POLICY OUTLOOK

TRT WORLD research centre

One Year into the "No-limits Friendship": Assessing China's Lifeline to Russia

Burak Elmalı

(Arda Küçükkaya - Anadolu Agency)

This policy outlook will examine the Sino-Russia relationship, focusing on its pace during the war in Ukraine. China's announcement of the "No-Limits Friendship" policy with Russia shortly before the Ukraine war underscored its inclination in favour of Moscow. Since then, symbiosis characterised bilateral relations, with China giving Moscow a boost in the areas of energy, trade, and currency swaps. The other side of the coin is that China has more leverage than ever. The trajectory of this relationship will depend on China's ability to address Russia's concerns and maintain a shared anti-American sentiment against the current status quo.

Introduction

The Ukraine war triggered a domino effect. On the one hand, Moscow has burned bridges with the West. On the other hand, Western sanctions, irrespective of the debates over their effectiveness, were imposed with the objective of crippling Moscow's war machine. Meanwhile, the Kremlin began a quest to find new economic and strategic partners. China seized the opportunity, becoming a lifeline for Moscow. This situation gave the upper hand to Beijing, even though Russia has benefited from China's economic and diplomatic support. However, it has put Moscow in a position of dependency.

This policy outlook will examine the wins and losses from the "friendship with no limits," assessing China's economic support to Russia and whether it is a "lifeline" for the latter. It will also briefly explore the military dimension of the bilateral ties. Overall, the focus will be on relative gains achieved by both parties and whether an uneven strategic relationship results from the recent dynamics.

Beijing's dual diplomacy

Since the start of the war, Beijing adopted a diplomatic stance that diverged significantly from the West. Chinese leaders issued neither condemnations nor calls for sanctions. China's foreign policy, founded on non-interference in other sovereign nations' internal affairs and promoting peace and stability, has informed its response to the Russia-Ukraine conflict. China has consistently framed the conflict as a domestic matter for the two countries and has adopted policies reflecting this framing. In contrast, China has been sceptical, if not hostile, towards sanctions. The main argument from Beijing is that the sanctions contradict globalisation. Another argument emphasises the spillover effects of sanctions and how they cause harm for numerous actors, not just those singled out. Meanwhile, China accelerated the pace and width of its collaboration with Russia.

Conventional realist thinkers use paradigms that help grasp China's diplomatic stance. Before the outbreak of the Ukraine war, important factors, including Ukraine's post-Cold War nuclear non-proliferation and NATO's eastward expansion, played a significant role. One needs probably to refer to the "self-fulfilling prophecy" of Mearsheimer's well-known piece, "The Case for a Ukrainian Nuclear Deterrent." With the revival of great power competition, Russia does not want the US meddling in its neighbourhood. Why is this factor important? Because China also sees NATO's expansion, deemed an extension of the American hegemony, as a key element in the chain reaction leading to war. That is why China's "Position on the Political Settlement of the Ukraine Crisis," published by the Chinese Ministry of Foreign Affairs in conjunction with the war's first anniversary, emphasised the need to avoid the Cold War mindset. Therefore, the Beijing government acts like a realist true to form in this war.

Although China considers its opposition to war and peaceful conflict resolution as key components of its posture, a more dominant theme shapes China's approach, namely its uncompromising anti-American sentiment. While other Western countries also call for peace and the respect of the territorial integrity of sovereign nations, common ground is lost when it comes to antagonism towards the US. The latter element has played a determining factor in strengthening the ties between Beijing and Moscow. Foreign Minister Qin Gang's reference to an "invisible hand" implied that the West is actually in a position that prolongs the war. The "invisible hand" metaphor serves as another rhetorical device to express deep discomfort vis-a-vis American hegemony.

Due to these reasons, China has been following a dual approach since the first day of the war. On the one hand, it

Chinese President Xi Jinping in Russia. (Kremlin Press Office / Handout - Anadolu Agency) has underlined the necessity of respecting every country's territorial integrity. On the other hand, it abstained from naming and shaming Russia at the UNSC, thus keeping a semblance of balance towards the West and Russia. At the same time, Beijing stressed the importance of limiting the scope of the war to only the warring countries and cautioned against drawing parallels between Russia-Ukraine and China-Taiwan.

