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**Shine and Poverty of Russia’s “Turn to the East”.**

**A Sketch of Russian-Chinese “Strategic Partnership” in the Wake of Ukrainian Crisis and Western Sanctions.[[1]](#footnote-1)**

**Abstract**

After the start of political crisis in Ukraine, growth of Russian involvement in it and subsequent sharp deterioration of relations between Moscow and the West, there is much talk in Russia and abroad about Russia “turning to the East” and upgrading her relations with China to the level of “strategic alliance”. However, even the existing framework of ambiguous “strategic cooperation” would be problematic to sustain in the medium term, since the main structural prerequisites for Sino-Russian interaction almost in all fields are bad enough.

By the turn of 2012-2013 years, Sino-Russian bilateral trade reached its “structural ceiling”. For both countries to jump over these limits means to introduce deep systemic change in their respective economic strategies and policies, which seem now highly improbable. In addition, in January of 2015 came the collapse, logically derived from a general contraction of the Russian economy.

The mutual vision of both countries is in many ways incomplete or openly erroneous. The perception of the Chinese reform experience in Russia today has much more emotional than sober, derived from the traumatic defeat in the “Cold War”. This is indeed a kind of “surrealistic” “realistic” discourse, reaching up to fantastic expectations of China supporting Russia militarily or bailing out Russian state and corporate budgets simply because Moscow is defending her national interests in Ukraine against “Western encroachments”.

It is true that China may relish the prospect of fishing in troubled waters of the disagreements between Russia and the West. It may be also true that Beijing – in principle – has nothing against gaining as much economic, financial and even political preferences in Russia, as possible. However, all this has its price and limits. It was not in Beijing’s calculus to have a full-scale confrontation, to say nothing about the new edition of the “Cold War” between Moscow and the West. Chinese were also far from happy to see the first signs of Russian economy melting down in autumn 2014, reasonably fearing its eventual collapse. By late 2014, Beijing leaders became finally aware of the fact that they cannot fully comprehend the dynamics, direction and possible outcomes of Russian-Western relations, Ukrainian crisis and Moscow’s domestic policies. At the same time, China was far from eager to pay for the risks of Russian unpredictability on both foreign and domestic fronts. Moscow’s policy has moved beyond the limits of profitability that Beijing could have derived from the conflict between Russia and the West.

The combination of these factors in the medium-term perspective (from three to five years) may lead to what seems now quite an improbable situation with Russia-Western relations substantially stabilized and Sino-Russian interaction perceptibly cooling down. There will be no Russian-Chinese confrontation. What seems more plausible is a certain distancing from each other based on incomplete trust, the objective limits of interaction and some mutual fatigue.

**Key words:** Russia, China, Ukraine, Russian “turn to the East”, “Strategic Partnership”, Limits of Cooperation

*“…I am convinced that the Chinese economic growth is by no means a threat, but a challenge, which brings enormous potential of business cooperation [between Russia and China], a chance to catch the “Chinese wind” in the sails of our economy.”*

*Russian President Vladimir Putin, February 2012*

*“I am amazed, that a bunch of self-described realists like the Russian government, would take Chinese proclamations about partnership at face value…China cares little about any notion of anti-Western brotherhood. It cares a lot more about securing access to oil, gas and industrial products at the lowest possible price. Should the Russian accept a bailout from China, they’ll very quickly learn that Westerners aren’t the only ones with demands”.*

*Mark Adomanis, December 2014*

On March 1, 2014 Russian President Vladimir Putin made an official appeal to the Federation Council of Russian Federation (upper chamber of Russian parliament) about the use of Russian troops in the territory of Ukraine for the period “till the normalization of the socio-political situation in this country”. The permission was granted through direct open voting. This was the beginning of Russian subsequently deepening involvement in the Ukrainian crisis, which conduced to unprecedented deterioration of Russian-Western relations since the end of the Cold War and has rewritten the very logic of Moscow’s post-Soviet foreign policy.

In mid-March there followed first Western economic sanctions for what was perceived as “annexation of Crimea” in the West and called “return” of the peninsular in the Russian official sources. In April-May there followed another package of sanctions for Russian apparent involvement in the unfolding military conflict in Eastern Ukraine (Donbass area). These sanctions, however, were largely “personal”, i.e. aimed at concrete Russian civilian and military officials.

After the Malaysia Airlines Flight 17 was shot down by what was widely believed in the West to be pro-Russian separatists on July 17, 2014 the third package of sanctions was introduced, this time combining personal “penalties” with partial sectoral economic measures aimed at certain Russian banks and enterprises of energy and defense branches. This package came in three waves, lasting till December 2014.

However, already in the end of March, in the wake of the first package of sanctions, some Russian voices calling for wider and broader cooperation with China has been evolving more and more loud. Some went as far as to stating the imperative of establishing a kind of fully new Russian-Chinese political, military and economic union with more than clear anti-American and, broadly, anti-Western underpinning. [[2]](#footnote-2) By the end of April “Russian turn to the East” – in the given conditions turning to China – became already the mainstream of Moscow’s new foreign policy discourse. The concept was apparently widely shared among Russian establishment and expert community. Some people – although, to be just, not professional China watchers – literally anticipated Chinese bringing to Russia suitcases of money to render help to Russian financial sector facing sectoral sanctions. My cautious doubts, expressed in the most politically correct manner during personal conversations, regarding why China should do this, were met with sincere bewilderment: “But we are fighting the West now, Chinese cannot help but understanding the imperative to be with us at such a moment!”

