Dubious Economic Partnership

Why a China-Russia Free Trade Agreement Is Hard to Reach?

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Abstract: Since the successful conclusion of the Uruguay Round of trade negotiations in the early 1990s, regional trade agreements of various types, including bilateral free trade agreements (FTAs), have replaced internationally comprehensive agreements as the main driver for development of official trade relations. There is also a tendency for such agreements to extend beyond trade and cover security and other issues. Russia is a “resource-cursed” country like Australia, and there seems to be a *prima facie* case for China and Russia to conclude an FTA similar to the China-Australia Free Trade Agreement (ChAFTA). However, Russia intends to promote free trade with China via the Russian-led Eurasian Economic Union (EAEU) because it views any FTA in quite narrow political and security terms, and its economic agenda is orientated toward new industrial development rather than trade development. In comparison, China prefers an FTA within the framework of the Shanghai Cooperation Organization

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(SCO) because it is, at the current stage, most interested in enhancing economic development and trade across the Central Asian and wider Eurasian regions. Russian resistance to the idea of an SCO-based FTA was one of the reasons for China's initial development of the land part of the "One Belt, One Road (OBOR)" initiative. While China and Russia have recently agreed to work toward an FTA between China and the EAEU, it is not quite hopeful in the near future, and a ChAFTA-type FTA between China and Russia will be even more difficult to achieve mainly due to Russia's lingering strategic considerations.

Keywords: China–Russia relations; free trade agreement (FTA); Eurasian Economic Union (EAEU); "One Belt, One Road (OBOR)."

Faced by grave geopolitical and economic situations in recent years, Russia has been keen to expand trade with China through a new trade deal. But what kind of trade agreement is most viable for Russia and China? Can the example of the China-Australian Free Trade Agreement (ChAFTA) be applied to Russia or the Eurasian Economic Union (EAEU) established on January 1, 2015 under Russian leadership? What are the future prospects for Eurasian economic integration in view of the uneven China-Russia economic partnership? Apparently, Russia wants any trade deal with China to be based on a China-EAEU FTA, and China has officially agreed to this approach and pledged to connect its "One Belt, One Road" (OBOR) initiative to the EAEU. In reality, however, there are still many issues to be settled before a free trade deal can be reached between China and Russia or the EAEU.

This article first reviews the growing prominence of regional and bilateral FTAs since the last internationally comprehensive trade agreement was reached in 1994, analyzing the changing nature of many of these new agreements. It then looks into what China and Russia are seeking from FTAs. In the last section, the article assesses the possibility of an FTA between China and Russia (or the EAEU) in comparison with the ChAFTA, as both Russia and Australia are often regarded as "resource-cursed" countries.

The Rise of Regional Trade Agreements

The World Trade Organization (WTO) includes both "customs unions" and "free trade agreements (FTAs)" in its definition of "regional trade

agreements (RTAs).” In so doing, the WTO is making a distinction between “reciprocal trade arrangements between two or more partners,” i.e., FTAs and RTAs, and comprehensive agreements applicable to most of the world, such as the agreements reached at the Uruguay Round of negotiations in early 1994 under then General Agreement on Tariffs and Trade (GATT), the predecessor of the WTO.¹ Following the Uruguay Round, however, efforts to enhance comprehensive trade agreements through the Doha Round of negotiations have largely failed, and the WTO has openly acknowledged that RTAs “have become increasingly prevalent” over the past two decades.²

Many FTAs have turned out to be targets for criticism. As Shiro Armstrong, an economist at the Australian National University, concluded after examining the FTA between Australia and the United States (AUSFTA) signed in 2005, the “economic benefits [of FTAs] are usually overstated and that they are often more political than economic in their motivation.”³ He noted that the “AUSFTA was negotiated and signed within a year.....driven by the political determination of Australia’s then Prime Minister John Howard, to do a deal with America’s then president, George W. Bush, after the second invasion of Iraq.” As a result, the AUSFTA did not bring many benefits to Australia because the preferential agreement given to U.S. goods, services, and investment meant that other “lower-cost” sources were pushed aside.⁴

AUSFTA critics usually contrast the agreement with the results of the Uruguay Round in which Australia “secured all the gains available from trade negotiations — the major gains in efficiency from reducing the barriers protecting our less competitive industries, as well as those available

¹For the WTO’s treatment of regional trade agreements and preferential trade arrangements, see its official website: https://www.wto.org/english/tratop_e/region_e/rtta_pta_e.htm.

²East Asian Bureau of Economic Research and China Center for International Economic Exchanges, *Partnership for Change: Australia–China Joint Economic Report* (Sydney: Australian National University Press, August 2016), <http://press.anu.edu.au/publications/partnership-change>.