In essence, China aimed to maintain a neutral stance in the conflict while safeguarding its interests. The emphasis on respecting territorial integrity is likely rooted in China's concerns about territorial disputes and separatist movements within its borders. By not embarrassing Moscow, China aimed to preserve its relationship with Russia, an important economic and political ally. Overall, China's dual strategy demonstrated a careful balance between asserting its interests and avoiding getting dragged into the conflict. The underlying message was clear: China would prioritise its neutrality over taking sides in a foreign conundrum and expect the same approach from the international community concerning Taiwan. Such a diplomatic course was interpreted as a "pro-Russian pseudo-neutrality", despite Chinese President Xi Jinping's continued emphasis on the call for a peaceful conflict resolution.

How could China's stance develop in the future?

Xi Jinping's emphasis on a peaceful resolution does not merely reflect a normative attitude. It also signals China's intention to become a mediator and advocate proactively for a diplomatic solution. This invitation was recently extended to Xi Jinping by Ukrainian President Volodymyr Zelenskyy, who requested that China mediate in Ukraine. A meeting to discuss China's proposed solutions would undoubtedly shock the West. China's ability to achieve the "impossible," as demonstrated by its mediation of an agreement between Saudi Arabia and Iran to normalise diplomatic relations within two months, had already disappointed Washington despite the diplomatic initiative being appreciated. The prospect of China discussing potential solutions through mediation, even though two warring countries are at a deadlock, could have a long-lasting shock effect on the West that may not be easily overcome. Despite expressing concerns previously, US National Security Adviser, Jake Sullivan, endorsed the proposed communication between Chinese President Xi Jinping and Ukrainian President Volodymyr Zelenskyy, stating that it presents an opportunity for Xi Jinping to gain direct insight into the Ukrainian perspective.

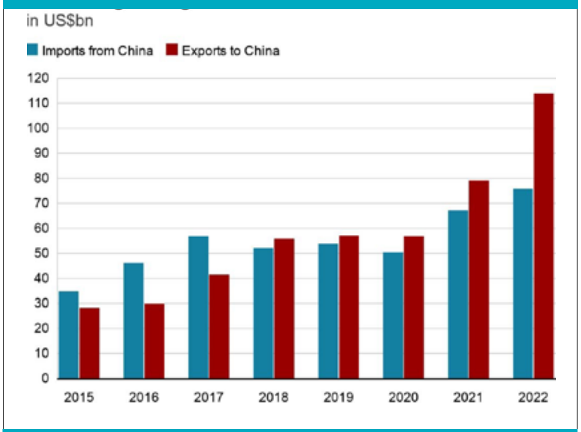
American endorsement is not a matter of preference but rather a matter of inevitability, as the United States has no interest nor possibility, even a slight one, of mediating a conflict involving Russia as one of the parties. Regardless, if a deal brokered by China were to occur, it would entail a substantial setback for the Biden Administration as it could potentially erode the US' long-standing reputation as a mover and shaker in the international arena. Resolving the conflict in Ukraine via diplomacy could be viewed as a situation where any gain by Beijing is proportional to a loss by Washington, essentially creating a zero-sum game. Unfortunately, the United States and its Western allies have already lost the initiative in the diplomatic scene.

China is providing fresh air to the Russian economy

In the early days of the conflict, analysts were attentive to how China would position itself vis-a-vis the Russia-West escalation. The Sino-Russian relationship is underpinned by decades of warm relations and ever-increasing economic exchanges, as highlighted by Chinese Foreign Minister Wang Yi.

Conversely, Western countries hoped to inflict significant economic damage on the Russian economy through various sanctions. However, the solidity of the China-Russia connection is also extended to the economic sphere. Accordingly, Beijing created a "lifeline" for Moscow, thus undermining the effectiveness of the sanctions. This approach was quite predictable for the Chinese leadership, who sought to expand their leverage, especially since sanctions do not serve Beijing's economic interests. Moreover, China understands the opportunities and functioning of globalisation and multilateralism well. It recognises that the dichotomy of "either with us or against us," as in the Cold War era, does not hold water in today's globally interconnected world trade.

Russia's growing trade with China



Source: Chinese Custom Data - BBC

Three areas illustrate China's economic support for Russia: energy, trade, and currency swaps.

