

China and Russia: Economic Unequals

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Xi Jinping and Vladimir Putin are attempting to put economics at the center of their strategic partnership. “Economic cooperation and trade, as a key pillar of our relations, is crucial to the common development and revitalization of China and Russia,” Xi said during a visit to Moscow in June 2019.¹ “We enjoy an unprecedentedly high level of trust and cooperation,” Putin said several months later. “This is an allied relationship in the full sense of a multifaceted strategic partnership. This is reflected in the economy.”²

Xi and Putin’s signature economic visions even appear complementary at first glance. Xi’s Belt and Road Initiative (BRI) has unleashed Chinese companies to build roads, railways, fiber-optic cables, and other hard infrastructure across the Eurasian supercontinent and beyond. Putin’s Eurasian Economic Union (EAEU) harmonizes customs processes to create a single market among Russia, Armenia, Belarus, Kazakhstan, and Kyrgyzstan. The world, and especially where these efforts most directly overlap in Central Asia, needs both “hard” and “soft” infrastructure upgrades. Playing up their personal relationship, Xi and Putin have repeatedly promised to “link” the BRI and EAEU. But they have provided few practical details, leaving observers to speculate about the future of their economic relations.

This report examines four dimensions of China-Russia connectivity and reveals a growing partnership that faces structural constraints. Trade is highly concentrated in natural resources, where Chinese and Russian interests most strongly overlap. Investment is constrained by corruption and poor infrastructure in Russia. People-to-people ties have been improving but mistrust remains, as the Covid-19 pandemic has revealed. Even as China and Russia cooperate in building digital infrastructure, each side imposes restrictions that limit data flows. Standing in the way of deeper connections are Russia’s development challenges and both governments’ obsessions with maintaining control.³

1. Neil MacFarquhar, “Xi Jinping’s Visit to Russia Accents Ties in Face of Tensions with U.S.,” *New York Times*, June 5, 2019, <https://www.nytimes.com/2019/06/05/world/europe/xi-jinping-china-russia.html>.

2. Vladimir Putin, “Valdai Discussion Club Session,” (speech, Valdai Discussion Club, Moscow, October 3, 2019), <http://en.kremlin.ru/events/president/news/61719>.

3. Jonathan E. Hillman, *The Emperor’s New Road: China and the Project of the Century*, forthcoming (Yale University Press, September 2020), <https://bit.ly/BeltRoadBook>.

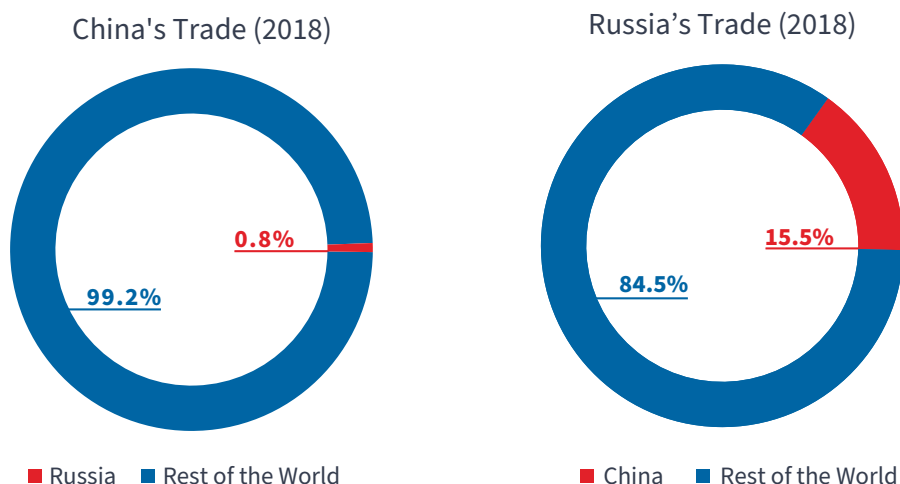
After assessing each of these areas, a final section considers the future trajectory of China-Russia economic relations and its implications for U.S. interests. There is room for growth, but as China and Russia's economic connections strengthen, their partnership will become even more unequal. Russia's junior status will become more of a liability, and Russian officials could be incentivized to reduce the risk of greater reliance on China. China's sheer mass, proximity, and willingness to economically coerce its partners could eventually compel Russia to look again to the West, where most of its trade remains despite its growing ties with China.

