Russia and China expand economic cooperation

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In the face of sanctions imposed by Europe and the United States, Russia has significantly expanded economic cooperation with China in recent months. In response to the Pacific and Atlantic trading blocs, the TPP and TTIP, with which the US is striving to exclude Russia and China, a bloc between Russia and China is emerging.

At the APEC (Asia-Pacific Economic Cooperation) forum in Beijing last week, Russian and Chinese firms concluded dozens of contracts. The most important concerned the cooperation of the Russian state-owned oil firm Rosneft with the Chinese state-controlled company CNPC. Rosneft sold 10 percent of the Siberian Vankor field to CNPC.

Through the deal, the highly indebted Russian firm is seeking to pay off its external debts. Due to the sanctions by the European Union (EU) and US on the finance sector, large companies like Rosneft and Gazprom are now finding it difficult to service their debts. The dramatic devaluation of the rouble, worsened by deliberate speculation, has further weakened Russian energy firms with regard to their creditors.

A Chinese analyst told Reuters that the agreement to supply Russian energy to China would enormously strengthen relations between the two countries, with vast political implications.

In the past, foreign firms could only buy a stake in Russian energy extraction fields in exceptional cases, such as if its funding confronted a particular technical challenge. One of the main reasons for the arrest of oligarch Michael Khodorkovsky in 2003 and his sentence to a long prison term was that he had tried to sell oil fields in Siberia to US corporations.

By contrast, extraction at the Vankor field poses no particular challenge, and it is one of the largest in Siberia. President Vladimir Putin personally underscored the political importance of the contract. “Normally, we are very reluctant to allow foreign partners, but for our Chinese friends there are of course no restrictions,” he said.

Gazprom announced at the APEC summit that it was prepared to assume responsibility for the full investment to build the Sila Sibiri (Siberian Power) pipeline which is to supply Russian gas to China. In total, this amounts to $55 billion.

The Russian economic newspaper *Kommersant* wrote that the high costs for this pipeline could spell the end for SouthStream, because Gazprom did not have the financial resources to fund both projects at once. With South Stream, Russia intended to supply gas to Europe while avoiding Ukraine. The project was recently torpedoed by the EU.

Gazprom head Alexei Miller commented after the APEC conference that Russia could soon be supplying more gas to China than it does to Europe.

The contracts concluded at the APEC conference is only the latest example of the expansion of economic cooperation between Russia and China.

Already in May 2013, the Russian state monopoly Gazprom signed a contract with China’s CNPC to supply gas to China worth $400 billion. Following drawn-out negotiations over ten years, which had repeatedly ground to a halt, Russia rapidly concluded the contract as gas exports dropped to Europe due to the Ukraine crisis. Gazprom accepted a low price, well under the average price paid by European countries.

A Russian analyst pointed to Russia’s weak economic position compared to China:“The dependence of Gazprom and Rosneft on China is becoming increasingly great. Beijing can now insist upon unprofitable terms.”

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Putin has repeatedly made clear that the Kremlin intends to develop a stronger orientation towards Asia, and in particular China, as relations with the US and Europe deteriorate. Last year, China became Russia's most important trading partner, replacing Germany.

At the same time, European imports of Russian energy have fallen significantly in recent years, not least because there are an increasing number of alternative gas sources, such as shale gas; the US surpassed Russia in 2009 as the world's largest producer of gas. Russia's position on world markets had thus drastically deteriorated prior to the Ukraine crisis. Nevertheless, a major percentage of energy exports, on which the Russian economy is highly dependent, go to the EU. This could now be set to change.

China depends on Russian energy sources. In 2013, China overtook the US as the world's largest importer of crude oil and liquified fossil fuels. By 2020, China's oil imports are predicted to rise to 9.2 billion cubic metres per day—four times as much as in 2005. As a result of China's encirclement by the US, which among other things aims at controlling the sea lanes used for energy imports, China is attempting to secure energy resources in Russia.

Russia and China are also expanding their financial cooperation. Due above all to the sanctions restricting their access to Western capital markets, Russian banks are attempting to expand in to China. The second largest Russian bank, VTB, shifted from the London stock exchange to Singapore. The bank faces billions in losses this year due to the Ukraine crisis.

In addition, Russia and China have been discussing for several months a proposal to stop trading in US dollars and instead to use the yuan and the ruble. This would have a major impact on the world economy, further undermining the already weakened US dollar. China is the second largest economy in the world, while Russia, at ninth position, is in the top ten.

In the US and EU, the emerging alliance between Russia and China is viewed with growing concern. The *Financial Times* described a possible partnership between Moscow and Beijing as "America's number one foreign policy challenge."

In reality, Russia and China are responding to the formation of a bloc led by the US, which is aimed at economically isolating and militarily encircling them. The Trans-Pacific Partnership, from which Russia and China are excluded, will include approximately 40 percent of the global economy.

The two countries also plan to cooperate more closely in political and military matters. Russian Deputy Defence Minister Anatoly Antonov stated on Tuesday that in the future, the Moscow and Beijing would jointly combat "colour revolutions," such as February's CIA-backed putsch in Kiev.

Antonov stated, "All of this is happening nearby, and we think that Russia and China should cooperate to combat this challenge which poses a security risk to both of our states."

At the same time, the Russian ruling elite is deeply divided over the turn to China. Pro-US elements within the oligarchy, represented above all by Khodorkovsky, are appealing for the Ukraine crisis to be used for integration into the EU and to cooperate much more closely with Washington.

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