Energy

Before the Ukraine war, Moscow's energy exports constituted roughly 60% of total trade revenues and around 45% of the federal budget. The West's strategy consists of suffocating the Russian economy, starting with the energy sector. Therefore, sanctions aimed to reduce imports of crude oil, refined petroleum, and natural gas. Moreover, price caps and energy diversification strategies were also implemented.

Following the war, the United States, the United Kingdom, Canada, Australia, and the European Union (EU) quickly imposed import bans on Russian crude oil and refined products. In March 2022, the US banned all oil and gas imports from Russia. The UK's target of gradually stopping oil imports from Russia by the end of the year was achieved much earlier (in June). Given the Russian gas supply's importance to Europe, no international sanctions were imposed on pipeline or liquefied natural gas (LNG) exports. Only the United States and Australia, countries that never imported significant amounts from Russia, banned Russia's LNG supply. Other countries applied little pressure through export controls on technologies and services for existing and new gas operations.

Statistical projections illustrate the magnitude of the Russian economy's contraction. While official Russian Statistics claimed that the Russian economy shrank by 2.1% in 2022, Biden stated that nearly 50% of the economy would vanish. Despite such exaggerated claims, the Russian economy has shown signs of resilience. The World Bank forecasted a contraction of 3.3% for 2023.

In light of these developments, the Chinese route became critical for Moscow, which decided to reroute its energy exports in the direction of China. Thus, China became Russia's primary trading partner, compensating for the trade lost with the West. Consequently, the bilateral trade volume increased exponentially, reaching a record high of $190 billion in 2022. After China, Russia's second-largest trading partner is India. Thus, Moscow's reorientation policy proved successful and consolidated its pivot to Asia.

In 2022, Russia experienced a twofold increase in its liquid petroleum gas (LPG) exports to China compared to the previous year. Furthermore, the country delivered 50% more natural gas through the Power of Siberia pipeline and a 10% increase in crude oil exports to China. Notably, China has expressed its willingness to further augment gas imports from Russia by 47% in 2023, signifying Beijing's assistance to Moscow amidst the imposition of sanctions.

Trade

The economic assistance provided by China to Russia extends beyond the realm of energy exports. Before the Ukraine war, the Chinese government lifted restrictions on grain imports, signalling its intention to serve as a "lifeline", and announced this to the public on the first day of the war. This move also reduced the market share of pro-sanction countries such as France, Australia, Canada, and the United States, which exported grain to China. As Russia shifted its focus towards energy, China also entered a period of increased trade partnership with Russia. China emerged as the main source of supply for several sub-sectors, such as consumer electronics, automotive, semiconductors, and machinery, which were among the key imports of Russia.

The profound impact of the burgeoning bilateral trade on the automotive industry cannot be underestimated. Chinese automobile manufacturers, including Havel, Chery, and Geely, command a market share of 40% in new vehicle sales in Russia. China has filled the void created by the withdrawal of Western firms. Although this development shows that China capitalises on the lucrative opportunities in the Russian economy, which sanctions have beset, it ultimately assumes an economic significance in bridging the supply-demand gap in the country. Particularly noteworthy is the fact that Russia produces a mere 35% of its automobile parts, and therefore, China's growing presence assumes an imperative role in addressing this shortfall.

How China's trade with Russia has changed since it invaded Ukraine

Source: The New York Times, 2023

China is also a major supplier of technology imports to Russia, with semiconductors and electronics accounting for about 70% of these imports. However, these exports only represent around 2% of China's total exports in these product categories, indicating the diversity of China's export markets. The United States has previously used technology trade restrictions to curb China's tech industry, as seen in its actions against companies such as Huawei and ZTE. However, imposing similar restrictions to limit China's technology exports to Russia may be challenging, given China's status as a global hub for electronics and semiconductor production and final assembly. The slogan "Designed by Apple in California, assembled in China" highlights China's significant role in the global electronics supply chain, further underscoring the challenges of enforcing technology trade restrictions in a complex and interconnected global economy.