Trade

Xi and Putin tout rising bilateral trade levels, a metric that emphasizes progress and partnership while masking how Russia has become more dependent on China. In 2006, Putin announced a goal of increasing bilateral trade to at least \$60 billion by 2010. Trade growth stalled from 2010 to 2015 before recovering. The official goal was then raised to \$100 billion, which the countries achieved in 2018. Last year, bilateral trade nearly hit \$110 billion, and Putin and Xi announced a new goal of \$200 billion in trade by 2024.⁴

Scratching the surface of these numbers reveals a picture that is less promising for Russia. In 2010, China surpassed Germany to become Russia's largest single trading partner. To be clear, the European Union as a whole remains Russia's largest partner, responsible for \$260 billion (€232 billion) in trade in 2019, more than twice China's trade with Russia. But China has become more important for Russia in recent years, accounting for 15.5 percent of its total trade in 2018. Russia, in contrast, only accounted for 0.8 percent of China's total trade in 2018.⁵ Russia's largest export, energy, is strategically important, but as the trade relationship becomes even more lopsided, China stands to command more influence as a buyer than Russia does as a supplier.

China-Russia Trade Disparities



Source: Bruegel

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4. Unless otherwise noted, bilateral trade figures refer to trade in goods.

5. Alicia Garcia-Herrero and Jianwei Xu, "How Does China Fare on the Russian Market? Implications for the European Union," *Russian Journal of Economics* 5, no. 4 (December 2019): 385-399, <https://rujec.org/article/49346/>.

Xi and Putin have underscored that trade cooperation is expanding across sectors, but over the past two decades, it has become more concentrated in raw materials. “The trade structure is diversifying. Of course, energy accounts for over 70 percent of our exports, but this is natural,” Putin said last year.⁶ He went on to highlight Russia’s exports of nuclear power systems, aircraft, and even a missile warning system. Russia is China’s largest arms supplier, providing 70 percent of China’s arms imports between 2014 and 2018.⁷ These examples—nuclear, aviation, and arms exports—are politically appealing because they portray Russia as technologically advanced and strengthen the impression of deeper cooperation on strategic issues.

But the reality is less flattering for Russia. Russia exported a greater range of products to China during the 1990s, when China was still developing. Now their roles have been reversed.⁸ As in other higher-value areas, China is increasingly competitive in global arms sales and has surpassed Russia to become the world’s second-largest arms producer.⁹ Russian firms have accused China of illegally copying Russian military hardware.¹⁰ They should be wary. Chinese firms are likely to jettison their Russian partners, as they have with other foreign firms, after becoming self-sufficient in producing more sophisticated gear.

The U.S.-China trade war revealed Russia’s eagerness to replace U.S. agriculture exports to China but also highlighted the barriers it faces. “There’s a niche being freed up in China [by the U.S. tariffs] and we can grow into it,” an official in Russia’s Far East told the *Wall Street Journal* last year. “We can sell all we can grow—the demand is unlimited.”¹¹ But Russia’s ability to grow is limited. Russia’s soybean production was already ramping up prior to the trade war. Rising land costs, poor infrastructure, and bureaucratic red tape all stand in the way of greater output.¹² These constraints will not be addressed overnight, but the worse U.S.-China trade relations become, the greater incentive Russian officials have to address them.

Russia’s defensive interests limit the most ambitious proposals for deeper integration. Russia drives the EAEU and has pursued relatively modest trade agreements with outside partners to protect its weaker industries.¹³ The EAEU-China trade agreement, which went into force last year, does not lower tariffs. Russian officials have also resisted establishing a free trade area that covers members of the Shanghai Cooperation Organization. Given China’s sheer size, Russia is likely to continue avoiding deeper free trade arrangements. This strategy is politically understandable but economically self-defeating. The longer Russia waits, the more sophisticated China’s production of higher-value goods becomes. As a result, Russia may find it has less and less to protect.

6. Putin, “Valdai Discussion Club Session.”

7. Pieter D. Wezeman et al., “Trends in International Arms Transfers, 2018,” Stockholm International Peace Research Institute (SIPRI), 2019, https://www.sipri.org/sites/default/files/2019-03/fs_1903_at_2018.pdf.

8. “What Does China Import from Russia? (2017),” Observatory of Economic Complexity, accessed May 22, 2019, https://oec.world/en/visualize/tree_map/hs92/import/chn/rus/show/2017/.

9. “New SIPRI Data Reveals Scale of Chinese Arms Industry,” SIPRI, January 27, 2020, <https://www.sipri.org/media/press-release/2020/new-sipri-data-reveals-scale-chinese-arms-industry>.

10. Dimitri Simes, “Russia up in Arms over Chinese Theft of Military Technology,” *Nikkei Asian Review*, December 20, 2019, <https://asia.nikkei.com/Politics/International-relations/Russia-up-in-arms-over-Chinese-theft-of-military-technology>.

