 0.15% of Russian GDP.

Table 1 Accumulated FDI (in billions of $)

	1 January 2014	1 January 2021
Chinese FDI in Russia	4.6	2.2
Russian FDI in China	0.2	0.3

Sources: Bank of Russia, 'Прямые инвестиции из Российской Федерации за рубеж: Остатки по инструментам и странам-партнерам (по принципу активов/пассивов)'; Bank of Russia, 'Прямые инвестиции в Российскую Федерацию: Остатки по инструментам и странам-партнерам (по принципу активов/пассивов)'.

In early 2014, China was ranked sixteenth among all countries in terms of accumulated FDI in Russia.[3] But as of 1 January 2021, it had fallen to twenty-third place, being surpassed not only by individual G7 countries (i.e. the US, the UK, France, Germany, Italy and Japan), non-G7 European countries (i.e. Austria, Finland, the Netherlands, Sweden and Switzerland) and Asian nations (i.e. Singapore and South Korea), as well as popular offshore jurisdictions which tend to represent reinvested Russian capital (i.e. Bahamas, Bermuda, Cyprus, Ireland and Luxembourg), but also by post-Soviet countries such as Ukraine and Kazakhstan.

[2] Bank of Russia, 'Прямые инвестиции в Российскую Федерацию: Остатки по инструментам и странам-партнерам (по принципу активов/пассивов)'.

[3] Ibid.

The situation is even worse in terms of Russian FDI in China: on 1 January 2021, it totalled just $0.3 billion, or 0.06% of total Russian accumulated FDI ($470 billion), a negligible figure vis-à-vis the size of the Chinese economy.[4] China was ranked fifty-first (!) in the list of countries by accumulated stock of outward Russian FDI as of 1 January 2021, lagging behind nations such as Bosnia and Herzegovina, Georgia, Liechtenstein, Monaco, Serbia, Seychelles and Tajikistan.

Trade: a one-way street

Mutual trade since 2014 has been growing more significantly, although not to the extent that would justify the initial fanfare: the overall trends in trade are clearly not in Russia's favour. That said, by the period January–May 2021, China had managed to increase its share in Russia's foreign trade to 18.1%.[5] This was up from 10.5% in 2013. The EU and the UK have reduced their role in Russia's foreign trade to 38.8% in 2021, compared to 49.4% in 2013—in large part due to mutual sanctions introduced since Russia's aggression against Ukraine in 2014.

Table 2 Sino-Russian trade, 2013–20

	2013	2019	2020
Russian exports to China, $ billions	35.6	56.8	49.1
Share of China in total Russian exports, %	6.8%	13.4%	14.6%
Chinese exports to Russia, $ billions	53.2	54.1	54.9
Share of China in total Russian imports, %	16.7%	22.2%	23.7%
Share of China in total Russian foreign trade, %	10.5%	16.6%	18.3%
Share of EU28 in total Russian foreign trade, %	49.4%	41.7%	38.5%

Source: Russia, Federal Customs Service, 'Итоги внешней торговли со всеми странами'.

But these figures mainly reflect the overall shrinking of Russia's foreign trade since the hundred-dollar oil era,[6] which last saw daylight in 2013. In 2020, total

4 Bank of Russia, 'Прямые инвестиции из Российской Федерации за рубеж: Остатки по инструментам и странам-партнерам (по принципу активов/пассивов)'.

5 Russia, Federal Customs Service, 'Итоги внешней торговли со всеми странами' (9 December 2017, updated 9 September 2021).

6 When the average price of oil reached in excess of $100 per barrel.

Russian exports had fallen by 36% compared to 2013, and total Russian imports had fallen by 27%. Therefore, in terms of actual trade volumes, Sino-Russian trade had not really expanded: for instance, Russian imports from China in 2019 and 2020 ($54.1 and $54.9 billion respectively) were essentially at the same level as in 2013 ($53.2 billion).[7] The only change was the sizeable growth of Russian exports, and this was mainly comprised of oil. In 2013, Russian exports to China totalled $35.6 billion. In 2019, before the novel coronavirus pandemic, they peaked at $56.8 billion. In 2020, however, exports saw a correction to $49.1 billion.[8] Therefore, in the period 2014–21, Russia has added $15–$20 billion in value to its annual exports to China, mostly because of the increased export of crude oil (see below). The Chinese share of total Russian exports increased from just under 7% in 2013 to 14.7% in the first months of 2021.[9] Other than that, there have been no major trade breakthroughs.

The structure of Russian exports to China is embarrassingly primitive: over 70% are mineral products, of which 95% are oil and petroleum products.[10] These are followed by wood (6%–8%) and metals (5%–7%). For the state oil company, Rosneft, oil and petroleum product exports to China have become the biggest source of revenue: over 30% in 2020, totalling more than $25 billion, according to Rosneft International Financial Reporting Standards.[11] Oil exports to China have doubled in just five years: in 2015, according to BP's *Statistical Review of World Energy 2021*, Russia exported 42 million tons of crude oil to China; by 2020 this had reached 83 million tons.[12] However, Russia has not managed to develop competitive exports of goods to China over the years beyond raw materials, mostly oil. On the other hand, Chinese exports to Russia mostly consist of advanced goods such as machinery and equipment (around 50% of Russian imports from China), textiles (over 10%), and various other industrial and consumer goods.[13] Despite a significant growth in energy exports to China in recent years, Russia has not been able to achieve a positive bilateral trade balance: China still maintains a trade surplus with Russia.

The structure of Sino-Russian trade means it can be characterised as a one-way street: Russia mostly acts as a supplier of raw materials, while China supplies

7 Russia, Federal Customs Service, 'Итоги внешней торговли со всеми странами'.

8 Ibid.

9 Ibid.

10 *Russian-Trade.com*, 'Statistics of Foreign Trade of Russia: China, Exports' (2020).

11 Rosneft, 'Management's discussion and analysis of financial condition and results of operations for the three months ended December 31, 2020, and September 30, 2020, and for the twelve months ended December 31, 2020 and 2019', 20.

