

# Security Implications for NATO of Sino-Russian Economic Cooperation

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**Security Implications for NATO of Sino-Russian Economic Cooperation OPEN Editorial Team**

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## Executive Summary

### **1. Bilateral ties between China and Russia have grown to an unprecedented level.**

Sino-Russian relations have been warming for decades, but the Russian invasion of Eastern Ukraine in 2014 spurred an improvement of bilateral ties to unprecedented levels. The relationship now extends to political, economic and military cooperation. It is motivated by economic complementarities, a common emphasis on regime stability, and a mutual interest in shifting the global balance of power away from the United States and Western Europe.

### **2. Bilateral trade is a driving force of improved Sino-Russian ties.**

Economic cooperation is a key component of the overall relationship. Trade between China and Russia has steadily increased since the turn of the century. Between 2000 and 2019, Russian exports to China increased more than tenfold. Hydrocarbons—the only Russian economic sector that has remained globally competitive since the collapse of the Soviet Union—make up the bulk of Russian exports to China.

### **3. Chinese capital has been a lifeline for Moscow, particularly since 2014.**

Chinese capital flows to Russia have grown rapidly in the past 20 years. While Chinese investment in Russia has grown rapidly, loans from China's policy banks make up the lion's share of capital transfers. Russia is the largest recipient of Chinese loans. In 2009 alone, it received USD 27 billion in loans from Beijing. Furthermore, in 2015, sanctions-crippled Yamal LNG received a USD 12 billion loan from China following an investment by the Silk Road Fund.

### **4. The economic balance of power between China and Russia is deeply unequal.**

The Chinese economy was roughly the size of Russia's in 1990. It is now eight times larger. Russia's GDP remains somewhere between those of Brazil and South Korea. While China has emerged as a manufacturing superpower, Russia's economy continues to depend on hydrocarbon exports—particularly to China. Russia still has much to offer China militarily, but Beijing is catching up fast. As the two countries' power imbalance becomes more pronounced and Russia grows frustrated with its status as a junior partner, tensions may increase.

### **5. NATO has limited options to respond to improved Sino-Russian ties.**

NATO needs to learn to live with improved Sino-Russian ties, though member states should recognize the partnership for what it is—a limited, opportunistic arrangement built on a few key areas of mutual interest. It is not worthwhile to seek to “pry” Russia away from China. Instead, NATO should focus on reducing the value both sides derive from the partnership. Monitoring technological cooperation and restricting access to sensitive technologies in fields like telecommunications and artificial intelligence will be the key to doing so.

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## Introduction

Great power politics is back with a vengeance. In the past decade, China has taken an increasingly aggressive stance in the East and South China Seas has become increasingly willing to coerce smaller nations to advance its own interests. In 2017, it opened its first overseas military base in Djibouti, a small East African state located at the confluence of the Red Sea and the Gulf of Aden.<sup>2</sup> Meanwhile, Russia saved Bashar al-Assad's bloody regime from the fate faced by other despots in the wake of the Arab Spring, annexed Crimea, and invaded eastern Ukraine.

Internally, the two countries differ fundamentally. Russia is a revisionist power governed by a despot struggling to maintain the support of the people while lording over a crumbling economy like his personal fiefdom. China's economy has grown more than 40-fold in the past three decades and President Xi's grip on power in the world's second largest economy appears tighter than any leader's since Mao.<sup>3</sup>

Both countries pose a potent challenge to NATO. Russia regularly threatens NATO members, interferes in their elections, conducts cyber-attacks against their governments, and intrudes their airspace. The Kremlin continues to assassinate people on NATO soil and still occupies parts of Ukraine and Georgia. With the rising military might that accompanied its breakneck economic growth, China has become increasingly aggressive. While it is not the primary focus of NATO, its meteoric rise cannot be ignored. This is particularly true because the competition between China and the most powerful NATO member state, the United States, is set to dominate international relations in the 21<sup>st</sup> Century.

In the context of great power competition, any formal military alliance between Russia and China is widely viewed as the ultimate nightmare scenario for NATO. While this remains unlikely, the political and economic *rapprochement* witnessed in the past decade will likely continue. This paper focuses on the latter. It assesses the security implications for NATO of growing Sino-Russian economic ties. It is organized as follows: First, it provides an overview of Sino-Russian relations with an added focus on their economic ties; second, it discusses the security implications of Sino-Russian economic ties; finally, it provides recommendations for NATO.

<sup>2</sup> Reuters (2017)

<sup>3</sup> World Bank (2020)

## Sino-Russian Relations

Russia and China share a long—often fraught—history. The two have been partners, rivals and enemies, sometimes on the basis of their leaders’ personal opinion of one another. One particularly colourful episode of the Sino-Russian rivalry took place in Beijing in the summer of 1958. During a summit, Mao, having learned that Khrushchev did not know how to swim, turned up to talks with his Russian homologue in a bathrobe and slippers, and had an aide bring Khrushchev a pair of green swim trunks.<sup>4</sup> Mao spent the remainder of the episode swimming laps while Khrushchev sat in the children’s end of the pool—until, to top off the embarrassment he was brought a pair of water wings.<sup>5</sup> Khrushchev later recalled: “It was Mao’s way of putting himself in an advantageous position.”<sup>6</sup> This episode showcases an enduring truth about Sino-Russian relations: they may cooperate, but they remain competitive, and they are not natural friends.