11. Thomas Grove and Anatoly Kurmanaev, “A Surprise Winner from the U.S.-China Trade Spat: Russian Soybean Farmers,” *Wall Street Journal*, February 21, 2020, <https://www.wsj.com/articles/russia-exploits-u-s-china-trade-tensions-to-sell-more-soybeans-11550745001>.

12. Ivan Zuenko, “Can Russia’s Far East Feed China with Soy?,” Carnegie Moscow Center, September 10, 2018, <https://carnegie.ru/commentary/77443>.

13. Putin, “Valdai Discussion Club Session.”

Investment

Russia's underwhelming experience in China's BRI reveals long-standing barriers to investment. Both countries have an interest in improving infrastructure across the Eurasian supercontinent. Despite sharing a 2,600-mile border, China and Russia have only a handful of railway crossings and roughly 25 crossing points in total. Three of the BRI's six proposed corridors pass through the EAEU. Given China's ambitions, and Russia's need for better infrastructure, the BRI should be a natural match for greater investment.

Western sanctions have also forced Russia to look toward China for investment opportunities. The Yamal LNG project, in the Russian arctic, would have been difficult, if not impossible, without Chinese support. China provided financing through its Silk Road Fund, loans from its state policy banks, and investment through a state-owned enterprise. China also used the Silk Road Fund and another state-owned enterprise to invest in Sibur, Russia's largest petrochemical company.¹⁴ Government-to-government cooperation has been critical for China's largest investments in Russia, which is also trying to attract investments from Japan, India, and Saudi Arabia.

But Russia's risks remain too high and its rewards too low to attract many private investors. Standing in the way of greater investment is Russia's business environment and weak market fundamentals. The issue is not simply risk aversion among Chinese investors, who have been willing to wade into some of the world's most challenging business environments, often under the BRI banner. Russia is riskier than developed economies but holds less promise than many developing economies due in part to its declining population.

Rather than chart a new chapter for investment, the BRI has been plagued by old challenges. Joint lists of projects have been announced in the past and often win headlines, but ultimately few projects are delivered. In 2009, Hu Jintao and Dmitri Medvedev announced over 200 joint projects. Five years later, less than 10 percent were actually progressing.¹⁵ In 2014 and 2015, Russia created 20 special economic zones (SEZs) to attract foreign investment to its Far East. Only six have attracted Chinese investment, which totaled a mere \$38 million between 2015 and 2018. The same problems—red tape, poor infrastructure, and corruption—all remain.¹⁶

Like all BRI statistics, any estimates of Russia's participation in the effort require a careful eye. One flagship BRI project, the Moscow-Kazan high-speed railway, has been repeatedly delayed and, like other projects, pre-dates the BRI's announcement. Its astronomical price tag, \$22 billion, has inflated overall estimates of BRI project activity in Russia. In March, Russian officials announced the project would be "postponed."¹⁷ It would not be surprising if the project gets delayed indefinitely. Russian and Chinese officials have little incentive to publicly terminate joint projects, especially those that have taken on symbolic value.

Strategic caution may limit some forms of investment. Only a handful of cross-border projects have been completed, most notably two bridges in Russia's Far East, and the Power of Siberia pipeline. Pipelines are strategically important and economically critical for Russia. Another benefit is that they cannot transport

14. Yujun Feng et al., "The Belt and Road Initiative: Views from Washington, Moscow, and Beijing," Carnegie-Tsinghua Center for Global Policy, April 8, 2019, <https://carnegietsinghua.org/2019/04/08/belt-and-road-initiative-views-from-washington-moscow-and-beijing-pub-78774>.