It looked like that even more professional people from the sectors of banking, energy and aeronautics were indeed serious that the respective Chinese branches are able and will be committed to replace the Western companies in providing Russia with money, expertise and technologies. The moderate professional justification of Russian “turn to the East” sounded like this, for example, “Long-term, although, hopefully not as acute as now, deterioration of [Russia’s] relations with the West, imperative to reshape ugly infrastructure … as well as external economic relations make at least partial turn to the East a necessity. It has started but needs further development.”[[3]](#footnote-3)

It should be said that the concept of Russia “turning to the East” was formulated approximately two years before the unfolding of the Ukrainian crisis and Western sanctions. In 2012, the year of Vladimir Putin’s third reelection as President of Russian Federation and that of Russia hosting APEC summit in Vladivostok, Putin declared in one of his pre-electoral articles, published in Russian press: “…I am convinced that the Chinese economic growth is by no means a threat, but a challenge, which brings enormous potential of business cooperation [between Russia and China], a chance to catch the “Chinese wind” in the sails of our economy.”[[4]](#footnote-4) The subtext, so to say, was clear. Russia must make better use of the opportunities opened by closer economic and cultural cooperation with China. There was nothing wrong in this idea which looked especially relevant in the context of Russia hosting APEC summit in her most eastern city in the Asian-Pacific environment. At that time there were no traces of anticipating China to replace the Western partners to say nothing about the “suitcases on money” from Beijing. The underpinning was quite sober, proceeding from the need to make Russian economic cooperation with the outside World more balanced.

Moreover, there are reasonable grounds to believe that Vladimir Putin personally has never been indulging himself too much with illusions about what China can and cannot. During his speech at the World Economic Forum in Davos in 2009, for example, while persuading foreign investors to prefer Russia over China, he enlisted the liberalized financial market in Russia as a clear advantage over highly state-regulated Chinese financial sector.[[5]](#footnote-5) During all his “pre-Ukrainian” fourteen years of Presidentship and Premiership, Putin’s policy towards China has been always reasonable and balanced, never stepping over the frames of Russian-Chinese Shanghai Declaration of April, 1996, which laid the foundations of the so-called Russian-Chinese “strategic partnership”. The latter, to my mind at least, was a sort of indeed a brilliant invention for both sides, allowing them to cooperate economically and politically in the fields and circumstances they found consensually useful and by no means demanding from either side such cooperation in case it was felt inconvenient or damaging by Moscow or Beijing, or both.

Looking from this angle, what has been unfolding since spring 2014 in the field of Russian-Chinese “strategic partnership” may seem indeed strange and ad-hoc set of decisions running contrary to the general logic of post-Soviet Moscow foreign policy. It would not be far-fetched to assume that the main dynamic characteristic of the latter was a sort of a pendulum between the West and China, with Russian foreign policy swinging from being “pro-Western” in the early 1990s to moderate “anti-Western” and “turning to China” in the later part of that decade, and once again swinging in “pro-Western” direction during Vladimir Putin’s first presidential term.

From the mid-2010s, despite Russian President’s harsh critic of the Western global policy in his Munich speech in 2007, it remained relatively balanced. In other words, the angle of swing of this pendulum – in practical terms, at least – seemed never going beyond the “Newtonian physics” of Russian post-Cold War “global expediency” in the way it was perceived by both post-Soviet Russian Presidents Boris Eltsin and Vladimir Putin. And the unquestionable part of this expediency from 1991 on has always been preserving, at least, constructive relations with the West and calculating the pendulum from this perspective.

In spring 2014 Russian leader, however, was apparently eager to terminate the pendulum in the “closer to the East” position. Russia in line with her reborn “realistic” pursuit of national interests, allegedly so much neglected by the West in the recent couple of decades, seemed to get rid of what used to be her desire for “European integration” and “turned to face the East”. And the biggest natural addressee of this economic and political Moscow’s “Drang nach Osten” was China.

In the West there also started a big talk of “new Russian-Chinese alliance” with anti-American and anti-Western underpinnings, which splashed out into massive media coverage and the IR students’ classrooms. I remember talking with American MA student in Taipei in late autumn of 2016. Having known that I am a visiting scholar from Moscow, he immediately remarked that you, Russians, are now in big friendship with the Mainland China and both Taiwan and US should beware of it. Quite ironically, my Russian students and friends in Moscow also made almost the same comments, deriving their conclusions, understandably, not from Western, but Russian sources, to the same or even bigger degree replete with the forecasts of Russian-Chinese “multilevel unity”, as close as never.

Do these developments create a solid ground enough to conclude that relations between Moscow and Beijing are indeed passing through a turning point from a vague and random “strategic cooperation” to close “strategic military and political anti-Western alliance”? In my view, not by a long short. As a matter of fact, subsequent events started to develop in the direction unanticipated by both Russian mainstream foreign policy experts and many Western Russia and China watchers.

**The Mystery of Bilateral Trade.**

In May 2014 Putin payed an official visit to China, the first one after the “turning to the East” band started to play the tune. Results were indeed impressive. Besides more than 50 signed agreements in different economic and technical fields, the 10 years long negotiated landmark gas deal was struck. Russian biggest gas company Gazprom and Chinese giant CNPC came to an agreement regarding joint building of 4000 km long gas pipeline called the Power of Siberia with around 400 billion US$ investment and 25 billion US$ Chinese advance payment. It was said that in 5 to 7 years annual delivery of Siberian gas to China will amount to 38 billion m3, starting in 2018-2019 with 5 billion m3. The term of the agreement was 30 years. Neither side disclosed the exact formula of gas price. It was made public, however, that the latter will be pegged to the oil prices. The whole deal, albeit important, impressive and long-awaited, looked nevertheless as having more political significance, than commercial value. Indeed, with the future dynamics of oil prices difficult to foresee, strong doubts were expressed regarding the overall profitability of the pipeline.[[6]](#footnote-6)

In October 2015 Chinese Premier Li Keqiang payed working visit to Moscow meeting his Russian counterpart Dmitri Medvedev. Once again, political orchestration was played high. Russia and China signed around 40 commercial agreements in the fields of energy, banking, transport infrastructure, aeronautics and agriculture. Two Premiers proclaimed ambitious goal to increase bilateral trade to the unprecedented amount of 200 billion US dollars by 2020. Russian press was quick to declare that Chinese Premier’s visit has laid the foundation for 20-30 years of steady bilateral economic cooperation.