At one point during the Cold War, China and the Soviet Union even came close to going to war over border disputes. Following these tensions, both countries were forced to commit significant resources to secure their border.<sup>7</sup> Starting with Gorbachev, Russian leaders sought to improve relations with China.<sup>8</sup> The border was demilitarized before the end of the Cold War.<sup>9</sup> China and Russia eventually settled most of their remaining border disputes and the relationship gradually improved. With Russia’s largely self-inflicted shunning by the West, which followed its 2014 invasion of Ukraine, China has become its “single most important foreign partner in all areas.”<sup>10</sup>

Economic cooperation has increased along with warming political ties as the two authoritarian regimes provide political cover for one another. The potential for an alliance between Moscow and Beijing has set off alarm bells in the West, particular in the United States. Some politicians and analysts have gone as far as referring to Russia and China as a single bloc.<sup>11</sup> Much ink has been spilled debating whether increasing Sino-Russian cooperation amounts to a genuine alliance or not—and the debate usually takes a turn to semantics. What matters is that, by moving closer politically and economically, Russia and China have amplified their strength. The question that emerges is: *Why?*

### *Politically, Beijing and Moscow share a marriage of convenience.*

Political ties between Beijing and Moscow are at an all-time high. In fact, Putin and Xi have met more than 30 times since 2014 alone.<sup>12</sup> Economics represent a driving force behind the improved ties (as will be explored below). That said, the warm relationship also comes in large part from shared concerns about restoring what they view as their country’s rightful place in the world and from a laser focus on regime survival and stability at home—they are of one mind when it comes to information control, citizen surveillance, and quashing dissent.

On the international front, China and Russia share an interest in undermining the liberal international order championed by the United States after the end of World War II. What they both envision is a multipolar world in which their influence can grow.<sup>13</sup> They also share the conviction that sovereign regimes should be able to behave as they please domestically without fear of interference—or even reproach—from other states. To that end, they support each other in international forums like the United Nations Security Council “where they emphasize the right to non-interference in domestic affairs and their opposition to excessive sanctions policies”.<sup>14</sup>

<sup>4</sup> Dash (2012)

<sup>5</sup> Ibid.

<sup>6</sup> Ibid.

<sup>7</sup> Gabuev (2018)

<sup>8</sup> Kofman (2020)

<sup>9</sup> Gabuev (2018)

<sup>10</sup> Gabuev (2019)

<sup>11</sup> Bloomberg (2018)

<sup>12</sup> Kofman (2020)

<sup>13</sup> Perović and Zogg (2019)

<sup>14</sup> Ibid.

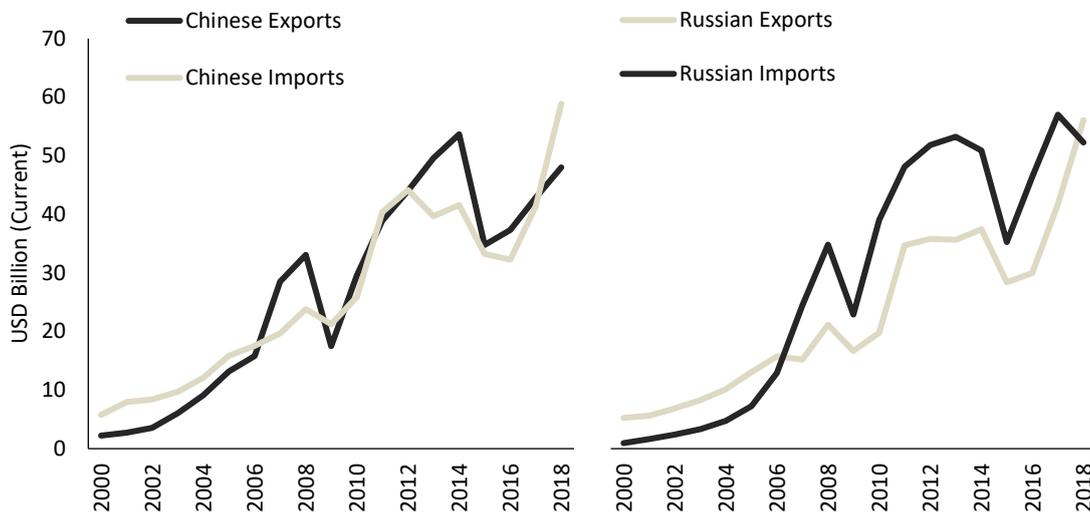
Domestic stability is of paramount importance for both Beijing and Moscow. The fact that neither countries needs to worry about the other fomenting instability in the other goes a long way in explaining good relations. As one analyst put it: “No one in Moscow loses sleep worrying that Beijing might try to topple Vladimir Putin’s government.”<sup>15</sup> Beyond not having to worry about one another, the regimes seek to shield one another from outside threats. In fact, joint military exercises between the two countries are at least partly aimed at discouraging third parties like the United States from supporting domestic dissenters.<sup>16</sup>

*Both sides derive immense benefits from deepening trade ties.*

Trade is a key component of the equation and a domain in which Russia and China complement each other. Russia is a commodity exporter that never succeeded in developing a successful manufacturing sector for consumer goods and that lacks a tech sector; China has grown as a manufacturing superpower in recent decades, has a budding tech sector, and is responsible for much of the world’s demand for raw materials. Against that backdrop, trade between China and Russia has steadily increased since the turn of the century. In fact, between 2000 and 2019, Russian exports to China increased more than tenfold, from just above USD 5 billion to more than USD 57 billion (See Figure 1). China became Russia’s largest trade partner ten years ago.<sup>17</sup>

Sino-Russian trade spans sectors as diverse as agriculture, aviation, telecommunications, and weaponry (which will be explored separately in the next section). Nevertheless, Russian energy exports remain the most important element of the trade balance. In 2019, for instance, it accounted for more than USD 40 billion of Russia’s exports to China—almost three quarters of the total.<sup>18</sup> A prime example of the Sino-Russian energy relationship is the USD 400 billion pipeline project agreed between Presidents Xi and Putin in 2014.<sup>19</sup> The 30-year deal was signed only months after Russia invaded Ukraine, and thus provided a crucial lifeline to the sanctions-crippled Putin government. As part of the deal, China is expected to import 5 billion cubic meters of natural gas from Russia this year alone.<sup>20</sup>

Figure 1: China-Russia Trade; Reported by China (Left); Reported by Russia (Right), 2000-2014<sup>21</sup>