15. Hillman, *The Emperor's New Road*.

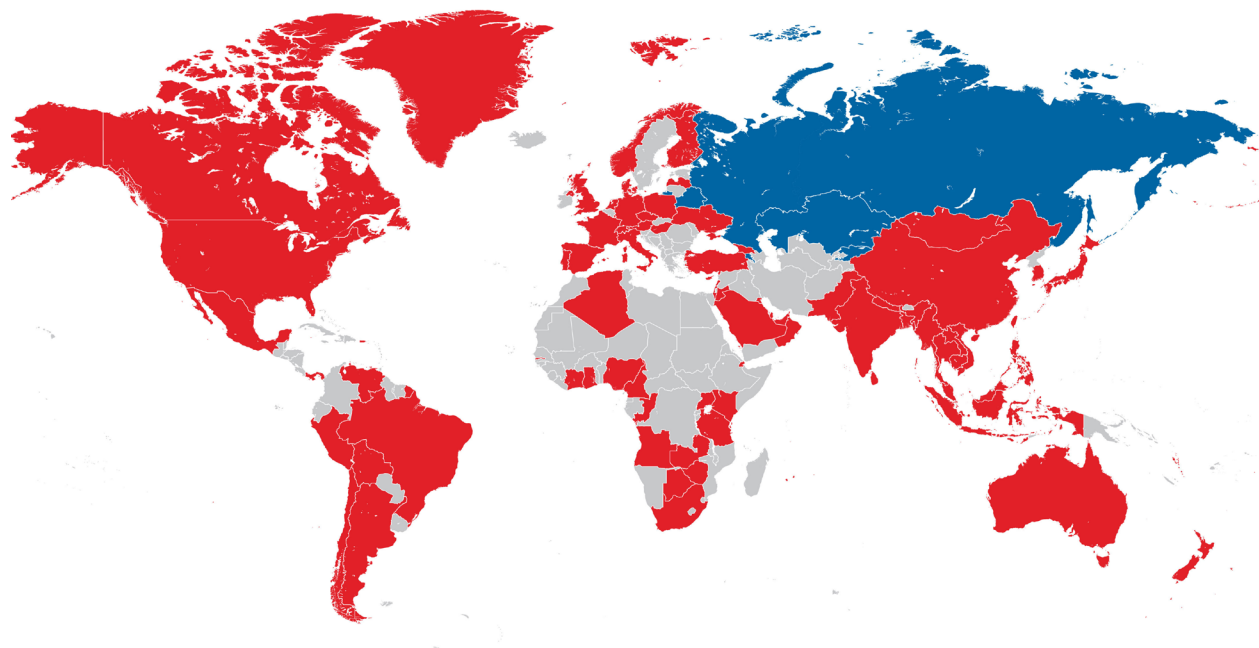
16. Vita Spivak, "Why Russia's Special Economic Zones Fail to Attract Chinese Investors," Italian Institute for International Political Studies, November 4, 2019, <https://www.ispionline.it/en/publicazione/why-russias-special-economic-zones-fail-attract-chinese-investors-24316#n1>.

17. "Moscow Kazan High Speed Train Project Canceled," Raily News, March 10, 2020, <https://www.raillynews.com/2020/03/moscow-boiler-high-speed-train-project-canceled/>.

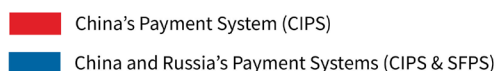
people—let alone military forces. A long history of competition and mistrust makes the recent warming in China-Russia relations all the more striking today. But it also has limits. Russia could decide to keep cross-border transport connections weak as a hedge against China's growing capabilities.

Both sides are eager to reduce their dependence on Western financial systems. China and Russia began using their own currencies for bilateral trade in 2010 and opened their first currency swap line in 2014. Russia's central bank has shifted some reserves from dollars to euros and yuan, but private companies and households in Russia have been less eager to abandon the dollar. China's yuan is more widely used than Russia's ruble but is still used in less than two percent of payments globally.¹⁸ Officials have also discussed linking China and Russia's national payment systems for several years. Here again the imbalance between partners is evident. China's UnionPay cards can be used globally, while Russia has struggled to get its Mir card system to work internationally.¹⁹

China and Russia's Alternative Payment Systems



Financial Payment Systems Coverage



Data Retrieved by the Nikkei Asian Review from CIPS as of April 2020

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18. As of April 2020. In comparison, the dollar is used in 44 percent of payments globally. "RMB Tracker: Monthly Reporting and Statistics on Renminbi (RMB) Progress Towards Becoming an International Currency," SWIFT, April 22, 2020, <https://www.swift.com/our-solutions/compliance-and-shared-services/business-intelligence/renminbi/rmb-tracker/document-centre?tl=en#topic-tabs-menu>.

19. Tatiana Voronova and Gabrielle Tetrault-Farber, "Mir Card Payment System Looks Beyond Russia," Reuters, April 19, 2019, <https://www.reuters.com/article/us-russia-cards/mir-card-payment-system-looks-beyond-russia-idUSKCN-1RVOKZ>.

Cooperation on digital payment has been expanding but remains limited by Russia's comparatively small market and aversion to digital currency. Last year, Yandex.Checkout, a joint venture between the tech company Yandex and Sberbank, Russia's largest bank, became the first online retailer in Russia to accept WeChat Pay. China's Alipay is working on a joint-venture with Mail.ru to offer digital payment services to Russian users.²⁰ The Chinese government is conducting trials for its digital currency, the e-RMB, in four Chinese cities. The head of Russia's Central Bank, Elvira Nabiullina, has expressed doubts about the need for a digital currency.²¹ But if Russia were to move ahead, it would likely prefer many of the same features that give Chinese officials control of their digital offering.