In late October 2014 came the first signs of Chinese financial aid to Russia. Beijing provided Moscow with 4 billion US$ credit to purchase Chinese technical equipment and consumer goods.[[7]](#footnote-7)

This time, however, warm embraces of the leaders and inevitable media fanfare were accompanied by somewhat more sober approach from both counties’ expert communities. Chinese Russia watchers, for example, pointed to the fact that actual difficulties in the way of bilateral cooperation are so huge, that the very start of realization of the signed agreements may wait from 3 to 5 years. Some Russian experts were no less cautious: “We should not simply applaud with joy but find real pain points and discuss exactly them. The basis for 20-30 years of cooperation is unlikely to be that much stable since the World [economic and political] environment is extremely precarious and turbulent.”[[8]](#footnote-8) Some Russian IR watchers even went as far as to state that the tempo of Russia’s “turn to the East” has decelerated considerably.[[9]](#footnote-9) The reasons for such pessimism were not clearly visible at that time. This remark, made by cautious but mainstream analytics ran contrary to the general expectations played up by media and looked somewhat startling.

However, such caution soon proved very much relevant. In early February 2015, just three months after the countries’ Prime Ministers Dmitry Medvedev and Li Keqiang stated the purpose of the Chinese Bureau of statistics disclosed no less unprecedented figures. In January 2015 Sino-Russian trade decreased 36,4% in annual terms. Chinese export to Russia fell 42,1%, while import from Russia fell 28,7%.[[10]](#footnote-10) Beijing statisticians explained this fact by referring to the decline in business activity in the country on the eve of the Lunar Year celebrations. Bearing in mind, that Chinese officials are always rather sensitive to hurt Moscow’s feelings in open and sensing danger of themselves “loosing face” after recent optimistic proclamations, this explanation looks nothing but politically correct nonsense. In 2015, the Lunar Year celebrations started in China in February, so in December 2014 and January 2015 Chinese business activity could by no means have been responsible for such abrupt decline. Besides, in the same period, Chinese trade with the US grew 4% and regarding the trade with Russia, nothing comparable ever happened before, even indeed on the Lunar Year eve.

The last year of substantial growth in Sino-Russian trade was 2012, when it rose almost by 12%. However, in 2013, quite of a sudden, the growth rate barely exceeded 1%. Russia dropped to 10th place among the trading partners of China, losing to Brazil. Russia's share in the foreign trade turnover of the PRC amounted to only 2%. China, on the other hand, remained the leading Russian trade partner, while Russian export value to China decreased by 10%. Russian overall export fell in 2013 by half percent. At that time, Beijing also tried to explain these data referring to the impact of the contraction in global demand. Nevertheless, in 2013 Chinese overall export grew 8%, import – 7,3%. Trade with the US increased 7%, with the countries of ASEAN – almost 11%.[[11]](#footnote-11)

In 2014, Sino-Russian bilateral trade grew - according to different assessments - from 1% to 6%. Russia sharply increased her crude oil export to China – by 36%. However, growth of Russian export value to China was modest – around 4%. Total two-way trade in 2014 remained around 90 billion US dollars.[[12]](#footnote-12)

What is clear behind all these vicissitudes is stagnation. Bilateral spells about “mutual complementarity” of Chinese and Russian economies may be, technically speaking, true. However, structural dimensions of such complementarity are indeed detrimental for the countries’ more intensive economic interaction. The most fundamental reason here lies in the fact that Russian economy of today’s size and condition simply cannot anymore produce enough added value, necessary to provide steady growth of trade with China. China’s World GDP share (counted in US$) is around 16%, while Russia’s – around 2%, according to most optimistic estimations.[[13]](#footnote-13)

However, it is not only the size which matters, but structure and quality. Suffice it to observe the structure of bilateral trade. Despite Moscow’s declarations to improve the structure of Russian export to China making it more value added, the share of raw materials grew constantly since 2009 and in 2013 and 2014 exceeded 75%. The volume of Russian import of machinery, equipment and other processed goods from China has been 66 times bigger than the volume of their export to China.[[14]](#footnote-14)

Sufficient growth of bilateral trade is technically possible, but only if Russia undertakes drastic increase in oil, gas and timber export to China. Such undertaking, however, runs into two fundamental obstacles. One is on the Russian side, namely, the country must carry out considerable investments in extraction of raw materials and infrastructure in her East Siberian and Far Eastern regions. Such investments look highly unlikely now, with Russian mining and banking sectors under Western sanctions and oil prices falling.

The other obstacle concerns China and has to do with the country’s economic restructuring and macro misbalances, introducing some constraints on demand for the raw materials. Chinese goods with a higher added value, exported to Russia, also need serious qualitative improvements to meet the needs of Russian industry. After almost double depreciation of Russian currency in 2014-2016 the price of Chinese processed goods became inadequate to their quality for Russian consumers.

In fact, already by the turn of 2012-2013 years Sino-Russian bilateral trade reached its “structural ceiling”. For both countries to jump over these limits means to introduce deep systemic change in their respective economic strategies and policies, which seem now highly improbable. In addition, in January of 2015 came the collapse, logically derived from a general contraction of the Russian economy. Russian-Chinese freight turnover fell 40% that year.[[15]](#footnote-15)

Russia, nevertheless, did her best to improve the situation. President Vladimir Putin visited China consecutively in 2015, 2016 and 2017 participating in several politically important events like Chinese military parade commemorating the 70th anniversary of the victory in the Second World war or the opening ceremony of the One Belt One Road World Forum in 2017. Each visit was accompanied by no less than 30 new agreements of economic cooperation. Each time both sides concluded that bilateral relations develop in depth and width.