<sup>15</sup> Gabuev and Umarov (2020)

<sup>16</sup> Gressel (2019)

<sup>17</sup> Hill (2020)

<sup>18</sup> United Nations (2020)

<sup>19</sup> Chappell (2019)

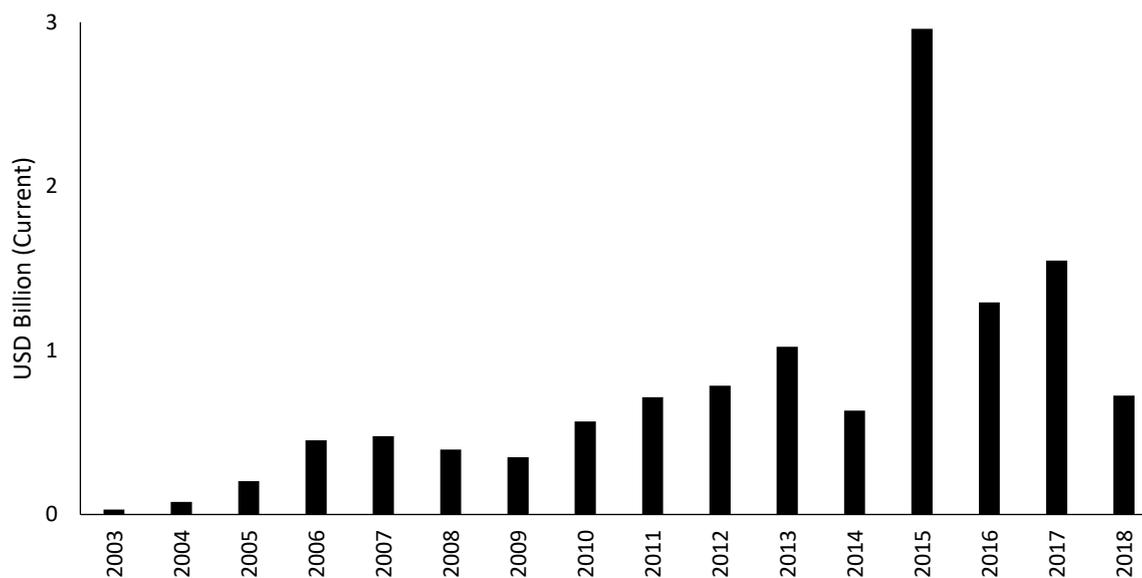
<sup>20</sup> Ibid.

<sup>21</sup> United Nations (2020)

*Beyond trade, net Chinese capital flows to Russia benefit both countries.*

Foreign direct investment (FDI)—the acquisition of a lasting interest of 10 percent or more in a foreign enterprise—makes up a substantial share of capital flows from China to Russia (see Figure 2).<sup>22</sup> They have steadily increased since 2003, the year Beijing began systematically publishing outward FDI statistics. It peaked in 2015, partly due to Chinese state-owned petroleum giant Sinopec’s acquisition of a 10 percent share of Russian petrochemicals firm Sibur for USD 1.3 billion.<sup>23</sup> The importance of Chinese FDI to Russia for Beijing and Moscow is deeply uneven. While FDI to Russia only represents a minute slide of Chinese firms’ outward investments, China makes up a significant share of Russia’s investment inflows.

Figure 2: Chinese Foreign Direct Investment Flows to Russia, 2003-2018<sup>24</sup>



Chinese loans (sometimes referred to as aid) to Russia dwarfs FDI (see Figure 3). In fact, Russia is by far the largest recipient of these loans. Between 2000 and 2014, it was on the receiving end of almost USD 37 billion from Beijing.<sup>25</sup> Pakistan came in second with USD 24 billion and Angola third with USD 17 billion.<sup>26</sup> China committed the bulk of its “aid” to Russia in 2009, predominantly through two lines of credit totalling USD 25 billion channelled via the China Development Bank to Russia’s Rosneft and Transneft. The loan agreement, as part of which the former received USD 15 billion and the latter USD 10 billion, also features purchase contracts for 15 million tonnes of oil per year from Russia’s East Siberian oilfields over a period of 20 years.<sup>27</sup>

Chinese capital flows to Russia represent a crucial source of funds for cash-strapped Moscow, which saw its foreign reserves dwindle after the dual shock of Western sanctions and dwindling crude prices that came in 2014. That said, they are not out of the ordinary from Beijing’s standpoint. China, through policy banks and state-owned enterprises, has increasingly been lending and investing abroad in recent decades to spend its massive trade surplus, export its

<sup>22</sup> Figure 2 does not capture the full picture of Chinese investment in Russia, as the majority (up to 70 percent) of Chinese outward FDI is channelled through Hong Kong or small Caribbean states before reaching its final destination, and is therefore not adequately captured in the data (see Contractor, 2015). This is further complicated by the fact that more than half of Russia’s FDI inflows likely comes from offshore havens, the largest share of any major economy’s, and is thus difficult to trace (Haberly, 2018).

<sup>23</sup> Foy (2018)

<sup>24</sup> China Ministry of Commerce (2020)