China and Russia's efforts to create alternatives to the Brussels-based SWIFT system are nascent but notable. China has been more successful in attracting international participation to its version, the Cross-Border Interbank Payment System (CIPS). As of April 2020, CIPS has participants in 95 countries.²² Russia's version, the System for the Transfer of Financial Messages (SFPS), only expanded to include members of the EAEU last year.²³ After Japan, Russia has the second-largest number of banks using China's CIPS payment system.²⁴ Western sanctions are a major driver for these alternatives, which deserve more attention and caution from U.S. policymakers.

People

Until recently, people-to-people ties were among China and Russia's most improved areas of cooperation. Since the Sino-Soviet border opened in 1988, Russian officials and media have warned about "Sinification" of the Russian Far East.²⁵ Although these fears are exaggerated, they have resurfaced from time to time, often in service of domestic political agendas, like xenophobia elsewhere. In recent years, those warnings have been largely drowned out by concerted efforts to promote relations from both governments.

Improved perceptions are most clearly evident among Russians. In a Pew poll of 34 countries last year, China's most positive ratings came from Russian citizens. Among Russian respondents, 71 percent held a favorable view of China, and only 18 percent held an unfavorable view, which was among the lowest unfavorable ratings recorded. Comparable data is not available on Chinese perceptions of Russia, but Chinese state-media aggressively promotes the partnership both domestically and globally. Characteristic of this push, a Xinhua article on Xi's visit to Moscow last year highlights "win-win cooperation, good neighborliness, and harmonious coexistence."²⁶

20. "Mail.Ru and Partners Team up with Alipay for Russian Payment JV," Reuters, October 9, 2019, <https://www.reuters.com/article/us-alibaba-russia-payment/mail-ru-and-partners-team-up-with-alipay-for-russian-payment-jv-idUSKBN1W00UX>.

21. "Russia's Central Bank Sees No Obvious Need to Issue National Cryptocurrency," Russian News Agency, October 10, 2019, <https://tass.com/economy/1082423>.

22. This includes "direct participants" and a much larger number of "indirect participants." Direct participants must open accounts with CIPS Shanghai Ltd. Indirect participants must go through direct participants. Indirect participants are concentrated in China (399) and other parts of Asia, followed by Europe (118), Africa (38), North America (26), Oceania (18), and South America (15). "CIPS Participants Announcement 52," CIPS, April 30, 2020, <http://www.cips.com.cn/cipsen/7068/7047/41247/index.html>.

23. "Eight Foreign Banks Join Russian Transfer System," *Moscow Times*, October 2, 2019, <https://www.themoscowtimes.com/2019/10/02/eight-foreign-banks-join-russian-transfer-system-a67555>.

24. This includes local offices of foreign banks. Kazuhrio Kida, Masayuki Kubota, and Yusho Cho, "Rise of the Yuan: China-Based Payment Settlements Jump 80%," *Nikkei Asian Review*, May 20, 2019, <https://asia.nikkei.com/Business/Markets/Rise-of-the-yuan-China-based-payment-settlements-jump-80>.

25. Mikhail A. Alexseev and C. Richard Hofstetter, "Russia, China, and the Immigration Security Dilemma," *Political Science Quarterly* 121, no. 1 (Spring, 2009): 1-32, <https://www.jstor.org/stable/20202643>.