³Shiro Armstrong, “The Costs of Australia’s ‘Free Trade’ Agreement with America,” East Asia Forum, February 8, 2015, <http://www.eastasiaforum.org/2015/02/08/the-costs-of-australias-free-trade-agreement-with-america/>.

⁴Ibid.

from access to external markets,” and so the Uruguay Round “produced the win-win outcome we [Australia] should be seeking from all trade agreements.”⁵ Other economists like Paul Kerin also argue that reducing trade barriers leads to “efficiency gains” that strengthen the economy not by producing more, but by “moving from things we do less well to those we do better.” From that perspective, they point out that under the AUSFTA, Australia “gained no worthwhile access for beef (in which we are world competitive) for the next 18 years, but secured immediate and unrestricted access to the U.S. market for our motor vehicle industry (one of our least competitive industries).”⁶

Whatever argument economists present to challenge existent FTAs, FTAs or RTAs still seem more likely than a Doha Round agreement by all WTO members. As Gregor Irwin of the Chatham House believes,

Bilateral and regional free trade initiatives have replaced the sluggish Doha Round of negotiations over the past two decades.

*this is a turning point for global trade policy, with the WTO marginalized and the focus shifting to regional or plurilateral deals by 'coalitions of the willing.' It reflects how difficult multilateral deal making has become as economic weight has shifted to emerging economies whose trade goals differ from those of advanced economies in fundamentally important ways, making it harder for negotiators to find trade-offs and for politicians to sell these at home to skeptical audiences.*⁷

Australian Prime Minister Malcolm Turnbull also suggests that the world needs “to move towards a more flexible system that would allow like-minded countries to move ahead with ambitious agreements without necessarily obtaining the agreement of all WTO members, provided such

⁵Paul Kerin *et al.*, “The Free Trade Mythology of Added Prosperity,” *The Australian*, August 24, 2016, <http://www.theaustralian.com.au/news/inquirer/free-trade-mythology/news-story/678635c8912b69e495d0d5ffbe389efa>.

⁶Ibid.

⁷Gregor Irwin, “Realizing TTIP’s Strategic Potential,” Chatham House, July 2016, p. 4, <https://www.chathamhouse.org/sites/files/chathamhouse/publications/research/2016-07-14-realizing-ttip-strategic-potential-irwin.pdf>.

agreements [are] consistent with our goal of strengthening the multilateral trading system.”⁸

As the largest economy in the world, the United States is leading the effort to put in place two especially wide FTA-type (plurilateral) agreements. These are the Trans-Pacific Partnership (TPP) that would include Australia and a number of Asian countries but exclude China and Russia, and the Transatlantic Trade and Investment Partnership (TTIP) in which the United States would team up with the European Union (EU). At this stage it is unclear whether the U.S. President-elect Donald Trump would really “quit the TPP on the first day.” Nevertheless, in April 2016, U.S. Secretary of State John Kerry spoke about the strategic importance of these two agreements, saying that

*foreign policy is economic policy and economic policy is foreign policy. Without a doubt, these trade agreements are at the center of defending our strategic interests, deepening our diplomatic relationships, strengthening our national security, and reinforcing our leadership across the globe.....We need to reassure our partners in the Asia-Pacific as a means also of cementing our leadership with respect to other issues ranging from the DPRK and nuclear weaponry to the South China Sea to the fight against violent extremism.*⁹

In a similar vein, Gregor Irwin comments on the significance of the TTIP –

If the U.S. and the EU are able to agree on the regulations and standards affecting international trade, they will be able to define these globally for years to come. The overall aim is to maintain the central position of the U.S. and the West in shaping international standards and regulations, while leaving the countries that are intentionally excluded — such as China — with the choice of either following the lead of the U.S.

⁸Malcolm Turnbull, “Promoting Free Trade Benefits at Heart of G20 Summit in Hangzhou,” *The Australian*, September 3, 2016, <http://www.theaustralian.com.au/news/inquirer/promoting-free-trade-benefits-at-heart-of-g20-summit-in-hangzhou/news-story/5d71cc3458dd3d464e8d356a32848d1c>.

⁹John Kerry, “Remarks at the Pacific Council on International Policy,” U.S. Department of States, April 14, 2016, <http://www.state.gov/secretary/remarks/2016/04/255766.htm>.

*and like-minded trade policy-makers, or of creating their own costly alternatives.*¹⁰

Such explicit connection of the trade deals to national security and even geopolitical competition is a deviation from the established principles of free trade under the WTO, and has naturally triggered increasing concern from other countries, especially Russia and China.