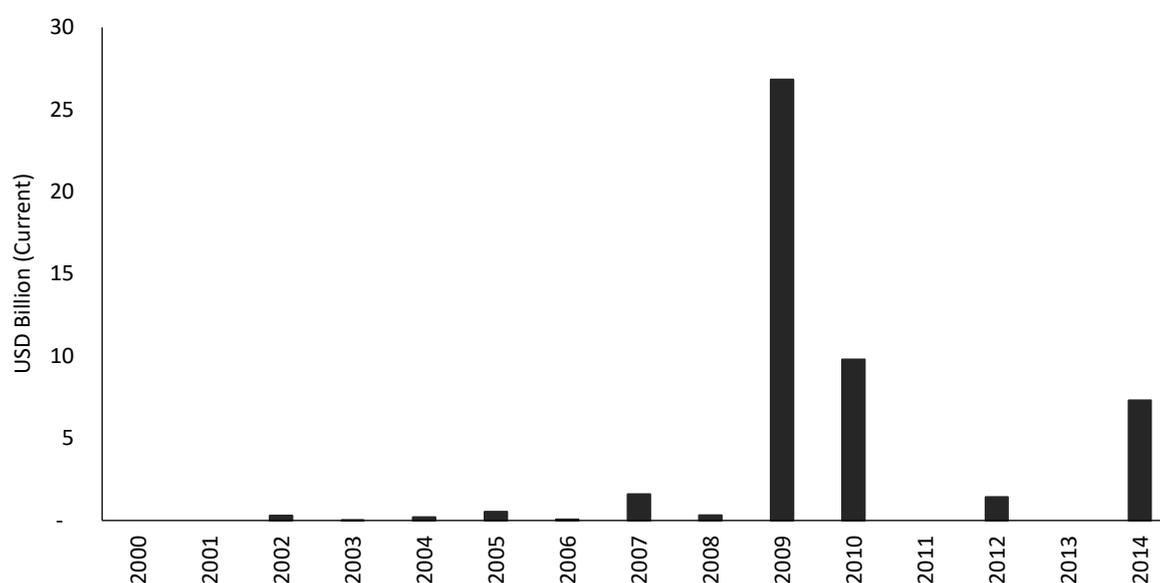
<sup>25</sup> AidData (2017)

<sup>26</sup> There is reason to believe that, at least in the case of Angola, the figure provided by AidData is exaggerated. The China Africa Research Initiative, which engages in cross-verification in its data collection, emphasizing the “official websites of central banks and ministries of finance, Chinese contractors, and personal contacts in China and in African countries”, estimates the figure to be closer to USD 19 billion.

<sup>27</sup> Paxton and Soldatkin (2009).

domestic overcapacity, and secure natural resources to fuel economic growth. The sheer quantity of money it is investing abroad paired with its relative lack of experience in doing so is resulting in undue risk on Beijing's balance sheet.<sup>28</sup>

Figure 3: Chinese "Aid" to Russia, 2000-2014<sup>29</sup>



### *Beijing and Moscow seek greater economic influence and financial independence.*

China and Russia both launched ambitious economic programmes in the past decade. China unveiled Xi's flagship Belt and Road Initiative (BRI) in 2013 and, the following year, Russia and a handful of its neighbours agreed on the establishment of the Eurasian Economic Union (EEU). BRI and EEU both aim to facilitate trade and investment, with China and Russia at their respective centres. The success levels of the two countries' programmes mirror their respective economic fortunes—while BRI membership has grown from a few dozen states to almost 150, the EEU has not expanded beyond its original five member-states (Russia, Armenia, Belarus, Kazakhstan, and Kyrgyzstan). Russia's views on the BRI have changed quite drastically since 2013. Moscow initially viewed the project with great scepticism. Eventually, however, it determined that BRI could bring more advantages than disadvantages if managed correctly.<sup>30</sup> Finally, in May 2015, Putin publicly concluded that the EEU and the BRI "complement each other very harmoniously".<sup>31</sup> The two projects now have considerable overlap—all the members of the EEU, besides Russia, have now joined the BRI.

Despite not being a BRI member, Russia has benefitted immensely from the initiative. The Yamal liquefied natural gas (LNG) project, for instance, was essentially saved by the Silk Road Fund (SRF), a special purpose investment vehicle created by Beijing to support the BRI.<sup>32</sup> The project—a strategic priority for Moscow—had been dealt a harsh blow by Western sanctions imposed on one of its investors, the oligarch Gennady Timchenko.<sup>33</sup> In 2015, shortly after the sanctions were enacted, the SRF acquired a 9.9 percent stake in Yamal LNG.<sup>34</sup> Shortly thereafter, Yamal LNG was also able to secure a USD 12 billion loan from Chinese policy banks.<sup>35</sup> Beijing also stands to benefit from the EEU, as the Moscow-led initiative will play an important role in facilitating trade among Asian and European BRI

<sup>28</sup> See Landry (2018)

<sup>29</sup> AidData (2017)

<sup>30</sup> Haenle et al. (2019)

<sup>31</sup> Kremlin (2015)

<sup>32</sup> Yujun et al. (2019)

<sup>33</sup> Ibid.

<sup>34</sup> Ibid.

<sup>35</sup> Ibid.

members (EEU members have agreed to eliminate customs among themselves, so goods travelling between China and the European Union overland now only need to clear customs twice despite travelling across multiple countries).<sup>36</sup>

Beyond seeking to build their own trade and investment networks, China and Russia are also trying to increase their independence from the Western banking system.<sup>37</sup> China's Cross-Border Interbank Payment System (CIPS)—an alternative to the Belgium-based Society for Worldwide Interbank Financial Telecommunication (SWIFT)—went live in 2015. In the Spring of 2020, it already had participants in over 90 countries.<sup>38</sup> Shortly after China did so, and as a way to evade the Western sanctions that followed its invasion of Eastern Ukraine, Russia also began developing an alternative to SWIFT.<sup>39</sup> Russia's service, the System for the Transfer of Financial Messages (STFM), processed its first interbank transfer in 2017 and was opened up to members of the Eurasian Economic Union in 2019.<sup>40</sup> According to Russia Today, a mouthpiece of the Kremlin, the plan is for the two systems to become "linked" in the future.<sup>41</sup> Beyond their attempts to circumvent the West's banking architecture, China and Russia have consciously sought to reduce their reliance on the US Dollar in recent years. President Putin talked about increasing the role of the Ruble and the Renminbi in mutual settlements as early as 2015.<sup>42</sup> Since then, the share of the dollar in China-Russia trade settlements has steadily declined.<sup>43</sup> In the first quarter of the year, the share of the dollar dropped below 50 percent for the first time on record.<sup>44</sup> Russia has also increased its redback reserves at the expense of the greenback.<sup>45</sup> Some analysts have gone as far as referring to this cooperation as a "financial alliance".<sup>46</sup> This raises questions about the role of Western sanctions—against Russia and China themselves and against third-countries like Iran.

