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RUSSIA, CHINA AND 'BALANCE OF DEPENDENCE' IN GREATER EURASIA

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Regional integration projects capable of facilitating reciprocal economic benefits are only sustainable when there is a 'balance of dependence'. Realist theory is adamant that cooperation for absolute gain necessitates a balance of power to prevent one side from challenging the status-quo. In the age of increasingly destructive weapons and intensified economic interdependence, political power is largely extracted from asymmetrical economic dependence.¹ Asymmetrical interdependence, or a skewed 'balance of dependence', empowers a less dependent state to set favourable economic conditions and obtain political concessions from a more dependent one.² States therefore compete for power by skewing the symmetry within economic interdependent partnerships to enhance both their influence and autonomy. Diversifying partnerships can reduce one's own reliance on a state or region, while asserting control over strategic markets diminishes the capacity of other states to lessen their dependence.

The centuries-long geoeconomic dominance of the West is the product of asymmetrical interdependence by asserting control over strategic markets, transportation corridors and financial institutions. Following the disintegration of the Mongol Empire, the land-based transportation corridors of the ancient Silk Road that had fuelled trade and growth vanished. Subsequently, Western maritime powers rose to prominence from the early 1500s by asserting control over the main maritime transportation corridors and then establishing 'Trading-Post empires'. Leading naval powers, such as Britain, have therefore historically been more inclined towards free trade as they had more to gain and risked less by controlling the trade routes.³ The maritime strategies of Alfred Thayer Mahan in the late 1800s were founded on this strategic reasoning, which became the foundation for making the US a naval power safeguarding its security and economic power by controlling the oceans and Eurasian continent from the periphery.⁴ Following the Second World War, the US became the unequalled geoeconomic power on the world scale due to its share in the global GDP, the Bretton Woods institutions and control over strategic markets/resources and transportation corridors. Ironically, the principal adversary of the US became the Soviet Union, a communist state detached from the international market place and therefore largely insulated from America's domineering economic statecraft.

Following the demise of communism, Russia returned to the dilemma of a Eurasian land-power seeking economic integration and modernisation: Economic development and prosperity required integration with the West as the economic core of the international system. Yet, integration into Western-led value-chains and economic structures was not tenable since the asymmetry in the economic balance of power could be converted into political structures to minimise both Russian influence and autonomy. Moscow's

¹ Huntington S. P. *Why international primacy matters // International security*. 1993. Vol.17. No. 4. P. 68–83. P. 72.

² Hirschman A. *National power and the structure of foreign trade*. University of California Press, Berkeley. 1945.

³ List F. *The National System of Political Economy*. Longmans, Green, and Company. London. 1885.

⁴ Mahan A.T. *The influence of sea power upon history, 1660–1783*. Read Books, Boston. 2013.

ambition to establish a common political, economic and security community in Europe, a 'Common European Home', is emblematic of this predicament. After the Cold War, the West supported only those European institutions that would incrementally augment collective bargaining power in order to ensure that Russia does not become the centre of economic integration.

To solve this dilemma today Russia's only solution is to become a Eurasian power and shape a Greater Eurasia to diversify away from excessive reliance on the West and concurrently acquire influence over competitive strategic markets, value-chains, transportation corridors and international financial institutions. And to these ends a strategic partnership with China is indispensable to construct a Greater Eurasia. Yet, Russia must learn the lessons from the failure of shaping a Greater Europe to refrain from repeating the same mistakes in building its partnership with an economically stronger China. Moscow's nascent strategic partnership with Beijing is to some extent paradoxical since the sustainability of the concerted project for a 'Greater Eurasia' requires Moscow to balance China. The asymmetrical interdependence that emerges in the framework of such a partnership creates incentives for China to obtain political concessions, which would make the it untenable for Russia in the long term. A viable Greater Eurasia requires soft-balancing of China – creating an equilibrium without replicating the zero-sum schemes that collapsed the prospects of a Greater Europe.

Lessons to Be Learned from the Failure of 'Greater Europe'

Moscow's ambitious regional integration project labelled Greater Europe failed due to the inability to create a balance of dependence within Europe. Moscow's Greater Europe initiative aimed to obtain a proportional representation of its interests at the European table, enabling Russia to benefit from its size to ensure its influence and security. Greater Europe directly conflicted with the EU's 'Wider Europe' and NATO's corresponding initiative, which instead sought to maximise collective bargaining power by facilitating 28+1 formats for cooperation with Russia. The subsequent extremely asymmetrical partnerships that followed in reality veil unilateralism as multilateralism, and have become formats of interdependence that enable the West to maximise both its autonomy and influence. 'Cooperation' was subsequently conceptualised within a teacher-student/subject-object format, within which Russia was compelled to accept unilateral concessions. Aimed to unremittingly intensify the collective bargaining power by expanding the EU and NATO sphere of influence to the east, this new status quo in the West-Russian relations could not

materialise. Subsequently, 'European integration' in fact became a zero-sum geostrategic project, whose concept of the shared neighbourhood in fact imposed a 'civilizational choice'.