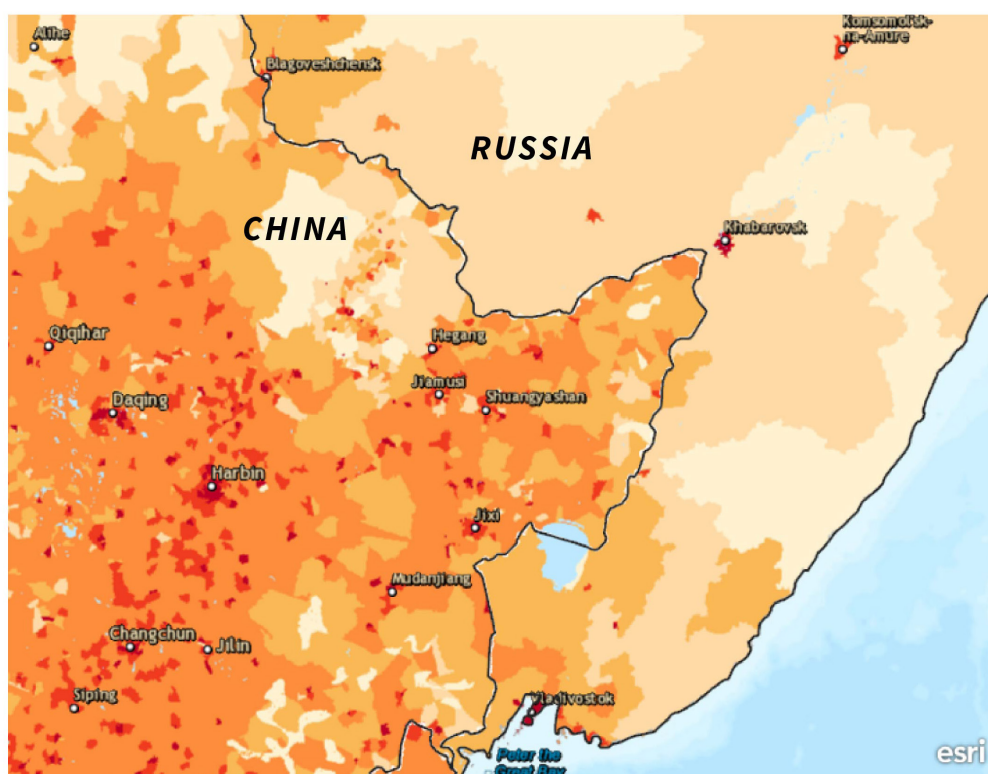
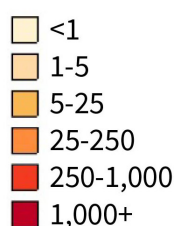
26. Fei He, "Xi's Visit to Open New Prospects for China-Russia Ties," Xinhua, June 4, 2019, http://www.xinhuanet.com/english/2019-06/04/c_138116456.htm.

These impressions matter for trade and investment ties. Improvements in national affinity and language can have positive impacts on trade and investment, effectively minimizing the cultural “distance” between countries. Doing business, after all, is easier when you can understand the other party. Some benefits are already evident. In 2019, more than two million Chinese tourists visited Russia, up from 158,000 a decade earlier, and spent over \$1 billion.²⁷ Russia’s weak currency has helped attract Chinese tourists but so have government policies, including easing visa requirements and encouraging tour agencies to increase their visits.

While expanding these ties brings direct benefits to both sides, they also further Russia’s dependence on China. A Russian travel association estimates that Chinese tourists account for nearly 30 percent of Russia’s tourism.²⁸ By contrast, China has a much larger market for tourism, and Russia does not rank among its top sources of foreign visitors. Like other forms of interdependence, what is a boon when relations are going well could become a liability if relations deteriorate. As part of its toolkit for economic statecraft, China has shown a willingness to use tourism coercively, cutting visits to South Korea in 2017, for example.

China-Russia Border Population Disparity

People per sq. km



Source: 2020 Population projection, NASA Socioeconomic Data and Applications Center (SEDAC) managed by the Center for International Earth Science Information Network (CIESIN), Earth Institute, Columbia University.

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27. Max Seddon, “China Tourism Growth Lifts Fortunes of Russia’s Airports,” *Financial Times*, January 7, 2020, <https://www.ft.com/content/e02f5218-2344-11ea-b8a1-584213ee7b2b>.

28. Isabelle Khurshudyan, “Russia’s Arctic Winter is Now Missing its Biggest Fans: Chinese Tourists,” *Washington Post*, February 21, 2020, https://www.washingtonpost.com/world/europe/russias-arctic-winter-is-now-missing-its-biggest-fans-chinese-tourists/2020/02/20/a75b97b0-53de-11ea-80ce-37a8d4266c09_story.html.

Covid-19 has brought popular animosity and mistrust to the surface while also underscoring China and Russia's determination to keep their relations on a steady course. To the dismay of Chinese officials, Russia closed its border with China in January. Authorities in Moscow have targeted ethnic Chinese for detention and possible deportation.²⁹ Over a third of Russians said they would avoid contact with people of Chinese origin or appearance, according to an IPSOS poll in February.³⁰ Similar numbers said they would avoid purchasing Chinese products, and Chinese businesses on Russia's side of the border are facing dramatic losses.³¹

Chinese officials have publicly objected to some of Russia's actions but overall, they have been restrained. China has provided medical aid to Russia and has not taken the hard-line it has with other countries. For example, after Australia called for an investigation into the origin of the pandemic, China raised barriers to Australian agricultural products. The distinction is revealing of Beijing's priorities and Moscow's understanding of them. Western countries have challenged Beijing's response to the crisis while respecting Chinese citizens. In comparison, Russia has mistreated Chinese citizens but avoided questions that could threaten the legitimacy of Chinese officials.