12 BP, *Statistical Review of World Energy 2021* (London, 2021)

13 *Russian-Trade.com*, 'Statistics of Foreign Trade of Russia: China, Imports' (2020).

the Russian market with advanced goods. A notable exception is the supply of military hardware, but this is relatively small in volume: around $1.5–$1.6 billion in 2019–20 (see below for details), or about 3% of all Russian exports to China.[14] In the long run, such a trade relationship is not sustainable, and will not generate multipliers for deeper economic integration and development. China's focus on the development of its own energy market is clearly based on renewables: according to BP, solar and wind power capacity additions in 2019–20 in China totalled around 180 Gigawatts, or about 60% of the global solar and wind power capacity additions.[15] Russia is not present in the renewable energy market and therefore will not be able to contribute to the growing Chinese green energy trend in the future.

While oil and gas will still be in demand in China for a long time, China is nonetheless trying to diversify its sources of imports and avoid overreliance on Russia. According to the BP report, while Russian crude oil exports to China have reached 32% of its total crude oil exports, for China, Russian oil accounts for less than 15% of imports (none of the oil-supplying countries exceed a level of 15% of Chinese oil imports, indicating a well-diversified supply).[16] In natural gas, China carefully balances the structure of imports between liquified natural gas (LNG), and pipeline imports from Central Asia, Russia and Myanmar. Central Asia so far greatly surpasses Russia in terms of gas pipeline supply volumes: according to the BP report, Central Asian countries supplied over 37 billion cubic metres (bcm) in 2020, about 10 times more than what Russia supplied to China, and already at the same level that Russia is expected to reach when the 'Power of Siberia' gas pipeline reaches full capacity (at the same time, Chinese gas imports from Turkmenistan are expected to reach 65 bcm per year).[17]

None of the limited number of actually implemented new projects, mainly in crude oil and gas exports, has driven the deeper economic integration and cross-sectoral cooperation needed for broader economic development. This means that trade will be limited to oil and gas for as long as they are in demand by China, and nothing beyond. No new areas of goods and services production will emerge as a result of the expanded oil and gas trade. This picture of actual economic relations between Russia and China contrasts sharply with the new agenda for broad economic cooperation announced by Putin and Xi back in 2014.

14 RBC, 'Пандемия сократила секретный экспорт из России', 17 February 2021.

15 BP, *Statistical Review of World Energy 2021*.

16 Ibid.

17 Ibid.

Reality check: ambitious projects' portfolio remains on paper

Since 2014, a wide array of ambitious Sino-Russian projects in strategic areas has been announced as a manifestation of Putin's 'new strategic pivot to China'. Taken together, they present a very impressive agenda. Russia and China were supposed to shift from simply trading oil and gas at the border to much deeper integration of their oil and gas industries, which was also supposed to involve significant Chinese upstream investments in Russia, However, most of the projects have not got off the ground and many of them have been openly cancelled. Progress is entirely limited to increasing supplies of crude oil (to a significant extent) and natural gas (to a limited extent). Apart from that—particularly when one looks at the more complex, technologically advanced projects with a higher added value—nothing significant has been achieved, and this is not just down to delays—delays happen with big projects, but in many of the Sino-Russian joint projects we can observe fundamental impediments, economic constraints and a lack of commercial sense.

Table 3 Status of key Sino-Russian natural gas projects announced in 2013–14

Project	Company	Status	Comments
Power of Siberia gas pipeline	Gazprom	Implemented as planned with some delay	Project happening as planned, but scale remains limited, and none of the initial plans for expanding it has ever materialised.
'Western Corridor' ('Altai') gas pipeline	Gazprom	No progress	No interest from China in this project.
Gas pipeline through Mongolia	Gazprom	Preliminary studies	Proposed in 2020 as an alternative to the Altai pipeline; feasibility study is currently being developed according to Gazprom; no Chinese interest detected.
Vladivostok LNG	Gazprom	No progress	Will probably be recalibrated to a small-scale bunkering terminal.
Gas pipeline link between Sakhalin and China	Gazprom	No progress	No interest from China in this project.

Partnership to develop Russian oil and gas fields with Chinese investors	Gazprom	No progress	Chinese investors were not offered upstream stakes by Gazprom.
Yamal LNG with participation of Chinese investors	Novatek	Implemented as planned	Project happening as planned.
Arctic LNG-2 with participation of Chinese investors	Novatek	Work in progress	Project happening as planned.

Natural gas

Natural gas is the 'champion' of the ambitious new Sino-Russian cooperation agenda that has been announced since 2014. Gazprom signed the 'contract of the century' with the China National Petroleum Corporation (CNPC) to supply up to 38 bcm of gas per year via the Power of Siberia gas pipeline and promised a wide range of other joint gas projects with China.[18] However, most of these projects have not materialised, and there are no signs of life regarding their implementation seven years after the Power of Siberia gas contract was signed in May 2014. To wit:

- No gas pipeline projects connecting to China from Western Siberia have gained any traction. Gazprom had proposed two: the Altai pipeline (Western corridor) from Western Siberia via the Altai mountains to the Xinjiang region of China, and another, via Mongolia.
- Nothing has happened with Vladivostok LNG, in which Chinese investors were offered a 49% stake, and the project is currently on hold.[19]
- Gazprom announced plans to build a link connecting the existing Sakhalin–Khabarovsk–Vladivostok gas pipeline with China, with the aim of supplying piped gas from Sakhalin to China, but nothing has happened on that front.

18 Gazprom, 'Gazprom in Eastern Russia, Entry into Asia-Pacific Markets' (18 June 2014).

19 *Kommersant*, '«Владивосток СПГ» теряет масштаб', 3 July 2017.

- Chinese investors have not been allowed to acquire equity stakes in Gazprom's upstream gas projects in Russia, nor has Gazprom received any access to Chinese gas downstream—both of which had been discussed in 2014 and more recently. The relations between Gazprom and China largely remain limited to trading natural gas at the border.