Chinese and Russian Views on Free Trade Agreements

With regard to what kind of FTA is needed, China and Russia hold different views and deliberations. Although China has reached no comprehensive trade agreements since its accession to the WTO in 2001, it has concluded quite a few FTAs (as defined by the WTO) and now boasts very experienced negotiators. Initially focusing on trade in goods and tariff reductions, China has demonstrated considerable flexibility in its approach to FTAs. For example, the China-ASEAN FTA signed in 2002 included an “early harvest” program in which China agreed to unilaterally reduce tariffs in key areas including agriculture five years before being required to do so.¹¹ This rather narrow focus on goods and tariff reduction gradually changed as China realized that the structure of its economy was changing and, indeed, should be changed. Thus, its later FTAs, such as those with Iceland and Switzerland, covered much broader fields.¹²

However, China is still quite “selective” of FTA partners.¹³ To many observers, “the way in which China negotiates trade deals is also confounding. China appears to lack a *modus operandi*, so that the scope, strength, and details of its agreements vary widely. Some appear

¹⁰Irwin, “Realizing TTIPs Strategic Potential.”

¹¹Christopher K. Johnson, “President Xi Jinping’s ‘Belt and Road’ Initiative,” Center for Strategic and International Studies, March 2016, <https://csis-prod.s3.amazonaws.com/s3fs-public/publication/160328-Johnson.PresidentXiJinping.Web.pdf>.

¹²Pan Xiaoming, “China’s FTA Strategy,” *The Diplomat*, June 1, 2014, <http://thediplomat.com/2014/06/chinas-fta-strategy/>.

¹³Robert Sutter, “China’s Grand Strategy in Asia—Testimony delivered to the US-China Economic and Security Review Commission,” U.S.-China Economic and Security Review Commission, March 1, 2014, <http://www.uscc.gov/sites/default/files/SUTTER.Testimony.pdf>.

exceedingly generous to the trade partner, while others aggressively promote and protect domestic industries.”¹⁴ For instance, although the 2014 China-South Korea FTA provided for much trade liberalization over a 20-year period, there were significant exemptions and provisions for delay in negotiations on services and investment. As some experts at Peterson Institute for International Economics (PIIE) commented, “Rather than [being] a high-water mark for Chinese FTAs, the Korea-China FTA reconfirmed China’s deliberate and incremental approach to trade and investment liberalization.”¹⁵

Publicly, at least, the Chinese attitude to the WTO seems positive. At the WTO Ministerial Conference held in Bali in December 2013, the Chinese delegation said “it would aim to strengthen WTO as a multinational trading system and work towards the conclusion of the Doha Round of multilateral negotiations.”¹⁶ In reality, however, as the Doha Round is going nowhere for now, China — like others including the United States and Australia — have focused on various FTAs and tried to maximize their advantages. Like the Obama Administration with the TPP, China uses FTAs largely as a political tool, for “most FTAs include provisions for dialogue and cooperation among the trade pact parties.”¹⁷ In particular, Chinese President Xi Jinping “sees robust economic diplomacy as a key element in his overall diplomatic strategy and China seeks to demonstrate its grasp of the notion that, in Asia, economics is security.”¹⁸

This linking of economics and security should be no surprise. Nevertheless, as in any country including the United States, there are always differing opinions regarding the relative importance of issues ready to come to the fore if given a chance. Gregor Irwin notes that some Chinese officials

¹⁴Nargiza Salidjanova, “China’s Trade Ambitions: Strategy and Objectives behind China’s Pursuit of Free Trade Agreements,” Staff Research Report 28 (Washington, D.C.: U.S.-China Economic and Security Review Commission, May 2015), <http://origin.www.uscc.gov/sites/default/files/Research/China's%20Trade%20Ambitions%20-%202005.28%2015.pdf>.

¹⁵Jeffrey J. Schott, Euijin Jung, and Cathleen Cimino-Isaacs, “An Assessment of the Korea-China Free Trade Agreement,” Peterson Institute for International Economics, December 2015, <https://piie.com/sites/default/files/publications/pb/pb15-24.pdf>.

¹⁶Pan, “China’s FTA Strategy.”

¹⁷Ibid.

¹⁸Johnson, “President Xi Jinping’s ‘Belt and Road’ Initiative.”

“regard the TPP as part of a U.S.-driven geopolitical strategy to isolate China. At the other extreme, some would like China to join the TPP, and see this as an opportunity to drive reforms in a similar way that the prospect of WTO accession did 20 years ago.”¹⁹ Therefore, the Chinese approach to international trade negotiation is very much circumstances-driven, depending on the country or region and what it can do for China at a particular time.