Despite the gas pipeline Power of Siberia began looking increasingly uneconomic since almost double collapse in World oil prices in 2015-2016 and having not received 25 billion prepayments promised by Beijing, Russian Gazprom increased unilateral investment into the project from 76 billion rubles (22 billion US$) in 2014 to 158 billion rubles (44 billion US$) and by the end of 2017 managed to build almost half of the pipeline’s length – around 2000 km. It was also said that the first gas supplies along the Power of Siberia will reach China exactly according to the schedule – on January 20, 2019. In October 2017 the Chinese side was said to intensify the talks with Russia regarding the Western Route pipeline, bringing gas from Russian West Siberian gas fields to China. Originally the leading consumer of this gas were EU countries.[[16]](#footnote-16) But here the Chinese indeed proved to be hard negotiators indeed. The problem is, that the price for building pipelines in Russia is, at least, one third higher than the World average. Beijing did not want to take this into account and has been pressing Moscow to decrease the gas price. Russian side was understandably reluctant, so the deal so far was not struck. However, Russia, according to some analytics, anyway must refocus, at least partly, her gas trade, facing considerable cooling in Moscow relations with Western Europe. On the other hand, nobody wants to trade at a loss. This seems to be an extra point of growing irritation between Russia and China.[[17]](#footnote-17) Russian expert was to point out: “Interdependence [between Russia and China] seems to grow. However, its looks increasingly asymmetrical. Russia needs China more, than China needs Russia.”[[18]](#footnote-18)

In 2016 bilateral trade volume was again rising, reaching approximately 70 billion US dollars. However, it was still 20-25 billion US dollars lover, then in the years 2012-2013.[[19]](#footnote-19) In 2017 trade rose almost 21% reaching 84 billion US$, again, however, remaining below the best indicators of the previous times.[[20]](#footnote-20) Overall stagnation seems to prevail.

**The Mystery of Beijing Investment Policy.**

Will all the stagnation tendencies in Russian-Chinese trade, financial flows between the two countries are even far behind. In 2015-2017 the share of China in Russian foreign trade was around 10%, while the share of PRC in FDI received by Russia in the same period is 5,4%.[[21]](#footnote-21) Chinese FDI in Russia constitute only 1/12 or, according to other sources, even 1/14 of the overall 100 billion US dollars of the PRC’s FDI around the World.[[22]](#footnote-22)According to official statistics - both Russian and Chinese – the scale of Chinese investment activity in Russia is, by all standards, very modest.

More than 70% of the Chinese FDI in Russia are concentrated in the regions of Russian Far East and Eastern Siberia. Most Chinese FDI come to Russia from the Chinese state enterprises or private investors, still very deeply intertwined with the state. The percentage of state and non-state Chinese investors in Russia is rather difficult to calculate. However, approximate statistics regarding this issue puts it as more than 80% of Chinese investors are state-owned or state-affiliated.[[23]](#footnote-23)

And here come the vicissitudes. In 2011 Chinese FDI in Russia were around 2 billion US dollars. In 2012 Chinese FDI in Russia fell to only 660 million US dollars. In the year of 2013 there was 518% upsurge – to approximately 5 billion US dollars. The next year, 2014, there was also a tangible decline to 1.4 billion US dollars. The year 2015 witnessed something close to free fall. Data differ – from 0,6 to 0,8 billion US dollars. In 2016 there was again a rise to approximately 1,5-1,6 billion US dollars.[[24]](#footnote-24) According to Beijing statistics, in 2017 Russia received 3,3 billion US$ more Chinese FDI than in 2015.[[25]](#footnote-25) All in all, tremendous ups and downs, but no qualitative breakthrough.

More than 70% of Chinese FDI in Russia go to energy sector, forest industry and metallurgy. Chinese are extremely reluctant to invest in Russian infrastructure. According to some Russian experts, Chinese are simply not confident in Russian economic and political stability. That is why they prefer to postpone long-term investments.[[26]](#footnote-26) Besides, it seems that in Russian case traditional Chinese investment model used in industrially underdeveloped countries, where Chinese money arrive massively together with the Chinese workforce, is not suitable. On the other hand, Russia either lacks famous technological brands or they are not for sale. Quality of Russian institutions is not very high, corruption is rather widespread. As a result, Chinese investors are frustrated and start to sing the long song about “unacceptable Russian investment climate”.[[27]](#footnote-27) Chinese are ready to sign investment agreements with Russians due to saving their political face. However, up to 90% of such agreements remain nothing more but the protocols of intent.[[28]](#footnote-28)

In November 2017 I interviewed a number Russian businessmen and officials in the South-East Siberian region of Tomsk. Geographical position of this territory logically makes China the leading foreign economic partner and it is indeed so. 40% of the region’s export go to China with up to 80% of this export consisting of timber and chemistry produce. 40% region’s import also comes from China. China is the leading investor in the territory due to huge wood processing factory, however, nobody could tell me the exact figures of these investments. In overall technical terms this may be looked upon as a Russian-Chinese investment success story. However, Russian businesspeople and officials point to such fundamental complications as differences in culture and mentality, Chinese neglect or disinterest in abiding Russian laws and violations of intellectual property rights.