The projects that have moved forward are limited to the Power of Siberia pipeline and two LNG projects run by the independent gas company Novatek—Yamal LNG and Arctic LNG—in which Chinese investors have been permitted to acquire significant equity stakes and from which they have committed to purchasing LNG. However, there are significant reservations about these projects and their impact on the overall picture of Sino-Russian economic relations. The Power of Siberia project remains a very limited-scale endeavour. The peak supply of 38 bcm per year—to be reached in some 5 years' time—is a mere 10% of current Chinese gas consumption and 2.5 times less than the Chinese LNG imports of 2020.[20] In 2020, only slightly over 4 bcm of gas per year was supplied to China via the pipeline, which became operational in 2019.[21] The resource base for gas supplies for the Power of Siberia are two remote gas fields in Eastern Siberia—Chayanda in Yakutia and Kovykta in the Irkutsk region—which are otherwise inaccessible for commercial use, being too far away from markets other than China. Once the fields have been depleted, there will be no further use for this pipeline without other sources of gas.

Plans to build a connection between China and the main Russian gas-producing base in Western Siberia, as noted above, have never materialised. This undermines Gazprom's intended aim to diversify the direction of its pipeline gas exports—the Russian gas monopoly has long sought the opportunity to redirect gas from Western Siberia, its main producing region, from Europe to China, manoeuvring between these markets for its own advantage. This possibility has scared many in Europe—there is a significant concern that if Europe does not offer Gazprom the most favourable conditions, Russians will simply shift the gas supply to China.[22] However, in reality, nothing on this 'diversification' front has actually been achieved.

In May 2015, exactly a year after the Power of Siberia contract was signed, Gazprom announced that it had signed a heads of agreement with CNPC to supply 30 bcm of gas annually through the Western route via Altai. However, a

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20 BP, *Statistical Review of World Energy 2021*.

21 Gazprom, *Growth at Scale: Gazprom Annual Report 2020* (Moscow, 2020), 100.

22 F. Sieren, 'Sieren's China: Rapprochement With Russia – EU Must Act', *Deutsche Welle*, 9 December 2019.

year later, CNPC Chairman of the Board Wang Yilin said live on Russian TV that he was unaware of this agreement, and had only heard about the 30 bcm figure from the media.[23] Since then, negotiations on the Western route have not moved—in March 2020, Gazprom Chief Executive Alexey Miller told Putin that Gazprom had decided to scrap the Altai project in favour of a new route from Western Siberia through Mongolia; later, Gazprom announced that was it pursuing both projects simultaneously. But there has been no sign of any progress on either of these routes, and no confirmation from the Chinese side whatsoever that they are interested in these projects.

Novatek has achieved much greater success in the joint development of its LNG projects in the Arctic: Chinese companies have received a 30% stake in the Yamal LNG project, which is currently operational (over 4 bcm of LNG supplied to China in 2020), and a 20% stake in the Arctic LNG project, which is currently about 40% ready and expected to come on stream in 2023.[24] Due to Novatek's efforts, Russian LNG may occupy a greater share of Chinese imports in the future than Gazprom's piped gas.

But despite the relative success of these projects compared to the failures of others in terms of actual implementation, serious questions remain about the benefits that Russia receives from them, to what extent they can be considered serious multipliers for expanding economic cooperation and whether they are simply one-off raw material supply deals with little or no multiplying effect.

In terms of economic benefits for Russia, these projects are questionable at best. The official estimate of the cost of construction of the Power of Siberia pipeline stands at 1.1 trillion roubles (around $15 billion). The initial price of the gas after the pipeline began transporting in early 2020 was reported as $202 per thousand cubic metres (tcm). However, since then the price has consistently fallen, and in the first financial quarter of 2021 it had reached a low of $121 per tcm, slightly bouncing back to $171 per tcm in the third quarter of 2021.[25] This is substantially lower than the price publicly promised in May 2014 when the project was announced ($350–$380 per tcm), and notably lower than the price of both Chinese gas imports from Myanmar and Central Asia and LNG imports.[26] Although Gazprom will not disclose the actual economics of the Power of Siberia project, given its announced costs and known conditions (it is 2,200 km from

[23] *Kommersant*, 'Китай и Алтай не сошлись в объемах', 3 June 2016.

[24] *RBC*, 'НОВАТЭК договорился о продаже 20% «Арктик СПГ 2» китайским компаниям', 25 April 2019.

[25] *Interfax*, 'Цена газа "Газпрома" для Китая в III кв. выросла до $171/тыс. куб. м', 20 September 2021.

[26] Ibid.

the Chayanda gas field to the Chinese border, mostly through uninhabited taiga without any infrastructure), it is most likely that the current gas supply prices (an average of $150 per tcm in 2020 and significantly less in 2021) generate substantial losses for Gazprom.

Gazprom has been officially exempted from the payment of any taxes—including mineral extraction tax, export duty and property tax—during the production and supply of gas to China via the Power of Siberia pipeline. The Russian budget receives zero income from the project. The same is true of Novatek's LNG exports from Yamal: they have received a 12-year exemption from payment of mineral extraction tax and export duties.[27] A special intergovernmental agreement with China was concluded on the Yamal LNG project, which stipulated that China would only join the project if the tax exemption guarantees were provided, and if Chinese equipment and technologies imported for the use of Yamal LNG were also exempt from any taxes and duties (project implementation was heavily dependent on the import of Chinese machines and equipment).

The conclusion is simple: gas supplies to China—either as pipeline gas or LNG—are not economically viable under normal commercial conditions (e.g. being taxed at the same level as gas supplies to Europe). Another conclusion can be drawn from this—without heavy subsidies from the government (which is motivated by geopolitical ambition and other factors, including corruption and enriching the affiliated construction contractors owned by Putin's inner-circle oligarchs, such as Gennadiy Timchenko and Arkadiy Rotenberg), new China-oriented projects will most likely not emerge, as there is little commercial feasibility behind them. Gazprom specifically stated in its addresses to the Russian government asking for tax exemptions for the Power of Siberia pipeline that, without such exemptions, the project would not be profitable.

Another question is whether projects such as the Power of Siberia, Yamal LNG or Arctic LNG contribute to multiplying economic activity and mutual commercial turnover. In reality, there is little evidence of this. The Power of Siberia project has created about 2,000 jobs, with another 3,000 jobs generated at the associated Amur gas processing plant on the Chinese border. This is not a huge number. There is no evidence that this pipeline will boost the development of new infrastructure—it largely passes through remote and barely inhabited regions—or generate significant additional demand for goods and services. The same is true of the Novatek projects: pumping the gas in remote, barely inhabited areas of the Yamal Peninsula and shipping it for export does not generate many additional jobs or associated commercial activity.