In practice, as much as in theory, the Russian approach to FTAs is far from the idea of driving reforms or of “major gains in efficiency from reducing the barriers protecting less competitive industries,”²⁰ because, at the very least, it clashes with Russia’s industrial development program (including that of its far eastern regions) and desire to escape from the commodity “resource curse.” In his speech to the St. Petersburg Economic Forum on June 17, 2016, Russian President Putin said that Russia’s “import replacement program” is “aimed at manufacturing goods that are competitive on the global market;” he went on to stress that it is also about “finding a place for our companies in global manufacturing and technological alliances — and not in secondary roles, but as strong and effective partners.”²¹

Like China and the United States, Russia subscribes to the notion that “economics is security,”²² yet its economics is much more defensive in nature and less orientated to boosting domestic economic efficiency through international trade. To many European scholars, “Moscow believes that the future world order will consist of macro-blocs (or alliances), and that in order to have leverage over world affairs, countries will need to be

While China tends to adopt a flexible approach to FTAs, Russia aims to establish strong economic and political blocs through FTA negotiation.

¹⁹Irwin, “Realizing TTIP’s Strategic Potential.”

²⁰Kerin *et al.*, “The Free Trade Mythology of Added Prosperity.”

²¹See President Putin’s speech at the St. Petersburg International Economic Forum on June 17, 2016, <http://en.kremlin.ru/events/president/news/52178>.

²²Johnson, “President Xi Jinping’s ‘Belt and Road’ Initiative.”

affiliated to one, or better still to dominate one.”²³ According to the very influential Sergei Karaganov, Dean of the School of World Economics and International Relations at the Higher School of Economics, “having realized the futility of its hopes to establish a unipolar world, the United States has adopted a policy of containing China and building a new U.S.-centered configuration around itself, using mainly economic and political tools. The first step was the launching of the Trans-Pacific Partnership with a group of Asia-Pacific countries.”²⁴ This belief is one of the driving forces of Russia’s National Technology Initiative (NTI) that aims to give a massive injection to the country’s future high-tech industries and exports. The NTI puts a particular emphasis on the role of “economic-trade blocs” and how they act to protect value-added production chains and make it difficult for producers from non-bloc countries to enter into these chains. Moreover, NTI documents advocate that it is necessary for Russia to form “alliance networks in the interests of securing technological sovereignty.”²⁵

The Russian rhetoric is in the same camp that, like the Australian Prime Minister, argues that “the proliferation of regional and bilateral agreements” could be part of a process leading to “a more open global trading and investment system.”²⁶ Yet, the Russian version of the story has much less to do with eventual involvement of the WTO than with alliances of economic-trade blocs. As Tatyana Valovaya, the Russian minister in charge of Eurasian Economic Community (EAEC) affairs, told a Washington audience in October 2015:

Currently, the process of forming new regional blocs is underway. We consider it to be a positive phenomenon that can provide sustainability to development of world economic relations and the global economy, as

²³Mathieu Duchâtel *et al.*, “Eurasian Integration: Caught between Russia and China,” European Council of Foreign Relations, June 7, 2016, http://www.ecfr.eu/article/essay_eurasian.

²⁴Sergei Karaganov, “A Time of Trouble and a Time of Opportunity,” *Russia in Global Affairs*, February 13, 2016, <http://eng.globalaffairs.ru/number/2015-Global-Tendencies-and-Russian-Policies-17976>.

²⁵Version 1 of “National Technology Initiative, Strategic Study, Key Hypotheses of NTI — Preliminary material to develop the NTI Strategy,” p. 25. This document was available at an NTI forum and exhibition at VDNH in Moscow on July 21, 2016.

²⁶Turnbull, “Promoting Free Trade Benefits at Heart of G20 Summit in Hangzhou.”

*both will be subject to relations between these regional blocs. The EAEU is one of several such centers that are actively developing relations with both Western and Eastern partners.*²⁷

President Putin's speech at the St. Petersburg International Economic Forum on June 17 laid out the external program of the EAEU: "Over 40 states and international organizations have expressed the desire to establish a free trade zone with the EAEU. Our partners and we think that the EAEU can become one of the centers of a greater emergent integration area."²⁸ Thus it is very clear that, in contrast to the Chinese circumstances-driven approach to trade negotiations, Russia is explicitly focused on "economic-trade blocs."

Besides Russia, membership of the EAEU also includes Kyrgyzstan, Armenia, Belarus, and especially Kazakhstan, whose economy is more than twice the size of the other non-Russian members combined. In some observers' eyes, Kazakhstan "aims to become the largest business and transit hub of the Central Asia region" and the EAEU is seen as one "means to this end." Yet in the meantime, there is "no consensus within Kazakhstan" in favor of the EAEU and many are afraid that, following the annexation of Crimea, "their country might be the next victim of Russia's imperial ambitions."²⁹ Indeed, Kazakhstan has strongly rejected any suggestion that it should form a currency union with Russia. Nevertheless, with access to a common market of 170 million people, at least some "Kazakh officials remain optimistic that the EAEU will help the country's economy to grow," though the business community has been "disappointed in the lack of opportunities presented" so far.³⁰ For its current political elites, the bonds of the past are still strong and breaking with

²⁷Eurasian Economic Commission, "Formation of Mega Regional Trading Blocs is Positive Phenomenon Able to Provide Sustainability for Development of World Economic Relations and Global Economy," October 30, 2015, <http://www.eurasiancommission.org/en/nae/news/Pages/30-10-2015-11.aspx>.