What is particularly interesting, Chinese investment in Russia began abrupt contraction since the second part of 2014, exactly after Moscow’s politically pompous “Turn to the East” was proclaimed. In September that year there came indeed an important sign that China tends to decelerate cooperation with Russia in the field, where Moscow not only mostly desired Beijing’s assistance but where both sides have also fundamentally agreed on it. The Chinese side decided to slow down the advance payment of 25 billion US dollars, which it promised to Russia in the framework of the “historic” bilateral gas deal, signed in May during Vladimir Putin’s official visit to Beijing. One of the explanations given on the sidelines was that the two sides still have discrepancies on the issue of the gas price. Another big deal concerning Chinese investing in building high-speed railway Moscow-Kazan, although widely discussed by both sides, did not come true. Eventually, it turned out to be totally uneconomic. With overall investment into the project amounting to 30 billion US$ it would have been able to pay off only in 60 years. The same was said about pompously advertised high-speed railway Moscow-Beijing. Its price would have amounted to 100-140 billion US$ with no foreseeable perspective of becoming profitable.[[29]](#footnote-29)

There is some ground to conclude that Chinese position about cooperation with Russia became even more cautious after the West introduced harsh sanctions on Moscow in financial and technological fields and Moscow backfired with its “countersanctions”, while the war in Eastern Ukraine went on, shattering the prospects for fast and feasible political settlement. All this was already too much for Beijing.

The devil is, however, in the details. And the most important detail is that Chinese money come to Russia through US banks. My interlocutors among Russian financial experts could not explain the reasons for this convincingly enough. One explanation ran as follows: given that Chinese Yuan is non-convertible on capital account, it is easier for Beijing to use American banks to turn huge amount of domestic currency into US$.

In June 2015 deputy-chairman of the leading Russian state-owned bank VTB Y. Soloviev openly accused China in joining US sanctions against Russian banking sector. According to him, after US sanctions were introduced, Chinese banks limited commercial operations with their Russian partners. It also turned out extremely difficult in practical terms to obtain intra-bank credits on the Chinese domestic financial market. Such operations need special permission from the PRC’s State Council, Central Bank and Ministry of Finance, while the procedure of obtaining such permission was extremely opaque.[[30]](#footnote-30)

In 2016 two leading Russian state-owned banks VTB and VEB signed agreements with the China Development Bank (CDB) regarding the trade financing in Yuan for three and five years respectively. VEB went even further, having agreed with CDB to raise funds in Yuan up to 900 million US$ in 15 years. However, it turned out not to be easy to put these agreements into practice. According to my knowledge, the concrete conditions of realizing these deals are still going through bilateral discussions.

Meanwhile Russian private entrepreneurs doing business with their Chinese partners started to complain about serious complications in making payments through Russian banks to China. One of such complaints sounded literally like this: “Men, it’s all indeed awful! Already two of the Chinese banks [we used previously] denied the acceptance of our hard currency payments through Russian VTB bank. They [Chinese] added it [VTB] to their black lists. One [Chinese] bank has already returned our money with the remark – “domestic policy”.[[31]](#footnote-31)

In 2015 and 2016 Beijing gradually started to withdraw their financial assets from Russia. By February 2016 Bank of China assets in Russian Federation shrank more than 30%, China Construction Bank assets contracted almost 20%.[[32]](#footnote-32)

Russian government looked seriously worried, facing financial sanctions from the West and deceleration of investment from China. On the 27th of February 2015, Russian Vice-Premier A. Dworkovich officially announced Russian proposal to Chinese investors to buy control stock in Russian strategic oil and gas fields. By all standards, it was more than generous proposal, which, according to some, perhaps, radical views, bordered on high treason. Chinese side seemed totally unmoved.

Once again, all this has been taking place against the background of both Moscow and Beijing pedaling ceremonial side of bilateral cooperation. On the 8th of May 2015, Russian President Vladimir Putin and Chinese leader Xi Jinping triumphantly signed in Moscow Kremlin a statement on conjunction of the Chinese “New Silk Road” with Russian “Eurasian Economic Union”. In May 2017 Putin took part in also “triumphantly successful” “Silk Road” summit. The latter was not marked by any tangible investment agreements between Russia and China. “Chinese propaganda has already drawn a picture of comrade Xi’s total success, while the presence or absence of business projects cannot change it. So, why to make concessions to Russians?”[[33]](#footnote-33)

So, how much does China really invest in Russia? Figures are dubious, to say the least. According to Russian statistics in 2015 Chinese FDI in Russian Federation amounted to 645 million US$. In 2016 Chinese money inflow contacted almost in double – 350 million US$. According to Chinese statistics, in 2015 Russia received around 3 billion US$ Chinese FDI.

Data on accumulated Chinese investment in Russia is also precarious - from 9 to 14 billion US$ by 2015, if to believe Chinese Ministry of Commerce. In January 2016 the same Ministry voiced the amount of 34 billion US$, however, later this figure never appeared either in Chinese or Russian sources.[[34]](#footnote-34)

Sometime in summer 2016 the Chinese side suddenly informed Moscow (during a round of bilateral talks), that actual volume of Chinese investment in Russia is 32-33 billion US dollars. Beijing claimed, that such calculation was done almost literally in manual way, requesting one by one Chinese firms and enterprises, which are engaged in actual economic interaction with Russia.[[35]](#footnote-35)I have strong doubts regarding reliability of this data. It could have been well politically motivated, just to show the Russian side, that actual scale of Chinese investment is not that small, as it is believed and – hence – China’ Moscow partners have nothing to worry about.

In November 2016 Chinese ambassador to Russia declared that accumulated FDI from China amounts to 10 billion US$. In February 2017 Chinese Ministry of Commerce once again came on the scene with a figure of 42 billion US$.