27 *RBC*, 'Льгота на газ: как государство помогло построить «Ямал СПГ»', 11 December 2017.

In this regard, all the ambitious statements about how transporting LNG supplies through the Arctic Sea would boost the economic potential of the North Sea Route (NSR) seem to be unfounded. Exporting gas from Yamal in itself will not increase NSR competitiveness in any way—yes, some auxiliary infrastructure will be developed across the route, but all the icebreaker capacity will be busy supporting the LNG exports, and the NSR has yet to prove its competitiveness for cargo delivery compared to traditional maritime routes, given the harsh icy conditions of the Arctic. This makes the project a one-off resource-exports exercise with no real multiplier for broader economic activity.

Oil

Despite the massive surge in Russian oil exports to China described above, most of the ambitious Sino-Russian oil projects announced in 2013–14 have never materialised.

In 2014, it was announced that Rosneft would sell significant equity stakes in its Eastern Siberian oil fields—a large stake in the Vankor oil field, up to 49% of the Yurubcheno-Tokhomskoye oil field and 49% of the Taas-Yuryakh oil-producing company in Yakutia—to Chinese investors, and memoranda of understanding were signed to this effect.[28] In November 2014, Rosneft and CNPC signed heads of agreement on the sale of 10% of the Vankor oil field to CNPC in the presence of Putin and Xi.[29] However, that deal collapsed—and so have all the other potential Chinese upstream oil investments in Eastern Siberia and the Far East. Just under half (49.9%) of Vankorneft, the operator of the Vankor oil field, was sold to several Indian oil companies—ONGC Videsh Ltd., Oil India Limited, the Indian Oil Corporation and Bharat Petroresources.[30] BP bought 20% of the Taas-Yuryakh operating company, while another 29.9% was also sold to Oil India, Indian Oil and Bharat.[31] Shares in Vostsibneftegaz and the Yurubcheno-Tokhomskoye oil field were not sold to anyone. Thus, none of the Chinese upstream investments in the Russian oil industry that were announced in 2014 has actually happened.

28 G. Starinskaya and A. Fadeeva, '«Роснефть» нашла в Китае инвесторов для дорогих проектов', *Vedemosti*, 3 September 2015.

29 Rosneft, 'Rosneft and CNPC Signed a Framework Agreement on the Purchase of 10% Share Stake of Vankorneft', Press Release, 9 November 2014.

30 Rosneft, 'Rosneft and ONGC Videsh Limited Are Completing the Preparation to Close the Deal for the Acquisition of an Additional Stake of 11% Share in Vankorneft JSC', Press Release, 15 October 2016.

31 Rosneft, 'Rosneft Forms an International Consortium on the Basis of Taas-Yuryah Neftegasodobycha', Press Release, 5 October 2016.

In 2013, Rosneft also announced plans to participate in the building of a refinery with a massive 16 million metric ton annual capacity in Tianjin, China, and the construction of a retail petroleum products distribution network.[32] If that project had gone ahead, Rosneft would have achieved breakthrough access to the Chinese retail petroleum market—something Russians have long sought. The agreement to build the refinery was signed in March 2013 during Xi Jinping's visit to Moscow.

A joint venture for the project's development was created—the PetroChina–Rosneft Orient Petrochemical Company Ltd. (Tianjin)—with Rosneft owning a 49% stake and CNPC holding the remaining 51%.[33] The project was to become operational in 2019—however, as of mid-2021, there is no information about progress beyond the fact that the 'parties have completed the feasibility study'.[34]

Petrochemicals

Apart from mutual investments in Russian oil upstream and Chinese oil downstream, in 2015 Rosneft announced major plans to attract Chinese investors to its massive $20-billion Eastern Petrochemical Company project in Nakhodka (VNHK). It was announced that ChemChina (China's national chemical corporation) would buy a 51% share in VNHK, and in return Rosneft would receive a 30% stake in ChemChina. None of this has actually happened, and in 2019, Rosneft cut VNHK from its investment plans, citing a lack of profitability.[35] It was later announced that the project could be revived, but only if the Russian government could provide substantial tax exemptions,[36] to which the Ministry of Finance has not yet agreed. Thus the project is not currently progressing.

Sibur, a non-state petrochemical company owned by businessmen Leonid Mikhelson and Gennadiy Timchenko (who are also major owners of Novatek) and co-owned by Putin's ex-son-in-law Kirill Shamalov, has been more successful in developing a partnership with China. Chinese companies have bought a 20% stake in Sibur (10% Sinopec, 10% Silk Road Fund) and Sinopec also bought a

32 T. Dzyadko, 'Лицензия на дружбу', *Vedemosti*, 10 September 2012.

33 Rosneft, 'Construction of a Refinery in China and of a Petrochemical Refinery in the Far East'.

34 Dzyadko, 'Лицензия на дружбу', author's own translation.

35 *Vedemosti*, '«Роснефть» не будет строить гигантский нефтехимический комплекс на Дальнем Востоке', 13 May 2019.

36 *RBC*, '«Роснефть» назвала условия возобновления проекта на ₽1,5 трлн', 8 September 2020.