### *Sino-Russian economic ties are heavily tilted in Beijing's favour.*

While both China and Russia have determined that close ties are mutually beneficial, significant challenges remain. In Central Asia, for example, disagreement is almost inevitable as Beijing expands its economic footprint while the Kremlin does not want to see its regional hegemon status challenged.<sup>47</sup> Furthermore, deep grievances continue to fester, often fuelled by nationalism in China, about Imperial Russia forcing the Qing Dynasty into "unfair treaties" in the 19<sup>th</sup> century.<sup>48</sup> More importantly, economic ties between China and Russia are heavily tilted in Beijing's favour. This imbalance is likely to become even more pronounced in the future, given the two countries' drastically different economic growth trajectories (see Figure 4).

<sup>36</sup> Ibid.

<sup>37</sup> Hillman (2020)

<sup>38</sup> Ibid.

<sup>39</sup> Reuters (2019)

<sup>40</sup> Hillman (2020)

<sup>41</sup> Russia Today (2019)

<sup>42</sup> Kremlin (2015)

<sup>43</sup> Simes (2020)

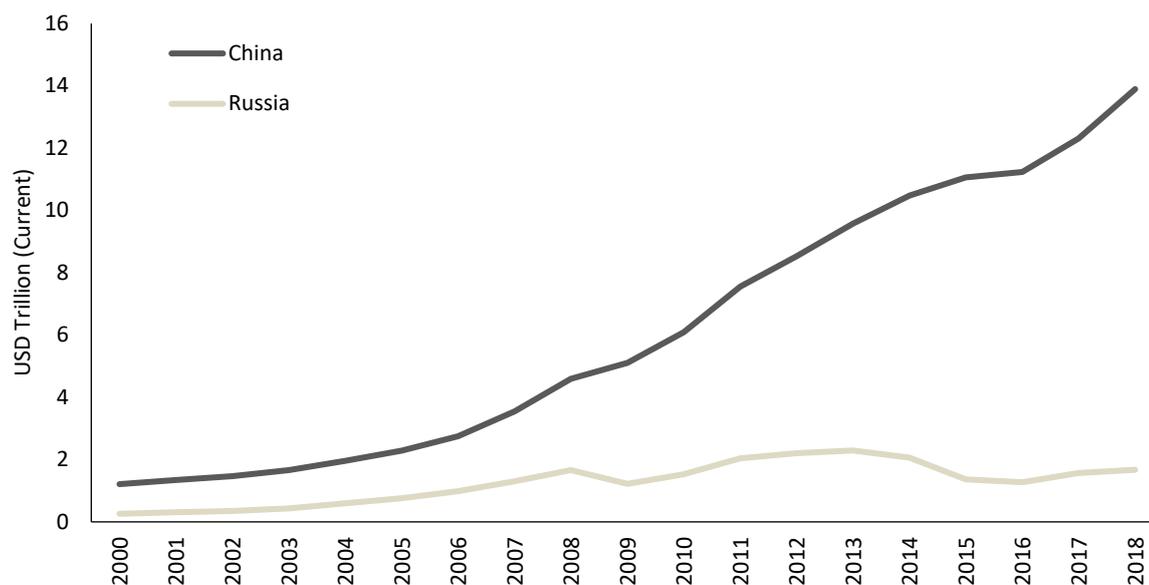
<sup>44</sup> Simes (2020)

<sup>45</sup> Ibid.

<sup>46</sup> Ibid.

<sup>47</sup> Perović and Zogg (2019)

<sup>48</sup> See [Denisov \(2015\)](#) for a concrete example of historic grievance related to the Treaty of Aigun (1858) and current government support.

Figure 4: China and Russia's GDP, 2000-2018<sup>49</sup>

Though they were of roughly equal size in 1990, China's economy is now eight times larger than that of Russia.<sup>50</sup> The asymmetric nature of China and Russia's economic relationship is perhaps as staggering as the difference in their economies. In 2018, more than 12 percent of Russian exports were destined for China, while Russia purchased less than 2 percent of China's exports.<sup>51</sup> Similarly, China's total FDI to Russia totalled USD 725 million in 2018—only 0.5 percent of China's total FDI outflows but roughly 5 percent of Russia's FDI inflows.<sup>52</sup> Finally, Russia's reliance on the largesse of China's policy banks, particularly since 2014, cannot be overstated. This imbalance fuels an inferiority complex in Moscow, worsened by the fact that it was formerly immensely more powerful than Beijing.

Russia's little brother syndrome is the key reason why it continues to abstain from joining the BRI, preferring to "engage with China" on it instead.<sup>53</sup> Moscow wants to be seen as Beijing's equal, not its junior partner, and has gone to great lengths to avoid that perception. Since Moscow wants Chinese money but not Chinese control, it has pushed for joint ventures in which it maintains control.<sup>54</sup> To try to maintain "symbolic parity" with China, Russia has gone as far as proposing a Eurasian Economic Partnership (EEP), a vague initiative that would include China, EEU members, and even Association of Southeast Asian Nations (ASEAN) states.<sup>55</sup> The EEP appears to be little more than a vanity project. Finally, Moscow has sought to limit the influx of Chinese workers in Russia.<sup>56</sup>

### *China and Russia's divergent economic trajectories extend to their military spending.*

Military spending hinges on economic performance. While Russia's military spending as a share of GDP spiked in the past decade, and especially in the years that followed its invasion of Eastern Ukraine, it has stagnated in absolute terms as a result of its poor economic performance (see Figure 5). In other words, Russia's military spending is hamstrung by the fact that its economy contracted by more than 25 percent between 2013 and 2019—and is expected to contract by a further 6 percent in 2020.<sup>57</sup> On the other hand, while official Chinese military spending

<sup>49</sup> World Bank (2020)

<sup>50</sup> Ibid.