However, not only the true quantity of Chinese investment in Russia is a mystery. The mission to define the origins of this money also seems impossible, since for both countries the leading partners in financial cooperation are different off-shores like Hong Kong, Netherlands, Singapore, the Bahamas and Cayman.[[36]](#footnote-36)

**Russian “Surrealistic” Realism.**

American Russia watcher Mark Adomanis has written in Forbes in December 2014: “I am amazed, that a bunch of self-described realists like the Russian government, would take Chinese proclamations about partnership at face value…China cares little about any notion of anti-Western brotherhood. It cares a lot more about securing access to oil, gas and industrial products at the lowest possible price. Should the Russian accept a bailout from China, they’ll very quickly learn that Westerners aren’t the only ones with demands”.[[37]](#footnote-37)

It is the matter of considerable importance to understand that Moscow began turning to China for “closer partnership” not only when her economy started to crumble, but also when her community of China watchers remained largely non-functional. There are many complicated and interrelated reasons responsible for this. I would like to point here to three systemic causes.

The first one relates to the institutional and ideological legacy of what used to be the Soviet China studies. Modern China and especially China after 1949 as the fields of political and socio-economic research were, perhaps, under the strongest Marxist-Leninist ideological pressure among other fields of International studies in the former Soviet Union. To some extend this was understandable, since the main task, posed by the Soviet leadership before sinologists – at least, since early 1960s – was to prove that it was the Soviet model of socialism that was true socialist, successful and legitimate, not the Chinese one. What followed was an annihilating criticism of Maoism and then Deng Xiaoping’s “reform and openness”, since both were fundamental deviations from what was the Moscow’s version of “the path to a bright future”.

Such goal setting formed very specific institutional, methodological and personal arrangements that were more suitable for producing propaganda leaflets than for elaboration of balanced assessments and strategies. Ideologically these arrangements naturally collapsed with the collapse of the Soviet Union. However, some important features of the Soviet China studies, especially regarding institutional and personal relationships as well as general “Cold War” worldview continued existence among considerable part of Russian sinologists in the post-Soviet period.

The second systemic cause relates to the indeed abhorrent economic conditions of the post-Soviet Russian China studies throughout 1990s, even 2000s, with financing drastically reduced and the influx of new generation of researchers dramatically decreased. Those younger were preoccupied with earning money and ad-hoc, predominantly, business consulting, while not all, but quite many of the older preferred to relish their Soviet-time expertise. This situation led to overall stagnation and even recession in the field of Russian China studies, causing methodological failure, following in the footsteps of Beijing’s official statements and indeed “surrealistic” expectations.

Finally, one cannot comprehend the state of mind of many contemporary Russian sinologists without considering the impact of traumatic Soviet collapse on their perception of China today. Rising China servers as a mute reproach to the “failure of democratic reforms”, introduced by Mikhail Gorbachev and “tragedy” of anti-Communist “shock therapy”, implemented by Boris Eltsin. Ironically, the same people, who denounced Mao Zedong and Deng Xiaoping as opportunists, now make a U-turn in their minds and are inclined to think that both Chinese leaders were much wiser than their Soviet contemporaries were – the first one in fighting “corrupt bureaucracy”, the second one – in implementing market under strict party-state control.

Clearly, such perception of the Chinese reform experience in Russia today has much more emotional and irrational than sober and rational dimensions. People ignore or underestimate a heap of factors and circumstances of cultural, social, economic and political nature. Nevertheless, many tend to think that Chinese “path of reforms” is more efficient, than Soviet or post-Soviet one and look upon rising China as an “opportunity missed by Gorbachev”, a paragon of development for Russia. Quite often, they construe the rise of China today in almost fully “Cold War” terms, which means that former Soviet leadership betrayed and defeated their own country, while China, due to “Deng Xiaoping’s wisdom”, starts now to be on the forefront of the global resistance to Western economic, political, military and cultural expansion. Therefore, it is worth for Russia to form a close political and military alliance with China, while obvious costs of such a step often – quite paradoxically – stay out of the equation.

All this is indeed a kind of “surrealistic” “realistic” discourse, reaching up to fantastic expectations of China supporting Russia militarily or bailing out Russian state and corporate budgets by bringing in suitcases of money simply because Moscow is defending her national interests in Ukraine against “Western encroachments”. “After all, the Chinese “golden rain” poured over Venezuela and Libya at one time”, an expert told me in private conversation.

It would be certainly misleading to present the case so as most of Russian China watchers are staunch heirs to “Cold War” mentality in love with China. The real picture “on the ground” is more complex. Along with those who count on “strategic alliance” with China, among “great Russian realists” of today there are those who utterly distrust Beijing and even find plausible Sino-Russian armed clashes in the future. Others – of “pro-Western” liberal orientation – fear of too close relations with China on the political and ideological reasons. Minority of experts – mainly economists and political scientists – indicate internal weaknesses of Chinese economy. In particular, they argue that the instability of the financial system in the PRC makes close Sino-Russian financial cooperation counterproductive for Moscow.[[38]](#footnote-38) However, in the frenzy of “turning to the East” it was the proponents of “alliance” that turned out to be most audible, while others preferred to keep silence or engaged in self-censorship.

There are reasonable grounds to believe that some of those in today Russian political class, who are not China watchers and who may even harbor some suspicions regarding real Chinese intentions towards Russia, still may feel sympathetic with such argumentation. The whole story of Russian “turn to China” during the year of 2014 in retrospect looks like a political game which, after increased International isolation of Moscow, evolved gradually into a forced and sincere search for possible ways of deepening cooperation with Beijing. For example, Russia and China established bilateral Business Council. Gennady Timchenko, famous “oligarch” under Western sanctions for allegedly close relationship to President Vladimir Putin, became its co-chairman from the Russian side. However, this search has consistently suffered from the lack of knowledge of Chinese economic and political reality and from the absence of fine-tuning of Sino-Russian relations on the micro- and medium levels. The latter circumstance is not least due to the cultural differences between the partners and unclear prospects for fast profits. Russian community of China watchers failed to supply Russian leadership with this knowledge, partly because it lacked such expertise, partly because Russian leadership, also somewhat mesmerized by China’s apparent potency, was ready to listen only to what it wanted to hear.