²⁸President Putin's speech at the St. Petersburg International Economic Forum on June 17, 2016.

²⁹Meruert Makhmutova, "Kazakhstan: Perspectives on Eurasian Integration," European Council on Foreign Relations, June 8, 2016, http://www.ecfr.eu/article/essay-urasian_integration_kazakhstan.

³⁰Ibid.

Russia and sitting outside the EAEU is not an emotional possibility. Thus, Kyrgyzstan, the only Central Asian economy in the EAEU, is in no position to defy Russia because its economy is highly dependent on financial remittances from its citizens working in Russia, who seem to be receiving more favorable visa treatment than those from non-EAEU Central Asian countries like Uzbekistan and Tajikistan.³¹

Is a ChAFTA-Type China-Russia FTA Possible?

From a longer-term perspective, Russia (and the EAEU) might try to entice China to conclude an FTA similar to the 2015 ChAFTA between China and Australia. As a recent Australian-Chinese research report advocates, "ChAFTA is the most open and liberalizing such arrangement that China has entered into with any developed economy and one which goes further in its partner country liberalization than Australia's previous agreements."³²

China signed the ChAFTA for a number of reasons, including the need for resources and energy security, the hope that Australian services providers can help improve such services in China, the domestic demand for high-quality Australian agriculture products, and the fact that Australian manufacturers can provide next-to-no competition to Chinese manufacturers. Besides, the overall scale of such Australian activities is comparatively small in global terms and thus not a significant threat to Chinese entities involved in such activities.³³ China may also have felt that tying Australia closer to itself in economic terms would weaken the latter's political and security relationship with the United States. Australia, on the other hand, signed an FTA with China primarily because it wanted

³¹Kanat Shaku, "Central Asian Remittances from Russia Begin to Recover," Bneintelinews, September 30, 2016, <http://www.intellinews.com/central-asian-remittances-from-russia-begin-to-recover-107159/?source=kyrgyzstan>.

³²Dmitri Trenin, "Russia-China Entente Must Move Past Rhetoric," *Global Times*, September 8, 2016, <http://www.globaltimes.cn/content/1005412.shtml>.

³³At a business event in Shanghai on August 26, 2105, attended by one of the authors, Australian Trade Minister, Andrew Robb, suggested that he had successfully put it to the Chinese that the relatively small size of the Australian economy compared to some others meant that ChAFTA could be seen as a test case, somewhat in the mode of the Shanghai Pilot Free Trade Zone.

improved access to the large and expanding Chinese market for services and high-quality agriculture products. It is able to accept imports of most Chinese manufactured products because it produces few such products itself. This does not mean that the ChAFTA is without its critics who see it as being more about market access than free trade — as it is argued about the 2005 AUSFTA. Whatever the case, there was no particular policy goal to escape the “resource curse.” As a matter of fact, Australia effectively took advantage of it to play on China’s insecurity in the resource area.

However, Russia is potentially a major strategic competitor to China in both Central Asia and the greater Eurasian continent, so it is very unlikely that China will see Russia in the same resource security light as it sees Australia. The Russian emphasis on its own technological development as it tries to escape the “resource curse” is, if anything, likely to generate competition with Chinese manufacturers. This means that the trade switch suggested by former Chinese Ambassador to Russia Li Fenglin — “from Rosneft and Gazprom to middle and small size business” — is less likely because both countries may want to produce similar products.³⁴ According to Victor Vekselberg, Chairman of the Russian-Chinese Chamber of Machinery, Technologies and Innovations, “cooperation in mechanical engineering” is, a “catastrophe.”³⁵ Vekselberg suggests that “joint Russian-Chinese companies could become world leaders in building robots, new high-tech materials and planes.” But this begs the question of why China would want to do that.

It needs to be noted that the development of the China-Australia economic and trade relationship was essentially driven by the business sectors of both countries, and was augmented by the fact that about 2 percent of Australia’s population of nearly 25 million were born in China. In addition, many others have Chinese ancestry.³⁶ (There are also about 140,000 students from China.) Existing strong business ties greatly assisted

³⁴Gleb Fedorov, “Target \$200 Bln: Russia, China Explore Ways to Stimulate Trade,” *Russia Beyond the Headlines*, June 2, 2016, <http://rbth.com/international/2016/06/02/target-200-bln-russia-china-explore-ways-to-stimulate-trade.599467>.