Russian economy. (Sefa Karacan - Anadolu Agency)

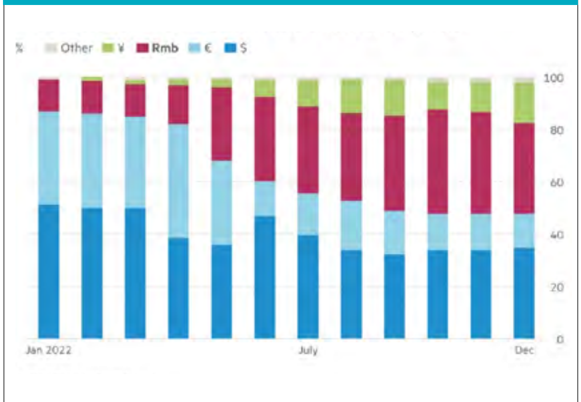
Currency

China's economic support for Russia has been seen in various ways, including using the yuan to help stabilise the declining value of the Russian Ruble against the dollar and euro. This support came at a time when Russia was facing sanctions and isolation from the Western world, particularly after the outbreak of the conflict in Ukraine. One of the most popular sanctions devised against Russia was excluding the country from the Society for Worldwide Interbank Financial Telecommunication (SWIFT) system, which banks worldwide use for international money transfers. The idea was to cut off Russia's access to the global financial system and force it to comply with Western demands. However, it was quickly realised that complete isolation of Russia was impossible, as Russian banks were still used for payment in many European gas trades.

Initially, three state-controlled banks, VTB, Bank Rossiya, and Bank Otkritie, were removed from SWIFT, followed later by the exclusion of Sberbank PJSC. These banks were all involved in facilitating Russia's trade with Europe, acting as intermediaries in the payment process. Removing these banks from SWIFT meant that Russia faced a policy of isolation in the international financial system, which could have had serious economic repercussions.

China's response to Russia's exclusion from SWIFT has been to offer alternative payment methods to facilitate Russia's access to financial systems outside of SWIFT. China's support is helping Russia overcome financial isolation and continue to conduct international trade. Using the yuan to stabilise the Ruble's value against the dollar and euro is one example of China's economic support for Russia. By reducing the Ruble's dependence on the dollar and euro, Russia can diversify its currency holdings and reduce its exposure to Western currencies. This approach also helps facilitate Russia's access to the financial system and enables its international trade with less use of the US dollar.

The share of renminbi in Russia's exports increased eightfold



Source: Russian Central Bank

Russia has decided to increase the RMB share in its international reserves, overseas trade transactions, and certain personal banking services in response to sanctions against the Ruble. As a result, Russia has become the fourth largest economy in terms of RMB trading, a notable development considering its prior absence from the top 15 in this category. This rise in the use of the Chinese currency in Russian financial markets represents a substantial shift. Previously, only those trading with Chinese companies utilised RMB, but now it is Russia's preferred option. Following Xi Jinping's official visit to Moscow, Vladimir Putin endorsed using the Chinese yuan in transactions between Russia and countries in Asia, Africa, and Latin America.

Iranian, Chinese and Russian naval forces at Indian Ocean. (Iranian Army - Anadolu Agency)

Is there a military dimension to the "friendship with no limits?"

In the ongoing discussions surrounding the "lifeline" in the Ukraine conflict, whether China has provided any military support to Russia has been the subject of much debate. The history of joint military exercises in the bilateral relationship, such as the joint nuclear bomber tests conducted over the Sea of Japan in 2019, 2020, and 2021, has been cited as evidence of military cooperation. Moreover, the joint exercise coincided with the Quad Summit in Tokyo last year, attended by US President Joe Biden. Flexing muscles in conjunction with the Quad Summit raised eyebrows as many viewed it as a manifestation of the increasing military cooperation between Russia and China with an anti-Western flavour. This precedent was repeated recently when China, Russia, and Iran conducted a joint naval exercise in the Gulf of Oman. However, concerning the ongoing war in Ukraine, despite statements on military cooperation in Xi Jinping and Vladimir Putin's last meeting and warnings from the White House, no conclusive evidence suggests that Beijing has provided Moscow with a military "lifeline."

Nevertheless, China's support extends in the form of advice and joint military drills but also in the supply of semiconductors and parts. Interestingly, China is also benefitting militarily from Russia's war on Ukraine since the conflict has been a source of lessons learned to improve the People's Liberation Army (PLA).

Meanwhile, it is important to reiterate that China has not considered the war in Ukraine as an obstacle to either commercial or military cooperation, nor has it regarded it as an enabling factor.