40% stake in Sibur's Amur gas chemical complex (GCC) at the end of 2020.[37] The Amur GCC is a polymer production facility that will be fed with ethane and LPG supplied by Gazprom from the natural gas feedstock of the Power of Siberia pipeline. The GCC will be built at the Chinese border near the exit point of the Power of Siberia from Russia. Sibur's business is also heavily reliant on major tax exemptions, without which its China-oriented projects—and its business in general—would barely be economically viable. This was visible during the recent stand-off with the government over massive tax subsidies for the Amur GCC—Sibur refused to make a final investment decision on the project without the guarantee of major exemptions.[38]

Dependence on tax subsidies is a major feature of not only the Amur GCC project (without such subsidies it would not be economically viable, as recognised by Sibur), but Sibur as a whole, of which Chinese companies are a significant beneficiary. Below are a couple of quotes from Sibur President Dmitry Konov at a meeting with Vladimir Putin in Tobolsk in December 2020. Sibur's top manager is effectively admitting that the company's business is dependent on tax benefits and exemptions across all its lines of business, and that new tax exemptions are needed as many products are only on the verge of operating profitably:

> Today the entire territory is benefiting in the form of a negative excise tax, the Arctic is also operating under additional advantages in the form of Arctic benefits, and the Far East is benefiting from specific Far East economic instruments, such as the designation of a territory of advanced socio-economic development [which status grants major automatic tax exemptions]. . . . Now the production of many types of rubber is really on the verge of operating profitability, and we are discussing, at the request of our colleagues in the industry, with the Ministry of Finance and the Ministry of Energy, the possibility of supporting the industry on the basis of a damper [a tax-reduction mechanism which provides benefits for companies operating at low margins].[39]

So, despite the fact that Sibur's cooperation with China is progressing better than many other Sino-Russian projects discussed in this chapter, its main joint project—the Amur GCC—is little more than an outlet for the Power of Siberia gas pipeline, and would be impossible to implement without major tax exemptions

37 *Argus*, 'Sinopec получил 40% Амурского ГХК', 30 December 2020.

38 *Kommersant*, 'Амурский ГХК застыл в ожидании льгот', 18 February 2020.

39 President of Russia, 'Совещание по стратегическому развитию нефтегазохимической отрасли' (1 December 2020).

from the Russian government, similar to those granted to the natural gas and LNG projects of Gazprom and Novatek. The 20% Chinese investment in Sibur is also effectively conditional on heavy tax subsidies from the Russian government. The benefits to Russia of these projects are unclear, as petrochemical plants do not generate large numbers of jobs (the Amur GCC will provide just 1,000 permanent jobs) and would rely heavily on imported equipment and technologies.

Rail, other forms of transport and the power industry

In May 2013, Putin announced the intention to build a Moscow–Kazan high-speed rail project. In autumn 2014 it was announced that the Chinese would join the project, turning it into the Moscow–Beijing high-speed rail corridor (passing through Kazan, Yekaterinburg, Chelyabinsk and the Kazakh capital of Nur-Sultan, then called Astana) at a cost of over $240 billion.[40]

However, as of mid-2021, no decisions had been made on the implementation of this project, nor on Chinese participation. The Moscow–Kazan high-speed railway is still in the 'documentation development stage', according to Russian Railways,[41] eight years after being announced by Putin and seven years after being publicly included in the ambitious package of Sino-Russian strategic projects. Moreover, top Russian government officials have openly questioned the project's economics—including Finance Minister Siluanov:

> It is unprofitable to build high-speed rail lines only for transporting cargo, which can be transported via existing railways. They say: 'we will extend [the high-speed rail line] to China, we will transport containers and cargo'. What kind of cargo will that be? It will be more expensive than shipping via regular rail or sea. The economics don't add up.[42]

The need for a high-speed rail line was indeed questionable from the outset. What demand there is for passenger rail traffic between Moscow, Kazan and Yekaterinburg is not clear (the journey between Moscow and Yekaterinburg would take eight

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40 *TASS*, 'СМИ: Китай оценивает стоимость строительства ВСМ Пекин-Москва в $242 млрд', 22 January 2015.

41 *TASS*, 'РЖД не закладывали в программу развития строительство скоростной магистрали Тула – Москва', 20 April 2021.

42 *Vedemosti*, 'Силуанов раскритиковал проект высокоскоростной магистрали Москва – Казань', 25 December 2018.

hours, and would be far less convenient than travel by air), and would most likely not justify the extremely high construction costs ($23 billion for the Moscow–Kazan section alone). The viability of the Moscow–Beijing rail passenger route is even more questionable, as the travel time is estimated at 32 hours—which is completely uncompetitive vis-à-vis air travel. It is for these reasons that the promoters of these high-speed rail projects have suggested combining the transportation of passengers and cargo, but, as Minister Siluanov correctly noted, the advantages of speeding up the transport of cargo shipments over using regular railways simply do not match the project's enormous costs.

This does not even factor in that the current structure of trade between Russia and China as described above—dominated by oil and wood exports from Russia and machinery exports from China—does not match the idea of building a new high-speed rail link between Moscow and Beijing. Even if the high-speed rail project is built, there is no evidence it would add significant new economic activity between the two countries. It seems that these high-speed rail projects were specifically included in the Sino-Russian strategic project portfolio to give the impression of something ambitious, without any realistic prospect of them having feasible economics behind them.

Another failed project is the announced Chinese participation in the construction of the Belkomur railway from the Perm region in the Urals to the port of Arkhangelsk in the Russian north, and the upgrading of the Arkhangelsk seaport. Agreements on Chinese participation in these projects were signed during Vladimir Putin's meeting with Xi Jinping in Beijing in November 2014,[43] and in 2017 the projects were officially presented in Beijing.[44] However, nothing has happened since then—the massive projects remain on paper, and no visible negotiations have taken place on them. Experts assess these projects as barely economic, as shipping goods from the Urals to the Arctic Ocean for further export is a much more expensive option than traditional westward exports—which is a major reason why the expensive Belkomur railway had been under discussion in Russia since the 1990s, but had never moved further forward than the initial idea.

Another project on which a memorandum of understanding was signed between Putin and Xi in Beijing in November 2014 was on the Chinese taking a 49% stake in the South Bureya hydropower project in Eastern Siberia. However, in 2019, the China Three Gorges Corporation left the talks on this project and is no longer involved.[45]

43 President of Russia, 'Meeting With President of People's Republic of China Xi Jinping' (9 November 2014).

44 *TASS*, 'В Пекине презентовали проекты "Белкомура" и глубоководного района порта Архангельск', 4 September 2014.

45 *Vedemosti*, 'Партнерство «Русгидро» и китайской «Три ущелья» не состоялось', 1 September 2020.

Manufacturing industries

The top collaborative project in manufacturing that was announced during Putin's visit to China in 2014 was the development of a Sino-Russian long-range wide-body passenger aircraft, which became known as the CR929. This project was intended to show that the new wave of economic cooperation between Russia and China extended well beyond the supply of raw materials and into the high-tech industries.