³⁵*Ibid.*

³⁶Australian Bureau of Statistics, “Migration, Australia,” March 2016, <http://www.abs.gov.au/ausstats/abs@.nsf/mf/3412.0/>.

FTA negotiations by helping negotiators understand the consequences of individual concessions or lack of concessions. Russia and China have no such economic and cultural ties. In this light, an FTA between China and Russia (or the EAEU) simply seems unlikely.

Compared with
Chinese–Australian
interdependence,
Russia and China
share much looser
economic and
cultural ties.

Following the breakup of the USSR, Russia concentrated its trade energies on Europe. At the same time, the rapidly transforming Chinese economy was leveraging on the strengths of its Pacific neighbors — with countries such as the U.S. providing markets for its output of goods, and countries such as Australia providing natural resource inputs. Robert Sutter, a renowned American professor, points out that “Russian and Chinese interest in close

alignment waxes and wanes and seems secondary to their respective relationships with the West.”³⁷ The more recent issues of Crimea (and Eastern Ukraine) and the South China Sea seem to be pushing Russia and China closer toward each other. They have, in the words of another American expert Christopher K. Johnson, formed an “unspoken agreement to simply not talk about the great game between Russia and China in Central Asia.”³⁸ At a Russian Council of International Affairs (RCIR) conference in Moscow on May 30–31, 2016, Ambassador Li Fenglin claimed that “the optimal way to link the EAEU and the Silk Road Project (the land part of the ‘One Belt, One Road’ initiative) would be to create a free trade agreement within the Shanghai Cooperation Organization.” He went on to say: “China suggested this idea a long time ago, but Russia didn’t want to. Why? I don’t know.”³⁹

According to Lukin, the Chinese hopes that the SCO would play a significant role in economic cooperation were thwarted by Russia and other countries which feared Chinese economic domination and preferred to

³⁷Sutter, “China’s Grand Strategy in Asia — Testimony delivered to the US-China Economic and Security Review Commission.”

³⁸Johnson, “President Xi Jinping’s ‘Belt and Road’ Initiative.”

³⁹Fedorov, “Target \$200 Bln: Russia, China Explore Ways to Stimulate Trade.”

work within the familiar post-Soviet framework. In many respects the proposed “Silk Road Economic Belt” was a reaction to this Russian rejection.⁴⁰ It would be very hard for Russia to have the influence that it feels is necessary if the SCO were to be a free trade zone. In particular, it would lose control of the EAEU and its import replacement and NTI policies. Thus, there is, as Ambassador Li Fenglin observed at the RCIR Moscow forum, a lack of trust on the Russian side. And the Chinese are sensitive to this.⁴¹

When some Russian concerns about China’s OBOR initiative were evident in the spring of 2015, President Xi “responded by sending an emissary to meet directly with President Putin.” Christopher K. Johnson observed that it “spoke volumes” about “the nature of Sino-Russian relations” that this emissary was a “member of the CCP Politburo and Xi Jinping’s de facto chief of staff — instead of a senior diplomat.”⁴² It was probably these sensitivities that led President Xi to sign a joint statement with President Putin on May 8, 2015, which reiterates that Russia and China will

*continue to search for points connecting regional economic integration processes within the framework of the Eurasian Economic Union and ‘Silk Road Economic Belt’ in the interest of providing sustainable economic growth in Eurasia on the basis of strengthening cooperation and trust. Both sides look forward to the start of negotiations between the Eurasian Economic Union and China about concluding an agreement on trade-economic cooperation.*⁴³

⁴⁰ А. В. Лукин. Шанхайская организация сотрудничества: в поисках новой роли // Россия в глобальной политике. ISSN:1810-6439. 9 июля 2015, Available at <http://www.globalaffairs.ru/valday/Shankhaiskaya-organizatsiya-sotrudnichestva-v-poiskakh-novoi- roli-17573>.

⁴¹ Fedorov, “Target \$200 Bln: Russia, China Explore Ways to Stimulate Trade.”

⁴² Johnson, “President Xi Jinping’s ‘Belt and Road’ Initiative.”

⁴³ Kremlin.ru, “Совместное заявление Российской Федерации и Китайской Народной Республики об углублении всеобъемлющего партнерства и стратегического взаимодействия и о продвижении взаимовыгодного сотрудничества”, May 8, 2015, Available at <http://kremlin.ru/supplement/4969>.