<sup>51</sup> United Nations (2020)

<sup>52</sup> United Nations Conference on Trade and Development (2020)

<sup>53</sup> Yujun et al. (2019)

<sup>54</sup> Haenle et al. (2019)

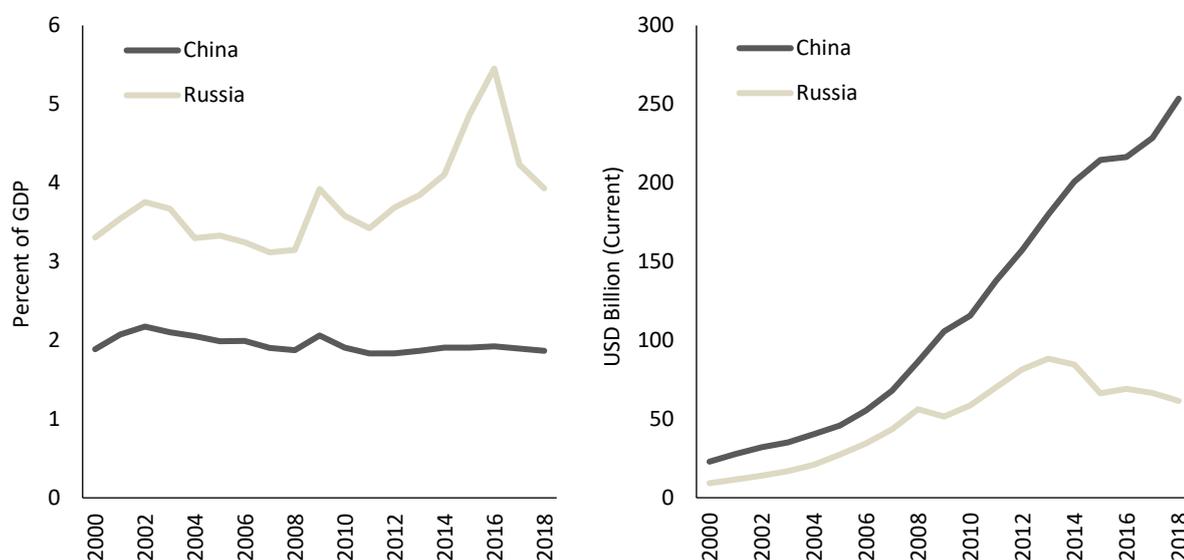
<sup>55</sup> Ibid.

<sup>56</sup> Ibid.

<sup>57</sup> World Bank, 2020

figures—which are widely viewed as underestimates<sup>58</sup>—hover at around two percent of GDP, it has increased almost exponentially in recent decades as a result of economic growth (see Figure 6). In fact, in absolute terms, the PLA’s budget increased almost 24-fold between 1989 and 2019 alone.<sup>59</sup>

Figure 5: China and Russia Military Spending, 2000-2018; Share of GDP (Left); Absolute (Right)<sup>60</sup>



*Beijing’s position as an economic patron to Moscow does not (yet) extend to military ties.*

Beijing and Moscow’s defence cooperation is intrinsically linked to their economic relationship. While Moscow’s energy exports are of strategic importance to Beijing, Chinese energy demand represents a lifeline to Moscow. Furthermore, China is vastly better positioned than Russia in virtually all other spheres of their bilateral trade ties—perhaps with the arms trade as the sole exception. Critical components of China’s defence capacities are sourced from Russia. Beijing “has relied on imports from Russia to bolster its air combat, air defence, anti-ship, and anti-submarine capabilities”.<sup>61</sup> Moscow has provided it with fighter jets, air defence systems, and much more.<sup>62</sup> Russia, on the other hand, has been able to get access to technology through China that it has previously sourced from the West.<sup>63</sup> Finally, China and Russia have increased their technology cooperation in areas like “fifth-generation telecommunications, artificial intelligence, biotechnology and the digital economy”.<sup>64</sup> Many of these technologies are dual-use, with both commercial and military value.<sup>65</sup> While the absolute value of Russian arms exports to China has decreased in recent decades—see Figure 6—the Kremlin can use defence cooperation in order to try to balance the wider economic relationship—at least somewhat.<sup>66</sup>

<sup>58</sup> See, for instance, the 2015 report by China Power titled “What Does China Really Spend on its Military?”, which compares official reported military spending with various estimates.

<sup>59</sup> World Bank (2020)

<sup>60</sup> Ibid.

<sup>61</sup> Kendall-Taylor et al. (2020)

<sup>62</sup> Simes (2019)

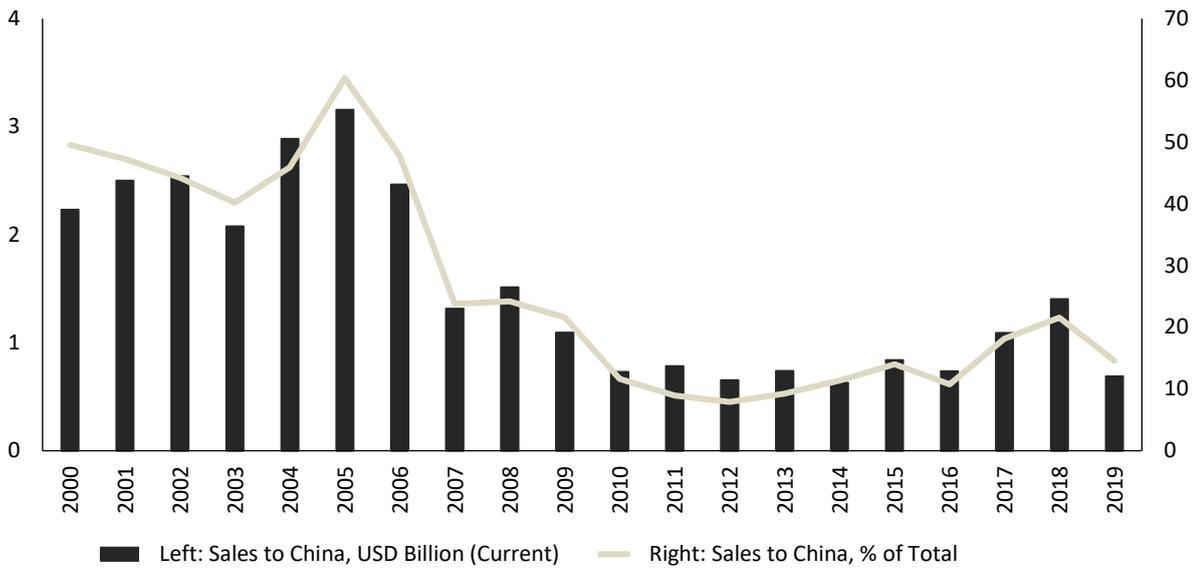
<sup>63</sup> Ibid.