Irrespective of all these political subcurrents and conjuncture, it is indeed startling, how some Russian experts on China differ in their views on present and future of Russian-Chinese relations. It is sufficient to give here two quotations of leading scholars. Alexander Lukin: “Russia, which objectively is becoming more Asian by her interests and problems, does not want to admit this. The development of Asian part of Russia […] is impossible without turning the consciousness to the side of Asia, without understanding, that here there are our economic and political partners, which are not inferior in value, then our European ones…”[[39]](#footnote-39) Yuri Galenovich: “Russia and China are becoming more and more far away from each other, starting to feel emotionally and ideologically alien. Perhaps, most possible future of Russian-Chinese relations is that of ideological alienation with, however, recognition of necessity for eternal coexistence. The coexistence of Russian and Chinese national selfishness, burdened by the each one’s pursuit for material profit.”[[40]](#footnote-40)

**Beijing’s “Russian Dilemma”.**

Western community of analysts was almost unanimous in saying that China is the biggest beneficiary from the confrontation between Russia and the West over Ukraine. In principle, this statement is quite correct. It indeed looks like Beijing, needed by all sides of the conflict, had the opportunity to play both Western and Russian cards simultaneously. However, we assume that much in this play depends on the true scale of Russian-Western antagonism and the direction of internal developments in Russia.

It is certainly true that in economic terms the West is more important for Beijing, than Russia. China-US bilateral trade, for example, is more than 5 times bigger than that with Russia and potential for growth in China-Western economic and financial cooperation remains huge with its “structural ceiling” far from reached. APEC summit in Beijing in November 2014 clearly demonstrated that despite all sparking in Sino-American relations China is much more welcomed member of International community, than Putin’s Russia. China is rather unlikely to risk all this just to put all eggs in Russian basket. It is also true that in the field of military-technical cooperation Beijing depends on both Russia and Ukraine, and this fact inevitably adds considerable nuances to China’s position in this conflict.[[41]](#footnote-41)

However, there are some other important Chinese domestic factors and considerations, which are worth to bear in mind.

Chinese political class and expert community clearly split over Russian issue in the Ukrainian drama. On the one hand, notorious “Global Times” writes, that “…if Russia led by Putin is defeated by the West, it will deal a heavy blow to China’s geopolitical interests”. Western China watchers reasonably concluded that “[Chinese] military analysts admire Putin and Russian rejection of the West’s global leadership” and this fact might influence “China’s risk calculus in the hotspots such as South and East China Sea”.[[42]](#footnote-42)

In fact, not only military analysts but also a “party” of Chinese civil experts urged Beijing government to back Moscow politically and economically. The proponents of this view stipulated, however, some conditions, which Moscow will have to comply with in case it agrees to accept Chinese aid. These conditions suggested that Moscow makes wide concessions to give China preferences in the fields of economy and finance up to implicit possibility of revision of territorial agreements. The speculation was that some people in Moscow tended to agree to some of these propositions, while most found them utterly unacceptable.

On the other hand, official Beijing keeps repeating that “Global Times” and “radical experts” are not a proxy of the Chinese government and reiterates its “longstanding position not to interfere in others’ internal affairs” as well as respect to “the independence, sovereignty and territorial integrity of Ukraine”. Chinese leader Xi Jinping urged Moscow to cooperate with all the parties concerned “so as to safeguard regional and world peace and stability”.

My private contacts with some of high-ranking Chinese experts from the Academy of Social Sciences revealed that Beijing was dissatisfied with the fact that Russia, being a “strategic ally”, did not bother to give even a hint to China in advance about her calculus with regard to Crimea and Eastern Ukraine. The talk about possible Chinese economic and financial aid to Russia usually led to many question marks. How? To whom? When? How much? In what concrete form? Chinese interlocutors seemed surprised - no less than Mark Adomanis - that their Russian partners could have placed so great hopes on Beijing’s assistance, implicitly assuming that Moscow was unaware of many “technical difficulties and obstacles” in the way of such assistance.

To be sure, on the surface China indeed played its part, however cautiously, in Russian “Eurasian gambit”. Obviously, politically motivated signing of a long-awaited gas deal took place in April 2014. Chinese Premier Li Keqiang’s visit to Moscow in October the same year was quantitatively fruitful. Beijing granted Russia a couple of tied loans to buy Chinese food and light industry produce. Still, overall political phraseology of the Chinese side was invariably calm, sometimes even ambiguous.

In September 2014, however, there came indeed an important sign that China tends to decelerate cooperation with Russia in the field, where Moscow not only mostly desired Beijing’s assistance but where both sides have also fundamentally agreed on it. The Chinese side decided to slow down the advance payment of 20 billion US dollars, which it promised to Russia in the framework of the “historic” bilateral gas deal, signed in May during Vladimir Putin’s official visit to Beijing. One of the explanations given on the sidelines was that the two sides still have discrepancies on the issue of the gas price.

There is some ground to conclude that Chinese position regarding cooperation with Russia became even more cautious after the West introduced harsh sanctions on Moscow in financial and technological fields and Moscow backfired with its “countersanctions”, while the war in Eastern Ukraine went on, shattering the prospects for fast and feasible political settlement. All this was already too much for Beijing.

It is undoubtedly true that China may relish the prospect of fishing in troubled waters of the disagreements between Russia and the West. It may be also true that Beijing – in principle – has nothing against gaining as much economic, financial and even political preferences in Russia, as possible. However, all this has its price and limits. It was not in Beijing’s calculus to have a full-scale confrontation, to say nothing about the new edition of the “Cold War” between Moscow and the West. Chinese were also far from happy to see the first signs of Russian economy melting down in autumn 2014, reasonably fearing its eventual collapse. It was the succession of events in the second half of the year 2014 that made Beijing quite annoyed forcing it to adopt “wait and see” tactics.

