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# Russia and China in the 21st century. Moving towards cooperative behaviour

Silvana Malle

Department of Economic Science – Verona University Santa Marta, Centre for International Studies, via Cantarane 24, Verona 37129, Italy

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### ABSTRACT

Political and economic rapprochement is taking place between Russia and China in a number of fields: energy, arms production, trade in national currencies and strategic projects in transport and supporting infrastructure. This development, fostered by Western policies and actions, including sanctions related to Ukraine, appears to be strengthening despite reservations related to uneasy precedents, contrasting visions and uncertain economic projections. Chinese policies aiming at European markets via the revival of the Silk Road assist this development. The One Belt-One Road is projected as an alternative, or supplement, to the maritime routes made unsafe by contiguous countries' unrest, criminality and the assertive control of the seas by the United States. While Russia, promoting friendly investment structures, moves eastwards to develop the Russian Far East bordering China, the latter expands westwards engaging in laborious negotiations with Central Asian countries and costly investments in infrastructure and logistics. In each area, the article maintains that both countries, despite economic and political competition and fear of losing control, have interest in cooperation and discusses the areas where this is taking place, albeit slowly and with difficulty. Whether economic cooperation can develop into a strategic alliance including defence is discussed in the light of joint military exercises, arms trade and plans to broaden the scope of the Collective Security Treaty Organisation, the Shanghai Cooperation Organisation (of which India and Pakistan have recently become members), and the Common ASEAN Community. This path is difficult and marred by members' conflicting interests. But some positive outcomes should not be ruled out.

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For decades before and after transformation to market in both countries economic relations between geographically contiguous Russia and China have been lagging behind commercial ties with the rest of the world. Only now movement towards political rapprochement and economic cooperation in a number of fields is taking place, the importance of which is difficult to assess per se and for its

possible development. These developments are observed with interest and some scepticism among Russian and foreign experts justified to a large extent by history.

Working out ambitious projects of development of backward territories eastwards is a strategy Russia developed from 2012, also looking for China's economic support. A more problematic area for cooperation is that of the Eurasian Economic Union (EAEU). Economic integration in Eurasia was originally pursued by Russia with no immediate concern and/or interest for China. It is becoming clear that both countries have developed strong interests in this region. While each country has pursued autonomously

Department of Economic Science – Verona University Santa Marta, Centre for International Studies, via Cantarane 24, Verona 37129, Italy.

E-mail address: [silvana.malle@univr.it](mailto:silvana.malle@univr.it).

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projects in Central Asia, where both are economically present and to a large extent competing, joint infrastructural projects may be convenient to both. China and Russia could either decide to strive one against the other for primacy in the region, or back down and engage in a process of cooperative networking. Judging from their comparative strengths and geo-economics neither could reasonably be a winner. But both could be losers to outsiders. Compromise may be the only way out in the short to medium term.

But compromise is not easy, either. First, Russia and China will need to find a common understanding on how to frame the contours of cooperation in a difficult region. The EAEU is a recent creation marred by internal difficulties through the entire process of its formation. Other complications have intervened after its starting. The main partner in the present structure is Kazakhstan. This is a country that can hardly be intimidated by either China or Russia and is able to play an important autonomous role in either fostering regional cooperation or stemming its inception. Agreements are also complicated by the interference of a number of outside players each with their own vested economic or extra-economic interests in the region.

Second, China's outreach to European markets is pursued autonomously through her Silk Road/One Belt-One Road fast transport project through Central Asia. This project, based on current and prospective cost-benefits, comprises a number of alternative transport infrastructures and routes compared to the legendary Silk Road. For China the transport route does not have to go through Russia. Any country in the region covets access to multimodal transport vehicles. China has already been building or renovating transport routes linking her western borders to Central Asian countries. By raising the prospect of a Free Trade Area between the EAEU and China that echoes Kazakhstan's earlier proposals Russia strives for a negotiation framework with China that would be more suitable to her interests, and perhaps easier to control. However, in light of the multifarious and often conflicting interests in a region exposed to ethnic animosities, unstable governance and social fracture, the final outcome is highly problematic.

Finally, the paper raises the question of whether sustainable economic cooperation can develop in the absence of more a comprehensive and forward looking alliance. Some developments suggest that the longstanding disengagement from coordination on defence is about to end. Important joint military exercises and efforts to work out a coordinated stance to regional conflicts could be a prelude to strategically-orientated cooperation in the future. It is too early to speculate whether Russia and China will move from economic cooperation to strategic alliance. Despite little evidence to date, this should not be ruled out on the basis of experience alone. While Russia moves eastwards turning her back to a generally antagonistic Europe, China's outreach westwards trespasses Asia, aiming at other markets, among which wealthy Europe emerges as a major attraction.

If, under the pressure of US-led policies of containment, China and Russia will both agree with ancient Sun Tzu that the best battle is the one that is not fought, their relations may take a new turn. In an optimistic scenario, Eurasia may provide both the motivation in the need for stability and an institutional framework for policy dialogue.

At the practical level, interstate consultative bodies in the region may be made more effective by envisaging joint policy actions to preserve stability against common threats.

### 1. Economic cooperation with modern China: work in progress

While China's transformation to market started in the eighties with Deng Xiao Ping's decision to turn the economy into a 'socialist market economy', Russia, before, during and after Gorbachev's inconclusive perestroika, ignored the tremendous changes at her eastern borders.

In agricultural China, the process of transformation was marked at its inception by Chinese features: on the one side, liberalisation of agriculture, farming and rural handicrafts, on the other, regulated openness to foreign investments. Large scale industry and banking remained under state control. These changes, together with further economic liberalisation, would take in a few decades China to the status of a dynamic world economy and a major strategic actor in the process of globalisation that the country was able to exploit to her advantage.

In industrialised Russia transformation to market was painful and systemic change deeper. While Soviet-type industry was slow to adapt to market and the debt burden inherited from the past constrained government policy, the resource-base of the economy strengthened (Malle, 2008). Economic recovery after the 1998 financial crisis was robustly helped by high commodity and hydrocarbon prices and demand from fast growing Europe. Russia's economic dependence from Europe increased spontaneously, helped by proximity of their relatively more developed regions and transport infrastructure.

Different transformation trajectories and market opportunities help explain why trade with China remained subdued for a long time despite two-digit growth in China after entry into the WTO in 2001 and robust growth in Russia. Russia's interest in China changed after the economic breakdown caused by the 2008 crisis and the successive collapse of commodity and energy prices. From 2008 China became the first trade partner for Russia replacing Germany. Slow and uncertain recovery after the crisis increased the perception of economic fragility among policy makers.

The 2008–2009 crisis was a cold shower for Russia. Not only the 7 percent annual growth from 2000 to mid-2008 that was hoped to bring about the doubling of the economy in ten years was interrupted, but subsequent developments proved that it could hardly be restored unless fundamental changes capable of upgrading and diversifying the economic structure intervened. Along a major policy rethinking forced by events and contrasting options regarding priorities, Russia's turn eastwards gained steam. President Putin's 7 May 2012 Edicts are an obligatory reference when marking the inception of a new approach to development and growth. Within this approach the focus fell on China as a privileged partner for trade and investment.

#### 1.1. Moving away from the West

Two fundamental concerns are behind this turn in policies. Both are related to Russia's large exposure to the West.

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