Data

China and Russia are deepening their cooperation in telecommunications, but paradoxically, their governments' similarities constrain data flows. These joint efforts are not new. Russia was one of the first foreign markets that Huawei entered. Huawei formed a joint venture in 1997, and despite achieving little to no business for several years, it decided to remain in the Russian market even as many Western companies were leaving. A breakthrough came in 2001 when a Russian government delegation visited China. By 2003, Russia was among Huawei's top markets.³²

Official ties are again driving cooperation on digital infrastructure.³³ Russia's decision to use Huawei equipment in its 5G trials was announced just as the Chinese firm was receiving more scrutiny in Western markets. The deal was signed during Xi's visit to Moscow in 2019, further underscoring its symbolic importance. Despite the fanfare, Russia is still considering other options for its 5G network and has several issues to resolve, including spectrum allocation. Huawei could end up with a smaller role than Xi and Putin's signing ceremony suggests. Nor is Russia's choice on Huawei all or nothing. It may benefit from hedging and using a combination of different suppliers.

China and Russia are also cooperating in developing alternative global navigation satellite systems, which have both commercial and military applications. Russia's GLONASS system was developed during the Cold War but did not reach its operational capacity of 24 satellites until 1995. China's BeiDou satellite network was completed in June and claims to have over 400 million users across 120

29. Gabrielle Tétrault-Farber, "China to Russia: End Discriminatory Coronavirus Measures against Chinese," Reuters, February 26, 2020, <https://www.reuters.com/article/us-china-health-moscow-letter/china-to-russia-end-discriminatory-coronavirus-measures-against-chinese-idUSKCN20K1HU>.

30. "COVID-19 – One in Seven People Would Avoid People of Chinese Origin or Appearance," Ipsos MORI, February 14, 2020, <https://www.ipsos.com/ipsos-mori/en-uk/covid-19-one-seven-people-would-avoid-people-chinese-origin-or-appearance>.

31. Andrew Higgins, "Businesses 'Getting Killed' on Russian Border as Coronavirus Fears Rise," *New York Times*, February 24, 2020, <https://www.nytimes.com/2020/02/24/world/europe/coronavirus-russia-china-commerce.html>.

32. William C. Kirby, Billy Chan, and John P. McHugh, *Huawei: A Global Tech Giant in the Crossfire of a Digital Cold War* (Cambridge, MA: Harvard Business Publishing, 2020), <https://hbsp.harvard.edu/product/320089-PDF-ENG>.

33. Alexander Gabuev, "Huawei's courtship of Moscow leaves west in the cold," *Financial Times*, June 21, 2020, <https://www.ft.com/content/f36a558f-4e4d-4c00-8252-d8c4be45bde4>.

countries.³⁴ In 2015, China and Russia established a committee to coordinate these efforts and signed an agreement in 2018 to improve compatibility and interoperability.³⁵ They have conducted trials to test equipment along Belt and Road transportation routes and agreed to host each other's base stations. These systems, and satellite communications more generally, complement terrestrial and submarine cables, which carry the vast majority of data globally.

China's Major Terrestrial Cables Passing through Russia



Source: China Mobile

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Despite these areas of cooperation, data flows between the two countries are limited by their unyielding preference for government control. Seven of China's eight long-distance international terrestrial cables run through Russia. If Russia's business and political environment was more welcoming, it could serve as a larger communications hub between Europe and China. But China and Russia's visions for "internet sovereignty" limit cross-border activities. Both countries require storing personal data domestically and installing applications on domestic equipment, among other barriers.³⁶ Russia's networks are less centralized and more difficult to censor than China's, but the Russian government is moving unmistakably in the direction of greater control.³⁷

34. "Xinwenban jiu beidou sanhao xitong tigong quanqiu fuwu yizhounian youguan qingkuang juxing fabu hui 新闻办北斗三号系统提供全球服务一周年有关情况举行发布会 [Information Office Holds Press Conference on the First Anniversary of the Provision of Global Services by Beidou No. 3 System]," gov.cn, December 27, 2019, http://www.gov.cn/xinwen/2019-12/27/content_5464601.htm.

35. "Russia-China Project Committee on Important Strategic Cooperation in Satellite Navigation," Information and Analysis Center for Positioning Navigation and Timing, accessed May 22, 2020, https://www.glonass-iac.ru/en/BEIDOU/committee_en.php.