Chinese Russia studies are larger in scale, than Russian studies on China. According to incomplete data, there are more than 70 educational and analytical institutions – including the Russian language faculties of the Universities – in the country that engage in tracking and studying Russian developments. They also enjoy better financing than their Russian counterparts do. This, however, do not make them free from quite a few problems, fantasies and misinterpretations. Chinese Russia watchers still operate within certain ideological limits, propagandist schemes and are prone to self-censorship. The fundamental issue that continues to haunt them is how to find both convincing and politically correct answer to the question of why the Soviet Union collapsed and how to assess Russian post-Communist transition. This makes many of their perceptions and explanations of contemporary Russia incoherent, simplistic and – sometimes – frankly naïve, albeit truly “realistic”. Attempting to kill two birds with one stone, namely to sound both professional and ideologically loyal, they often follow in footsteps of Russian official authoritarian verbal stamps. Perhaps, one of the best examples here is how Beijing adopted and eagerly discussed Russian concept of “sovereign democracy”, ironically, exactly at the time when it began getting cold reception from Russian expert community in the wake of Dmitri Medvedev’s Presidency in the second half of the 2000s. In other words, Chinese Russia watchers may be well versed in Russian developments factually, but not necessarily comprehend fully their internal structure, cultural and political contexts.

Publications about Russia in Chinese press and statements of some Chinese experts in December 2014 – just at the time of abrupt devaluation of Ruble and first signs of monetary panic in the Russian market – testified to a lack of proper understanding of the set or realistic possibilities of dealing with this panic, available to Russian authorities. The most popular recipe, prescribed by Chinese economists to their Russian colleagues, was the imposition of restrictions on capital flow.[[43]](#footnote-43) Former Russian economic minister A. Ulyukaev, for example, openly admitted that he could not even think about such solution, since restrictions on capital flow would be practically impossible to administer and could have thrown Russia into a final spiral of currency chaos.[[44]](#footnote-44)

To sum up, sometime by late 2014 Beijing leaders became finally aware of the fact that they cannot fully comprehend the dynamics, direction and possible outcomes of Russian-Western relations, Ukrainian crisis and Moscow’s domestic policies. At the same time, China was far from eager to pay for the risks of Russian unpredictability on both foreign and domestic fronts. Moscow’s policy has moved beyond the limits of profitability that Beijing could have derived from the conflict between Russia and the West.

**Moscow’s “Turn to the East” and Sino-Russian Relations in the Medium Term: “Partnership”, “Alliance” or Growth of Mutual “Fatigue”?**

So, what was (is?) Russian “turn to the East”? Let me quote one Russian expert, whose view I mostly share: “Russian acceptance of the “Eastern choice” [since 2014] was forced and inconclusive. The turn to the East took place because Russia did not manage to establish fruitful interaction with the West. China also failed to develop equal relations with the Western countries. The reasons of [Russia’s turn to the East] obviously lie in geopolitics. That is why many [Russian] decisions about the Far East were taken without proper calculations regarding the chances for economic development and investment attractiveness.”[[45]](#footnote-45)

Some analytics say that too little time passed since the “turn to the East” in earnest, so one should not be disappointed by so far modest effect. “Russian-Chinese strategic partnership still lacks strategic depth and global perspective. Perhaps, the model of deeper cooperation may take shape of the center of “Big Eurasia”. China will play the leading economic role. His domination, however, will be balanced by other partners – Russia, India and Iran.”[[46]](#footnote-46)

I tend to doubt either time factor or potential progress of “Big Eurasia”. In fact, in recent 15 years there were enough time, space and opportunities for Russia and China to become closer partners and even allies. “Big Eurasia” seems to me a kind of not well-founded perspective. Basically, the problem of Russia’s “turn to the East”, indeed incited by geopolitics, is structural and cultural. Structurally and culturally today’s Russia remains *a big East-European country*, which has rather precarious relations with her Asian neighbors, with whom she is indeed destined to live in eternal coexistence.

Regarding relations between Moscow and Beijing, I utterly exclude any possibility of formation of Sino-Russian political and military alliance with clear anti-Western orientation. On the other hand, bilateral assurances of maintaining “strategic partnership” will continue. However, mutual distrust is also likely to grow considerably, nourished by stalemates in economic cooperation, unfulfilled spells, cultural differences, Beijing’s disillusionment in Moscow’s predictability, Russian dissatisfaction with Chinese “pragmatism” and rising apprehensions over true intensions of Beijing regarding Russia.

One also should bear in mind possible complications of the future Chinese development. The country is palpably approaching the next fork in its road with indeed unpredictable consequences of economic restructuring and current style of political leadership. Should Beijing prefer to translate internal tension into external expansion, this most probably would happen in the Eastern or Southeastern, but not in the Northern direction, with Russia remaining too big and risky an option.

Albeit the following scenario may look somewhat unrealistic now, we tend to assume that in due time Russian approach to the West may take a friendlier turnover. The constellation of economic and political resources available to Russia in the mid-term perspective will inevitably push into direction of this option. Besides, with given century-long history of Russia’s sudden and drastic changes in domestic and foreign policy this scenario looks even more plausible. In fact, to repair Moscow’s relations with the West – despite currently obvious and significant obstacles - may turn out to be structurally easier than to jump beyond the natural limits of her economic, cultural and political interaction with Beijing.

The combination of these factors in the medium-term perspective (from three to five years) may lead to what seems now quite an improbable situation with Russia-Western relations substantially stabilized and Sino-Russian interaction perceptibly cooling down. We in no way predict the beginning of Russian-Chinese confrontation. What seems more plausible is a certain distancing from each other based on incomplete trust, the objective limits of interaction and some mutual fatigue.

Verbal framework of “strategic cooperation” between Moscow and Beijing may even persist. However, its real content may become more modest, than it is now.

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