An associated document specifies “consideration of the long-term goal of moving towards a free trade zone between China and the EAEU,”⁴⁴ and indicates that working groups would be formed to generate progress in related issues. According to Alexander Gabuev, a senior associate at the Carnegie Moscow Center, “though still equivocal in language, the document signifies major departure from the previous collision course.”⁴⁵ The “lack of trust on the Russian side” noted by Ambassador Li Fenglin is matched to some degree by a lack of trust on the Chinese side. While Putin and Xi seem to have formed a close personal relationship, Russian and Chinese participants at the RCIR Moscow forum⁴⁶ recognized that at lower levels there is significant “mutual mistrust.”⁴⁷ Noting that Chinese leaders have been “surprised by the degree of the Kremlin’s unpredictability,” Gabuev believes that

*the decision to annex Crimea and to directly challenge the U.S.-led international order — and to pay a huge economic price for doing so — was, in Beijing’s view, irrational and against Russia’s long-term interests. Concerns that Russia was worryingly unpredictable were later confirmed by Moscow’s direct involvement in Syria and the rapid escalation of tensions with Turkey, neither of which Chinese experts anticipated. Another risk was that the tensions between Russia and the West would escalate and put greater pressure on China to take sides.*⁴⁸

⁴⁴Kremlin.ru, “Совместное заявление Российской Федерации и Китайской Народной Республики о сотрудничестве по сопряжению строительства Евразийского экономического союза и Экономического пояса Шелкового пути”, May 8, 2015. Available at <http://kremlin.ru/supplement/4971>.

⁴⁵Alexander Gabuev, “Eurasian Silk Road Union: Towards a Russia-China Consensus?” *The Diplomat*, June 5, 2015, <http://carnegieendowment.org/2015/06/05/eurasian-silk-road-union-towards-russia-china-consensus-pub-60331>.

⁴⁶Both authors attended this forum, and the very friendly tone of presentations and comments in the May 31 morning sessions gradually gave way to a sharper and more critical atmosphere in the afternoon sessions.

⁴⁷Fedorov, “Target \$200 Bln: Russia, China Explore Ways to Stimulate Trade.”

⁴⁸Alexander Gabuev, “Friends with Benefits? Russian-Chinese Relations After the Ukraine Crisis,” Carnegie Moscow Center, June 29, 2016, http://carnegieendowment.org/files/CEIP_CP278_Gabuev_revised_FINAL.pdf.

Apart from the lack of trust below the top-leadership level, there are other grounds for both sides being very skeptical about what will actually be achieved in attempts to connect the EAEU to the OBOR. The two parts of the “great game between Russia and China” are asymmetric. As already noted, Russian thinking about the EAEU has less to do with economics than with security and political prevalence in the heartland of Eurasia, while Chinese thinking about the OBOR is rather in terms of economics and long-term influence over broader regions.

Moreover, even when economic issues are considered, the Russian notion differs sharply from the Chinese one. As mentioned above, Russia’s economic concept here has much less to do with free trade than a desire to escape its “resource curse”⁴⁹ and re-industrialization via import replacement and rapid technological development — all this within a framework of economic-trade-technology blocs. In contrast, China’s economic concept is mainly about developing its interior provinces and providing both resources and markets for its production through enhanced free trade, instead of building economic-trade-technology blocs.

Then there is the philosophical aspect of the OBOR initiative and its lack of an institutional structure. According to Kerry Brown and He Jingjing, China’s statements on the OBOR make it clear that “China is seeking to work within existing international systems, not outside them,” although it wants “a stronger voice in the global economic order.”⁵⁰ Brown and He believe that China mainly wants to “stimulate trade by lowering trade barriers, reducing trade costs, and facilitating the flow of information, goods and people” along the OBOR route. However, as described by the international consulting firm PricewaterhouseCoopers (PwC), the OBOR is “more [of] a vision expressing China’s grand ambitions rather than a practical implementation plan,” a large “umbrella” covering a “potentially huge collective of current, planned and future infrastructure projects,

⁴⁹Version 1 of “National Technology Initiative, Strategic Study, Key Hypotheses of NTI — Preliminary material to develop the NTI Strategy,” p. 2.

⁵⁰Kerry Brown and He Jingjing, “Making Sense of China’s ‘One Belt, One Road’: Understanding Chinese Views,” China Briefing, April 21, 2016, <http://www.china-briefing.com/news/2016/04/21/making-sense-chinas-one-belt-one-road-understanding-chinese-views.html>.

accompanied by a host of bilateral and regional trade agreements.”⁵¹ Similarly, a Chinese scholar maintains that “OBOR does not prioritize trade and investment concessions, which makes it essentially different from traditional regional economic cooperation models such as FTAs and the TPP.”⁵² It is rather “open and flexible,” according to such a view, in that it “does not seek to build a unified institutional arrangement; it does not require any sovereign alienation, nor does it produce strategic military presence.”⁵³

Russian thinking about the EAEU and OBOR has its own element of “grand ambitions.” Writing about the land part of the OBOR initiative, Sergei Karaganov contends that the “strategy aims to create a belt of stability and economic development around China and envelop it with new markets.” It is difficult to disagree with this view. However, Karaganov goes on to suggest that “in the future, a duumvirate advantageous to all, may emerge in Central Asia, in which China will provide investment and resources, and Russia will contribute security and geopolitical stability.”⁵⁴ It appears to be the sort of implicit deal that the United States offered to China in East Asia years ago. But it is clear that China wants its own say in East Asian security issues, so in the view of the authors of this article, it would be quite surprising if this is not the case with Chinese deliberations in Central Asia.