36. Claire Scharwatt, *The Impact of Data Localization Requirements on the Growth of Mobile Money-Enabled Remittances* (London: GSMA 2019), https://www.gsma.com/mobilefordevelopment/wp-content/uploads/2019/03/GSMA_Understanding-the-impact-of-data-localisation.pdf; and "Data Flows Across Borders: Overcoming Data Localization Restrictions," Institute of International Finance, 2019, https://www.iif.com/Portals/0/Files/32370132_iif_data_flows_across_borders_march2019.pdf.

37. "Russia Takes a Big Step Toward Internet Isolation," *Wired*, January 5, 2020, <https://www.wired.com/story/russia-in-internet-control-disconnect-censorship/>.

Futures and Friction

Xi and Putin have embarked on what they claim is a long-term effort toward greater economic integration. As Putin explained last year, “I think if we pool the efforts of the already established agencies, organizations, and even concepts and create an integrated network, we can arrive at what I have repeatedly said—a large Eurasian partnership. Can all this be instituted any time soon? Hardly.”³⁸ Putin’s proposal for a “Greater Eurasian Partnership” and suggestions of “linking” the BRI and EAEU serve an immediate political purpose. But they overlook economic fundamentals that could produce more friction in the years ahead.

Standing in the way of deep integration are significant structural barriers. Trade and investment are limited by Russia’s one-trick economy and its recognition that deep integration would be deeply disruptive. Government propaganda can boost people-to-people ties, but only to a point, and while the two neighbors share a border, deep-seated cultural differences remain and have been exacerbated by the pandemic. China and Russia’s common preference for controlling information limits data flows.

Collectively, these factors reveal a partnership of unequals that will become even more lopsided in the future. China already towers over Russia in nearly every dimension, and if it can navigate its own domestic challenges, it will loom even larger in a decade. During that period, Beijing will need Moscow’s help, or at least its acquiescence, to continue expanding westward. No country is positioned better than Russia to spoil China’s overland ambitions. But isolated from the West, Russia has few alternatives to deepening economic ties with China.

Even a decade from now, it may not be clear to what extent China and Russia’s partnership depends on the authoritarian personalities at the center of it. In 2030, Xi and Putin will be 77 and 78 years old, respectively. If they remain in power, unexpected events could test their personal relationship. Leadership transitions in Central Asia could create turmoil and different views in Moscow and Beijing about how to respond. China’s Belt and Road is likely to develop sharper military edges as China seeks to protect its investment and personnel abroad, including in Central Asia.

The possibility that Russia could lean again toward the West and away from China seems far-fetched at present. China is not threatening enough, nor the West welcoming enough. But as China moves deeper into Russia’s backyard, Moscow’s calculus could change. Russia’s greater challenge will be atoning for its behavior abroad and convincing the West, particularly the United States, to reengage. U.S. allies, particularly those in Europe and Japan, have stronger economic incentives for engagement. Given those differences, the United States should work closely with its allies to ensure any economic incentives (and disincentives) are coordinated for maximum effect.³⁹

The United States and its allies should also highlight the risks that China’s westward expansion poses and protect the strength of Western financial systems. In public statements, the U.S. government should avoid exaggerating the depth and cohesiveness of the China-Russia partnership. Lumping them together is overly generous to Russia, especially economically, and is music to the ears of both authoritarian leaders. U.S. policymakers should also approach sanctions with more prudence.⁴⁰ Misuse of these defensive

38. Putin, “Valdai Discussion Club Session.”

39. Jacob Stokes and Julianne Smith, “Facing Down the Sino-Russian Entente,” *The Washington Quarterly*, Summer 2020, https://cpb-us-e1.wpmucdn.com/blogs.gwu.edu/dist/1/2181/files/2020/06/StokesSmith_TWQ_43-2.pdf.

40. Edward Fishman, “How to Fix America’s Failing Sanctions Policy,” *Lawfare*, June 4, 2020, <https://www.lawfareblog.com/how-fix-americas-failing-sanctions-policy>.

measures, especially without a coherent offensive strategy, weakens Western financial systems and incentivizes other countries to consider alternatives.

Despite the deep flaws in their economic visions, Xi and Putin are putting forward ideas that are designed to resonate with third countries, especially developing economies. In responding to these developments, the very least the United States and its allies can do is avoid unintentionally driving China and Russia together. An even more powerful response would be to work together to offer an allied vision for economic development and back it with financial support to incentivize participation and deliver tangible results. The best answer to Xi and Putin's global ambitions is to offer superior alternatives. ■

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This report is made possible by general support to CSIS. No direct sponsorship contributed to this report.

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