<sup>64</sup> Bendett and Kania (2019)

<sup>65</sup> Ibid.

<sup>66</sup> Trenin (2019)

Figure 6: Russian Arms Exports to China, 2000-2019<sup>67</sup>



Given their growth trajectories, China’s economic superiority over Russia will likely extend to the defence sector soon, if it does not already. In fact, according to an estimate by the Stockholm International Peace Research Institute (SIPRI), China has overtaken Russia to become the world’s second-biggest arms producer.<sup>68</sup> Furthermore, Beijing will become less dependent on Moscow’s arms as its military capacity grows, not least by copying the Russian technology it purchases.<sup>69</sup> As Weitz puts it: “In recent years (...) China has largely stopped buying complete weapons systems from Russia, primarily because the Chinese defence industry can now match Soviet-era technologies, while Russia refuses to sell China its most advanced weapons.”<sup>70</sup> And as China’s power vis-à-vis Russia grows, it will grow more assertive.<sup>71</sup> When that happens, Moscow will have a much more difficult time presenting the relationship as anything even close to a partnership of equals.

<sup>67</sup> Stockholm International Peace Research Institute. (2020)

<sup>68</sup> Reuters (2020)

<sup>69</sup> Hillman (2020)

<sup>70</sup> Weitz (2010)

<sup>71</sup> Hillman (2020)

## Security Implications and Recommendations for NATO

Military spending, which is largely driven by economic output, is only one component of capacity—training is another and, in the case of joint-exercises, one that can act as a force multiplier. In recent decades, military cooperation between Beijing and Moscow has extended beyond arms sales and technology transfers. The Russian Armed Forces and the People’s Liberation Army (PLA) started conducting joint exercises in the early 2000s.<sup>72</sup> More recently, the two militaries have conducted joint exercises in the Mediterranean (2015),<sup>73</sup> the Baltic Sea (2017),<sup>74</sup> and off the coast of South Africa (2019).<sup>75</sup> In 2018, the PLA participated in Vostok-2018, Russia’s largest military exercise since the end of the Cold War.<sup>76</sup> Beyond joint military exercises, Beijing and Moscow are also working on “techniques for improved censorship and surveillance and increasingly coordinating on approaches to governance that justify and promote their preferred approach of cyber sovereignty and internet management, to other countries and through international standards and other institutions”, in what has been called a form of “authoritarian innovation”.<sup>77</sup>

The economic relationship between Russia and China has obvious security implications for NATO, as it amplifies the power of two authoritarian regimes that oppose NATO’s values and interests. However, the consequences for NATO of these economic ties are not all apparent—while some are direct, others are indirect and may only become apparent in the future. The direct implications are readily apparent and potential quite severe. The two powers are increasing expanding their military capacity through the trade and common development of relevant equipment. That is especially relevant for Russia, which has struggled to keep pace with technological innovation<sup>78</sup> and faces difficulties sourcing components from the West.<sup>79</sup> The indirect security implications, though not immediately clear, are perhaps even more worrying. Sino-Russian trade reduces the effectiveness of sanctions against Russia by providing it with a lifeline. That makes it more difficult for NATO members to punish Russia’s belligerence while also providing Russia with much-needed cash it can spend on military equipment. More generally, economic cooperation is the foundation of Sino-Russian rapprochement, which is fuelling a weakening of the liberal international order responsible for the unprecedented levels of peace observed in much of the world in the past 75 years.

The exact nature of the challenge posed by greater Sino-Russian economic cooperation differs for different NATO members. From the United States’ standpoint, the main security consideration is an acceleration of China’s rise as a military competitor. For Central European NATO members, the larger concern is undoubtedly the strengthening of Russia as a result of this cooperation. While the economic coupling of China and Russia is a concern for NATO, the alliance’s response options, unlike those of individual NATO members, are relatively limited. That said, some do exist.

### *Learn to live with the Russian-Chinese partnership.*

Some analysts (and political leaders) believe that NATO should be willing to make concessions to the Kremlin in order to try to dissuade it from seeking even closer ties to China. Proponents of this view believe that China represents a greater long-term threat to NATO than Russia and that Moscow can be turned against Beijing in ways that would make the alliance safer. Neither can be assumed. While China is poised to become a greater security threat as grows more powerful, Russia will remain the greatest threat to many NATO members for the foreseeable future. It is also not clear that any concessions made to the Kremlin would actually motivate it to change course. Russia has a core interest in cordial relations with China—a fast-growing economic giant with which it shares a 4,200-

<sup>72</sup> Weitz (2015)

<sup>73</sup> Stanzel (2019)

<sup>74</sup> Ibid.

<sup>75</sup> Panda (2019)

<sup>76</sup> Gabuev (2018)

<sup>77</sup> Ibid.