Karganov and some other Russian scholars also hold a view about the greater Eurasian region that would hardly find any echo from China. They write about the formation of “geopolitical macro-blocs”: one would be led by the United States with the help of TTIP and TPP, while another called the “Community of Greater Eurasia” would include “China, Russia, India, Kazakhstan, Iran, and many other states.” This “economic and political grouping” would be based on the SCO, with Russia “leading in diplomacy

⁵¹PwC’s Growth Markets Centre, “China’s New Silk Route: The Long and Winding Road,” February 2016, <http://www.pwc.com/gx/en/issues/high-growth-markets/publications/china-new-silk-route.html>.

⁵²Zhao Hong, “China’s One Belt One Road: An Overview of the Debate,” *Trends in Southeast Asia*, no. 6 (Singapore: ISEAS Publishing, 2016).

⁵³Shi Yinong, “Yidai Yilu: Qiyuan Shenshen [One Belt and One Road: Praying for Cautiousness],” *World Economy and Politics*, No. 7 (2015).

⁵⁴Karaganov, “A Time of Trouble and a Time of Opportunity.”

and security building.”⁵⁵ To the authors of this article, such a view is nothing but a mere fantasy.

Given all this, it is not surprising that Sergei Blagov, a Moscow-based researcher, wrote in *Asia Times* in June 2016 that Russia has “outlined an ambitious vision of a new global integration grouping on top of already existing economic and political unions in Eurasia. Yet there is a lack of clarity over how the proposed entity could be reconciled with the existing regional organizations and agreements.”⁵⁶ Other observers like Dmitry Trenin also pointed out that the Xi-Putin agreement “is now clearly demanding specifics.”⁵⁷

Russia and China can hardly reach an FTA due to their trust deficit as well as divergent geopolitical and economic deliberations on Eurasia.

At present, the EAEU is still trying to develop a plan of action for FTA negotiations and has engaged consultants to help in this process, starting with the disadvantage that the Chinese are more experienced at something approaching genuine free-trade negotiations. The negotiating process will be a drawn-out affair, and is unlikely to achieve much success for the reasons discussed above. Meanwhile, Kazakhstan is moving closer to a time when its present pro-Russia governing elite expires, and China’s OBOR initiative is seen by many as “an alternative or reserve option in case the EAEU fails.”⁵⁸ In this situation, China would be willing to oblige, as suggested by the fact that soon after the Putin-Xi agreement on May 8, 2015, China and Kazakhstan signed a “declaration of coordination between OBOR and Kazakhstan’s national infrastructure development program, NurlyZhol” in September of the same year.⁵⁹ In the view of the authors of this article, it is

⁵⁵Sergei A. Karaganov, Kristina I. Cherniavskaia, and Dmitry P. Novikov, “Russian Foreign Policy: Risky Successes,” *Harvard International Review*, Vol. 37, No. 3 (Spring 2016), pp. 74–79.

⁵⁶Sergei Blagov, “Russia Eyes ‘Greater Eurasia,’” *Asia Times*, June 20, 2016, <http://www.atimes.com/article/russia-eyes-greater-eurasia/>.

⁵⁷Trenin, “Russia-China Entente Must Move Past Rhetoric.”

⁵⁸Makhmutova, “Kazakhstan: Perspectives on Eurasian Integration.”

⁵⁹Gabuev, “Friends with Benefits? Russian-Chinese Relations After the Ukraine Crisis.”

easy to speculate that the earlier-noted Chinese willingness to tailor FTAs to meet the circumstances at hand might eventually be too much for resource-rich Kazakhstan to resist.

Conclusion

While the present trend for the world to engage in the formation of FTAs seems to offer the possibility of “resource-cursed” Russia (or the EAEU) concluding an FTA with China in the form of similarly “resource-cursed” Australia’s ChAFTA, the prospects are quite slight. The ChAFTA tended to enhance Chinese security rather than reduce it because of the potential implications for Australia’s relationship with the United States and for China’s resources and energy security. The ChAFTA was also made possible because the relatively small size of the Australian economy and the volume of its high-quality goods and services did not make them a major threat to Chinese producers. In contrast, the present Chinese focus on economic and trade issues — albeit with a security background — cannot easily be reconciled with Russia’s strong emphasis on security issues. If an FTA is to be concluded, it will need to ensure China’s long-term sense of security by not enhancing Russian power.