It was initially expected that the $13 billion development programme would result in the first flight in mid-2021 and the beginning of commercial deliveries in 2024. However, it is already past mid-2021, and no actual plane exists beyond designs. The current date for first deliveries is set for 2028–9,[46] but in reality, the plans to build the CR929 now face extreme headwinds due to the devastating effects of the novel coronavirus pandemic on the aviation industry—the big question is whether airlines will be interested in a new plane at all.[47] On top of that, the media have reported a serious rift between the Russian and Chinese sides regarding the marketing of the jet.[48] The Chinese side does not want to allow the 50–50 joint venture, CRAIC, to market the airliner on the Chinese domestic market—but for Russia, participating in the joint venture without access to this major market makes little sense. All in all, progress on the project has been remarkably limited after more than seven years since its initial announcement.

Finance

Since the introduction of Western financial sanctions in 2014, Russia has been faced with a serious deleveraging problem—before mid-2014, Russian companies and banks were borrowing quite heavily, mostly from the Western financial markets. Total corporate and banking sector foreign debt had jumped from around $400 billion in mid-2009 to a record $660 billion in July 2014. This inflow of international corporate loans was a key factor driving Russia's recovery from the 2008–9 financial crisis.

However, after the imposition of Western financial sanctions in mid-2014, opportunities for the Russian corporate and banking sector to borrow from the West became severely restricted. Even those who are not on the sanctions lists have

[46] A. Chua, 'CR929 Faces Delays Amid Beijing, Moscow Differences', *FlightGlobal*, 13 July 2020.

[47] V. Karnozov, 'Kremlin Committed to CR929 Despite Grim Market Prospects', *AINonline*, 24 June 2021.

[48] *Vedemosti*, 'Создание российско-китайского самолета оказалось под угрозой', 19 April 2019.

had problems with Western lenders and their compliance departments, simply because Russian borrowers have become toxic. As a result, Russia experienced a major credit crunch: between July 2014 and July 2021, according to the Russian Central Bank, total corporate and banking sector debt shrank from $660 billion to $392 billion.[49] This has greatly contributed to the devaluation of the rouble, and economic decline and stagnation (meaning that the Western sanctions have had a significant impact).[50]

The Russian elite had high hopes that China would become a substitute for the Western financial markets and provide the necessary credit for Russian borrowers in the desired amounts. However, this did not happen, resulting in the Russian corporate debt portfolio shrinking by more than 40% in seven years.[51] Some loans were provided by Chinese banks—but only to a limited number of borrowers, primarily oil and gas companies (i.e. Rosneft, Novatek, Transneft and Gazprom), with the specific purpose of helping to finance China-related oil and gas projects. Often these loans were provided specifically to support the export of Chinese goods and services to Russia. For instance, Novatek relied heavily on supplies of LNG modules and other equipment for its Yamal LNG project. But these debts are being gradually repaid as the oil and gas projects go on—Transneft has fully repaid its $10 billion Chinese loan,[52] Rosneft has already repaid over 45% of its $15 billion 20-year loan from the China Development Bank (according to its report from the first quarter of 2021) and Novatek is repaying the multi-billion-dollar Chinese loans it raised to finance the Yamal LNG plant. Little new Chinese financing is being raised by Russian borrowers outside of these oil and gas projects.

Why did Russia's hopes for China as a major lender not come to fruition? First, the Chinese financial system is much smaller than the Western financial system. The total assets of the Chinese financial system are four times smaller than those of the US, and three times smaller than those of the EU. Second, the Chinese financial system was not built and is not intended to be operated as a major international lender—it is mostly focused on providing credit to the Chinese economy, and supporting the Chinese export of goods and services, which was the key reason for the provision of the Chinese loans to Russian oil and gas companies.[53] Chinese banks are much less willing to take the risks of providing

49 Bank of Russia, 'Внешний долг Российской Федерации (млн долларов США)'.

50 See an earlier paper by the author on this topic: V. Milov, *The Russian Economy: Recovery Is Further Away than Some Might Think*, Wilfried Martens Centre for European Studies (Brussels, February 2017).

51 Bank of Russia, 'Внешний долг Российской Федерации (млн долларов США)'.

52 *Vedemosti*, '«Транснефть» избавилась от валютного долга', 20 August 2018.

53 *RBC*, 'Китай одолжил России более $4 млрд на закупку китайских товаров', 13 October 2014.

loans to international borrowers, and have limited experience and ability to assess and manage those risks—which results in the conditions of Chinese loans being much less attractive for borrowers.[54] That China failed to come to Russia's aid during the major credit crunch caused by Western financial sanctions leaves little hope that Chinese money will in any way be capable of supporting Russian economic growth in the future.

Military cooperation and defence industries

Sino-Russian military cooperation has raised many concerns worldwide, mainly due to the intensification of joint military exercises, which have also greatly increased in frequency since 2014. However, many experts point out that these exercises have limited practical implications and are often carried out for public relations purposes, with overall military and defence cooperation remaining largely at the previous moderate levels. Military expert Alexandr Khramchikhin argues that these joint exercises mostly achieve political goals and have little defence value.[55]

Russian defence exports to China have been stable at a level of $1.5–$1.6 billion in the past few years,[56] and China remains one of the major importers of Russian arms, following Egypt and Algeria. But defence experts[57] point out the key limitation of this arms trade: China prefers to buy a limited number of examples of advanced Russian weaponry, which it is not capable of producing itself, and then tries to replicate them and produce its own copied weapons. The most famous examples include the Shenyang J-11 fighter jet, which was copied from the Soviet-designed Sukhoi Su-27, and the HQ-9 air defence system, which is a re-engineered version of the Russian S-300 air-defence unit. Some Russian experts believe that China may soon copy the newest Russian S-400 air defence system.[58] The Russian elite was particularly annoyed when Serbia, traditionally a Russia-dominated arms market, chose to switch to purchasing advanced

54 *Vedemosti*, '«Китайские кредиты – самые дорогие в мире»', 6 September 2015.

55 *Nezavisimaya Gazeta*, 'Военное сотрудничество России и Китая', 20 September 2019.