<sup>78</sup> Grady (2017)

<sup>79</sup> Gressel (2020)

kilometres-long border. More importantly for Russian foreign policy considerations, China has no interest in threatening the survival of the Putin regime. Even modest changes in Moscow's positioning towards Beijing would likely come at a steep price, particularly to Europeans, for whom Moscow poses the greatest threat anyway. It would also likely achieve little. Though Russian energy exports have strategic importance for Beijing, Moscow has little leverage—energy dependence goes both ways. Beyond that, China is increasingly self-reliant when it comes to security, which means that even a (highly unlikely) change in Russia's stance towards China might not do much to change Beijing's behaviour. Rather, NATO needs to learn to live with the Sino-Russian rapprochement. The first step in doing so is to recognize the relationship for what it is—and what it is not. It is not an alliance, but a cooperation of convenience based on a few overlapping interests. NATO will have to—and can—live with that. It is not primarily a military threat. Neither side ultimately has an interest in getting embroiled in the others' conflicts. China lacks the capacity to project power in Europe and the appetite to do so. Moscow has no interest in a realignment of forces towards the East and South China Seas. NATO leaders should refrain from talking about China and Russia as if they were a single bloc or even an alliance as it mischaracterizes the relationship and risks empowering Moscow and Beijing.

*Reduce the value and external reach of Russian-Chinese cooperation.*

NATO members can make Sino-Russian cooperation more costly and less fruitful. To that end, they should highlight differences between Moscow and Beijing whenever possible. Exploiting disagreements is only possible if you have an accurate understanding of the thinking of decision-makers in the Kremlin and Zhongnanhai.<sup>80</sup> Intelligence is supremely important. Furthermore, the alliance should focus on three things. NATO should find a response to Sino-Russian trade and cooperation in technologically advanced fields like advanced telecommunications and artificial intelligence.<sup>81</sup> The alliance and its partners need to monitor and understand the exact nature of the cooperation and devise effective responses. NATO members can work together “on export controls, screening of investment and restrictions against collaborations with military-linked or otherwise problematic institutions in China and Russia”.<sup>82</sup> Importantly, NATO democracies and like-minded allies in Asia and elsewhere should attempt to “promulgate norms and ethical frameworks for the use of next-generation technologies, particularly AI, that are consistent with liberal values and democratic governance”.<sup>83</sup> Beyond that, NATO members should aim to make it more difficult for Russia and China to convince others to explore alternatives to both the liberal political order and the Western financial system. For the former, heralding the advantages of a liberal world order for widespread economic prosperity and political liberty is key, but it must be complemented by productive and respectful engagement and renewed commitments to making capital and technology transfers possible and attainable. To achieve the latter, NATO members need to recalibrate the way they use economic sanctions, as sanctions overreach risks generating support for alternative payment systems dominated by China or Russia as opposed to the West.<sup>84</sup>

<sup>80</sup> Bendett and Kania (2019)

<sup>81</sup> Ibid.

<sup>82</sup> Ibid.

<sup>83</sup> Ibid.

<sup>84</sup> Hillman (2020)

## Conclusion

Russia and China have a troubled history, but they have grown much closer over the last few decades. This trend accelerated as Russia became increasingly isolated following its invasion of Ukraine. The biting sanctions imposed by western countries, paired with the lifeline it received from Beijing, has made Russia increasingly reliant on Beijing economically. Against this backdrop, and concerns about increasing Chinese influence in Central Asia, the Kremlin was initially reluctant to engage with China's Belt and Road Initiative. But it now sees it as an opportunity to spur economic activity and employment.<sup>85</sup> That said, a potential economic boost from BRI is not enough to sustain economic growth in Russia—this necessitates good relations with Europe. An economic overreliance on Beijing at the expense of Europe places the Kremlin in a situation of dependency it would rather avoid.

The COVID-19 pandemic is set to deepen many of the challenges to the Sino-Russian relationship described above. The pandemic initially increased tensions. Russia closed its border to China as early as January, two months before it did the same to Europe.<sup>86</sup> The Russian government went as far as targeting Chinese nationals directly in its fight against COVID-19, which sparked outrage in China.<sup>87</sup> It currently appears likely that China will recover from COVID-19 faster than any other major economy. Russia, meanwhile, will be reeling from the pandemic for a long time. Moscow will likely have to lean on China even more than it has in recent years to stabilize its economy.<sup>88</sup> That, in turn, will make a lopsided relationship even more unbalanced.

How should NATO react? Increased Sino-Russian co-operation and co-dependency has direct security implications for NATO. However, the alliance, as opposed to its individual members, has limited means to respond, as this is primarily an economic and political—not a military—challenge. Nevertheless, there are a few things NATO can, and should, do. NATO needs to recognize Sino-Russian cooperation for what it is: not an alliance but a partnership between two regimes with limited common interests. As Sino-Russian ties grow closer, more disagreements will come to the fore. As China becomes more powerful, Moscow will find the facade of equality in their relationship more difficult to maintain. It will become apparent that the tsar has no clothes. It is futile for NATO to try to cause a split between Russia and China because Moscow will seek to maintain good relations with Beijing regardless of NATO's policies. Furthermore, given Russia's little brother syndrome, any NATO policy that paints them as equals might backfire by giving the Kremlin domestic political cover for further rapprochement. Instead, NATO should concentrate on trying to reduce the value both sides derive from their partnership. To do so, NATO members must carefully monitor Sino-Russian technological cooperation and make it more difficult for them to trade key technologies.<sup>89</sup> NATO members can also make it more difficult for China and Russia to convince third countries to work with them to undermine the Western-dominated international order—for example, by making clear the advantages of a liberal world order, by engaging them in equal terms, and by making capital and technology transfers possible and attainable. Lastly, NATO members will need to find some degree of alignment on China. Otherwise, alliance cohesion will suffer drastically in the years to come.

<sup>85</sup> Haenle et al. (2019)

<sup>86</sup> Ibid.

<sup>87</sup> Ibid.

<sup>88</sup> Gabuev (2020)

<sup>89</sup> Bendett and Kania (2019)

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