Limits of "no-limits friendship"

China's diplomatic and economic support helps mitigate the isolation of Russia due to sanctions. This lifeline further consolidates the bilateral relationship, characterised as a "No-Limits Friendship." However, there are limits to this relationship. The latter is skewed in favour of Beijing, which made greater gains than Moscow.

Numerous examples illustrate this reality, such as China's exploitation of discounted energy imports from Russia. Chinese importers are paying less for Russian crude oil than a year earlier. At that juncture, the price was $85.23 per barrel. However, Chinese importers paid $73.53 per barrel in February 2023, 13.7% lower than last year. In comparison, crude oil from Saudi Arabia averaged $83.15 per barrel in February 2023. On March 20, Platts assessed the price of Russia's main crude grade, Urals FOB Primorsk, at $35.92 per barrel, which is $36.10 per barrel cheaper than Forward Dated Brent. Although China benefits from reduced oil prices in this transaction, Russia must cope with the new realities to keep its finances afloat while maintaining a certain flow of its energy exports, even at a discounted rate.

One illustration pertains to the growing prominence of the Chinese RMB as a potential rival to the US Dollar and Euro, which Moscow views as "toxic currencies." Beijing's aid to the Russian economy, which has been reeling from economic sanctions, reinforces China's dominance in currency markets vis-à-vis Russia. A similar discussion ensued when Xi Jinping participated in the GCC Summit in December 2022, where he proposed settling the oil trade in yuan. As the world's leading importer of crude oil, China's ambition to enhance the profile of its national currency, the Petroyuan, has been seen as a factor in the ongoing Ukraine conflict. While it may be premature to claim that the Petroyuan will rapidly supplant the Petrodollar's dominant position, dismissing China's motives as a "conspiracy theory" and assuming that Gulf oil exporters have no vested interest in this development is overly optimistic. Given that China is the largest purchaser of oil globally, its growing demand for the Petroyuan must be viewed as a deliberate effort to enhance the status of its national currency.

The increased reliance on the yuan poses substantial risks for the Russian economy, exposing the Ruble to currency fluctuations and devaluations. In contrast, China perceives this as a strategic opportunity to promote the internationalisation of its currency by gaining access to Russian financial markets and currency reserves. Thus, China is poised to reap the most significant benefits from this development.

An essential aspect to highlight in this context is China's proven ability and inclination to employ economic relations to expand its influence within the framework of a broader discourse on globalisation. Beijing has long been leveraging economic collaboration to enhance its standing in the investment landscape. The Belt and Road Initiative (BRI) is a prime example of how China has utilised economic partnerships to generate lucrative business prospects and exert soft power influence. President Xi Jinping's use of a similar approach to rescue Russia's embattled economy and highlight the adverse effects of sanctions is not unexpected. Consequently, globalisation, cooperation, mutual gains, and common prosperity are some of the recurrent catchphrases employed by China to maintain a facade of benevolance towards Russia.

The current relationship between Russia and China, characterised as a "friendship without limits," is uneven. China's gains outweigh Russia's short-term and strategic gains, raising questions about the partnership's sustainability. If this disparity becomes too great, it may jeopardise the bilateral relationship.

The outcome of the initial exchanges between Chinese President Xi Jinping and Russian President Volodymyr Zelenskyy and the Chinese quest to mediate a deal could dent the partnership with Russia. To what extent Xi's commitment to peaceful conflict resolution will become clear in the coming period. Moreover, the fundamental principles of realism remind us that sovereign states do not merely consider their gains in an anarchic international system but also consider what others gain. As such, relative gains represent the primary drivers behind state actions in the system.

Against this backdrop, it becomes clear that the growing asymmetry between Russia and China in their economic relationship could create significant concerns for Moscow. However, given that Russia is a warring country with limited options, it may have few alternatives to its current relationship with China. At the same time, China has evolved from being perceived as a simple trading partner to being considered a strategic ally against the rules-based international order. Given this context, it seems likely that China will continue to maintain the current relationship while minimising Russia's concerns. This approach should help to prevent the gap between mutual gains from becoming too wide and ensure the continuation of the bilateral alliance against the US-led international system. Ultimately, however, the success of this strategy will depend on a complex interplay of political, economic, and strategic factors that could shift at any time.