56 *RBC*, 'Пандемия сократила секретный экспорт из России'.

57 Moscow Carnegie Center, 'Вооруженная дружба: как Россия и Китай торгуют оружием', 2 November 2017.

58 *The Insider*, '"Скоро мы можем увидеть китайский клон С-400". Александр Гольц о покупке Сербией системы ПВО у Китая', 4 August 2020.

Chinese weapons. Thus the Russia–China arms trade is still dominated by a great degree of mistrust and exists only on a limited scale, mostly for the Chinese procurement of the newest Russian armaments for potential cloning and export to third countries, where such weapons directly compete with Russian exports. This situation has not significantly improved since Russia's pivot to China in 2014—with the exception of the highly publicised joint military exercises.

IT and regime security

Naturally, the two dictatorships are taking steps to coordinate efforts in information technology and cyberspace, as well as in improving overall regime security, in order to ensure a firm grip on civil society and guarantee the stability of authoritarian power. The sharing of relevant best practices is ongoing. The Internet domain registrars of both countries signed a cybersecurity memorandum in 2014,[59] when Russia invited the architects of the Great Chinese Firewall to attend conferences on control of cyberspace.[60] The Russian company MTS and the Chinese company Huawei are cooperating on the development of the 5G network in Russia.[61] The Russian National Guard conducts regular joint exercises with the Chinese People's Armed Police aimed at improving techniques to contain domestic unrest.[62]

However, the scale of this relationship is not overwhelming, either, and for Russia, it is again a one-way street, because cooperation in the security sphere simply increases Moscow's dependence on Chinese technology. It is apparently because of this consideration that the Moscow City Administration chose not to rely on Chinese technology when introducing a massive facial-recognition system in the Russian capital[63]—which is, so far, the biggest effort made by the Russian authorities to introduce Chinese-style totalitarian systems of control over society. The Russians seem keen to copy some of the Chinese approaches regarding Internet control and censorship, but simple multiplication of Chinese techniques is impossible, as the Russian Internet was not built in the same centralised manner as that of China.

59 V. Todorov, 'Китай защитит рунет', *Gazeta.Ru*, 25 November 2014.

60 *Nastoyashcheye Vremya*, 'В Россию пригласили отца "Великого китайского фаервола"', 21 April 2016.

61 *Reuters*, 'Russia's MTS and China's Huawei Sign Agreement on 5G', 5 June 2019.

62 A. Stepanov, 'Спецназ Росгвардии и полиции КНР провели антитеррористические учения', *RG.ru*, 18 October 2019.

63 L. Kovacic, 'Сделано не в Китае: как устроена система видеонаблюдения Москвы', Carnegie Russia (5 August 2020).

Economic cooperation in third countries

If Russia and China are as serious about their global alliance as the Russian propaganda tries to portray, one thing should certainly be apparent: an increased degree of mutual cooperation in third countries. However, nothing like that seems to be happening, even in countries where Russian and Chinese geopolitical interests seem to be aligned (e.g. Venezuela). Moreover, there is clear competition between the two nations for markets and influence in third countries—as mentioned above, the Chinese are competing with Russia for arms exports, as well as increasing imports of natural gas from Central Asia, which will significantly surpass the volumes of gas imported from Russia.

It is important to note that, in Central Asia, the natural gas trade is developing with a firm Chinese FDI presence—Chinese companies are major participants in upstream gas and pipeline projects in Central Asia, which is one of the reasons why China prioritises Central Asian gas imports over Russian supplies. This cannot be seen positively by Moscow, which views Central Asia as a key zone of its exclusive influence. Another damaging factor is that the separate relations between China and the Central Asian countries are helping to develop a major competitor to Russian gas supplies to China. According to sources familiar with the Sino-Russian negotiations on gas supplies, the major obstacle to reaching an agreement on a viable natural gas price has always been the Chinese position of being able to buy gas from Central Asia at cheaper prices. It can be seen from the 2021 price data that Russia has agreed to sell gas to China at a price which is ultimately cheaper than China pays to the Central Asian countries, which seems to be the only condition under which the Power of Siberia contract works at all.[64]

Conclusions

In assessing the earlier expectations raised by the intensive Russia–China dialogue of 2014, the main takeaway is clear: mutual economic cooperation is not working to the extent widely expected and announced seven years ago. Progress has been very limited beyond simply expanding the supply of Russia's

[64] *Interfax*, 'Цена газа "Газпрома" для Китая в III кв. выросла до $171/тыс. куб. м'.

basic mineral resources—primarily oil and gas—and no additional economic activity or synergy has been generated by the current structure of the Sino-Russian economic relationship. And it is not just about delays: most elements of the comprehensive Russia–China economic agenda announced seven years ago have proven not to be economically feasible, and even the feasibility of the oil and gas supplies is conditional on extreme tax exemptions provided by the Russian government. Without these tax benefits, oil and gas exports to China would not be commercially viable.

There are several reasons why Sino-Russian economic cooperation has fallen short of expectations. First, despite the illusion of geographic proximity and the shared 4,200 km common border, the Russian and Chinese economic systems are worlds apart. Most economic activity in Russia is concentrated in the European part of the country, while in China it is focused in the industrially developed south-east, which is naturally part of the Asia–Pacific economic area. To illustrate the issue, Rosneft's financial reports indicate that the shipment of oil via the Transneft system from the Vankor oil field to the Chinese border is about 33% more expensive than the transportation of oil from Western Siberia to the Baltic. The eastern areas of Russia—Eastern Siberia and the Far East—are sparsely populated and relatively poor vis-à-vis the rest of the country and are of serious interest to the Chinese not as a market but only as a supplier of raw materials. The lack of infrastructure connecting Russia and China is not only the result of historical market trends: there are objective difficulties in developing it, including the mountainous terrain of the Altai region and north-western China, and the large, uninhabited areas of Eastern Siberia that are covered with forests or permafrost. The general idea was to beat geography by subsidising massive infrastructure projects connecting the two economies. However, this only works partially, in relation to oil and gas supplies, and only on the condition that hydrocarbon production and transportation is heavily subsidised. Otherwise, with the existing and well-developed market supply chains, no one really seems to be attracted to shipping goods through Russia to China via rail, or using the perilous and icy NSR that requires expensive icebreaker services; simply sending a cargo container on the standard Rotterdam–Shanghai route is much easier.

Second, China appears to be distrustful of the Russian investment and business climate, which is far from attractive. This is why Chinese FDI in Russia has been so low in general, and has even shrunk since 2014. Importantly, the Chinese seem to be well aware of the flaws in Russian corporate governance, which is why they want control over large assets, and are dissatisfied with the 'minority investor model' suggested by the Russians, who also want to maintain control at any cost. For instance, CNPC Chairman Wang Yilin openly stated in 2016, when Russia tried to privatise 19.5% of Rosneft, that CNPC would only be interested in participating in the privatisation if it could control the governance of Rosneft.[65] Since the 19.5% equity stake would barely give any rights over decisions at Rosneft, CNPC refrained from buying it.

Third, China's economic expansion abroad is driven by very specific and pragmatic considerations—the promotion of Chinese goods and services, securing the necessary material resources to supply the Chinese economy, and, more generally, projecting Chinese political influence through infrastructure development. This can easily be seen through the scope of the Chinese Belt and Road initiative, under which countries including Pakistan, Bangladesh, Nigeria, Indonesia, Malaysia and Egypt easily overtake Russia in terms of importance and amounts of Chinese investment. Therefore, naturally, the Russia–China relationship has only had limited success in terms of supplying China with raw materials and importing Chinese equipment and services. Chinese corporations and banks have little interest in participating in international projects that do not contribute to the strategic goals of the Chinese government, and, therefore, have limited chance of being supported by the Chinese authorities and state banks. Given the fact that Russia's current political goals under Putin seem to be increasing its international influence and maintaining strategic control over major sectors of the economy, it is quite natural that 'ceding control for money' types of deals are near impossible for Russia to agree to, which reduces Chinese interest, as other countries are more open to Chinese influence in return for cash.

Fourth, the Russian economy is fairly small by global standards—forming just 2% of the world's GDP—which does not make it a particularly attractive market, therefore limiting the interest of investors and the horizons for the expansion of economic relations. Russia is not even in the top 10 of China's biggest trade partners. On the other hand, as early as 2013, China was the biggest exporter to Russia ($53 billion), surpassing the Commonwealth of Independent States countries combined ($41 billion) and Germany ($38 billion), and second only to the pre-Brexit EU28 ($134 billion). Most of the Chinese exports to Russia were (and remain) manufactured products, consumer goods—anything with higher added value than the raw materials Russia keeps exporting. So, essentially, even before 2014, China had already conquered the Russian market to a large degree—and there was limited further interest, unless Russia opened up more supplies of cheap energy and procured more Chinese goods. This happened to some extent

65 *RBC*, 'Китайская CNPC заявила о желании участвовать в управлении «Роснефтью»', 30 May 2015.

with the handful of projects discussed above, which did fit into this narrow lens of Chinese interests—but beyond buying cheap resources and promoting Chinese exports, it was naive to expect a serious expansion of economic ties.

Fifth, there is still a great deal of mistrust and competition between the political elites of the two countries, which is a serious obstacle to building a full-scale prosperous economic union. Russia has its own reasons not to trust China over weapons procurement, and competition in Central Asia and other third countries. The Chinese drive to control the projects in which it invests also scares the Russian leadership away from selling strategic economic assets to China. China has its own reasons to be distrustful, too. Its multiple attempts over the years to acquire control of strategic Russian assets have failed. The Chinese despise the widespread Russian corruption. This was most visible during the construction of the Power of Siberia pipeline. China had offered to build the pipeline for substantially less using its own contractors. However, Russia categorically rejected the suggestion, instead awarding generous construction contracts exclusively to Putin's friends.

Moreover, it has become clear that the geopolitical interests of the two countries do not particularly align. Moscow and Beijing have separate foreign-policy agendas, which only partially coincide—mainly in the areas of defending their autocratic regimes from international pressure over human rights and the violation of international norms, and containing the expansion of Western-style market democracy. Otherwise, the two countries have little in common—Moscow has no interest in supporting Chinese global economic expansion through the Belt and Road initiative or other instruments, as this undermines Russia's own economic influence (Russia losing out to China over the Central Asian economies being just one painful example). Likewise, China does not want to become a pawn in Putin's game of building an 'exclusive zone of Russian influence' in the post-Soviet space and beyond—for instance, it maintains good relations with Ukraine and does not recognise the annexation of Crimea. Furthermore, joint support of third-country authoritarian regimes has sometimes led to collisions—for instance, a couple of years ago Rosneft Chief Executive Igor Sechin had to go to Caracas to reprimand Venezuela's leader Nicolas Maduro for failing to repay Rosneft's loans on schedule, while at the same time Chinese loans were being serviced smoothly.[66]

In an environment where obstacles to mutual economic integration are significant, the countries' resources do not match (Russia is a significantly smaller economic player), and the alignment of political interests is only tactical and not strategic, it is

[66] A. Ulmer and M. Parraga, 'Exclusive: Rosneft's Sechin Flies to Venezuela, Rebukes Maduro Over Oil Shipments', *Reuters*, 24 November 2018.

not really wise to have expected a serious deepening of Russia–China economic ties in the past seven years. Analysing these developments is important, because a lot of Western politicians seem to be under the impression that ‘Russia may fall into the Chinese orbit if we do not appease it.’ The key foundation for such thinking—which leads to the incorrect conclusion that concessions need to be made to Putin’s Russia to prevent its integration with China—is the incorrectly assessed prospect of Sino-Russian economic integration. This integration is simply not happening to the extent that the media hype surrounding it suggests. And it will not: the obstacles are just too high. Despite some modest growth in trade in recent years, Russia and China remain far apart economically, and will not get much closer.

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Wilfried Martens Centre for European Studies
Rue du Commerce 20
Brussels, BE 1000

For more information please visit: www.martenscentre.eu

External editing: Communicative English bvba
Typesetting: Victoria Agency
Printed in Belgium by Drukkerij Jo Vandenbulcke

This publication receives funding from the European Parliament.