Moscow's 'Greater Europe' project was largely paradoxical in its conception and was destined to fail. The 'leaning-to-one-side' policy by committing solely to a common Europe and neglecting other partners in the east deprived Russia of a bargaining benefit required to negotiate a more favourable format for Europe. Brzezinski noted that the predominant cooperation with the West was 'Russia's only choice – even if tactical', and it 'provided the West with a strategic opportunity. It created the preconditions for the progressive geopolitical expansion of the Western community deeper and deeper into Eurasia'.⁵ Yeltsin conceded by the end of the 1990s that the 'leaning-to-one-side' policy had been exploited rather than rewarded. Yeltsin called for diversifying Russia's partnerships by becoming a Eurasian power. However, the Eurasian ambitions harked back to a geopolitical past and experience as opposed to clearly re-conceptualising Eurasianism in terms of geoeconomics.

Putin swiftly and skilfully embraced economic statecraft as the principal tool for restoring Russian power. Re-nationalising energy resources ensured that the strategic industries of Russia worked in the interest of the state rather than oligarchs, who were courted by the West and tended to use these industries to impose their control on the state. Putin envisioned transforming Russia into an energy superpower as a way to obtain a benefit to negotiate a de-facto Greater Europe. Energy Strategy of Russia for the period up to 2030 reiterates the objective of utilising energy resources to regain a voice and influence in Europe and broader international relations.⁶ Yet, the existing disproportionate economic connectivity between Russia and Europe necessitated continuity and hindered abandonment of the Greater Europe concept.

At the same time, the energy dependence on Russia and subsequent influence of Moscow have been consistently resisted and hampered to shape a foundation for a de-facto Greater Europe. While the EU grew increasingly reliant on Russia as an energy supplier, Russia remained equally if not more dependent on the EU as an energy consumer. The symmetry within the interdependent relationship, thus, implied that Russia could only extract few political concessions. As long as the West remained Russia's only choice, the zero-sum structures in Europe have become perpetuated, as diminishing Russian influence over transit countries is seen as a way to scale back Russian influence on the continent. The EU's Eastern Partnership and Association Agreements became emblematic of the effort to unilaterally engage the 'shared neighbourhood' in exclusive arrangements. Greater Europe failed when the West supported the coup in Kiev by exploiting domestic resentments over corruption to pull Ukraine into the Euro-Atlantic orbit. At the same time, Western efforts

⁵ Brzezinski Z. *The Choice: Global Domination or Global Leadership*. Basic Books, New York. 2009. P. 102.

⁶ *Energy strategy of Russia for the period up to 2030*. Moscow. 13.11.09. URL: [http://www.energystrategy.ru/projects/docs/ES-2030_\(Eng\).pdf](http://www.energystrategy.ru/projects/docs/ES-2030_(Eng).pdf).

to cripple the Russian economy with economic sanctions were insulated from forceful Russian retaliations in the energy sphere due to the Western understanding of the symmetry in energy interdependence between the consumer and the supplier.

In search of a way out of this deadlock Moscow's alternative is developing cooperation with the East. Russia was gradually improving economic connectivity with the rising eastern powers throughout the 2000s, yet the Western-centric foreign policy largely undermined the required impetus for painful reforms and willingness to make long-term commitments. China and Iran remained especially apprehensive about Russia's Greater Europe ambitions, which made them prospective bargaining chips to enhance Russia's 'market value' in the West. Ties with rising Asian powers were seen as demeaning for Russia and detrimental to its geoeconomic potential, and this perception was based on what Karaganov aptly defines as 'illusions about gradual integration with the West'.⁷ Former Russian Foreign Minister, Igor Ivanov, previously a staunch advocate for Greater Europe, recognises that this flawed initiative should be replaced with a more feasible and beneficial one of Greater Eurasia.⁸

Conceptualising 'Greater Eurasia': Russia as a Successor of the Mongol Empire

The Eurasian continent is a paradox as it hosts the majority of the world's population, resources and GDP, but at the same time it is plagued by astonishingly low economic connectivity in terms of both physical infrastructure and mechanisms for cooperation. Maritime powers's geoeconomic administration of the Eurasian continent from the edges for the past 500 years has placed Russia in a vulnerable position at the dual periphery of both Europe and East Asia. Russia's geoeconomic weakness is the product of failure to exploit its advantages of its geographical expanse by developing economic connectivity by land through the heart of Eurasia. Russia could skew the symmetry of interdependence by becoming a successor of the Mongol Empire and bridging the vast Eurasian continent, thereby reducing dependence on any one state or region, while making its partners more reliant on itself due to their interest in its vast territories as transit corridors.

⁷ Karaganov S. *Eurasian Way Out of the European Crisis // Russia in Global Affairs*. 08.06.15. URL: <http://eng.globalaffairs.ru/pubcol/Eurasian-Way-Out-of-the-European-Crisis-17505>.

⁸ Ivanov I. *The Sunset of Greater Europe // Speech at the 20th Annual International Conference of the Baltic Forum "The US, the EU and Russia – the New Reality"*, 12 September 2015, Riga, Latvia. URL: http://russiancouncil.ru/en/inner/?id_4=6564#top-content.

Historically, the British-Russian rivalry for global dominance was largely a competition to obtain competitive advantage by leading Eurasia – from the centre as a land power or the periphery as a maritime power, respectively. The rivalry became more acute by the mid-1800s when Britain defeated China in the Opium Wars and established its privileged economic and military presence along the eastern coastline of Eurasia. With the ensuing weakness of China, Russia appropriated more than 1.5 million square kilometres of Chinese territory along the Pacific Coast in what became known as the 'unequal treaties'. Russia's rapid eastward territorial expansion fuelled concerns in Britain that Russia could become the successor of the Mongol empire and reverse the economic and military advantage of maritime powers to its advantage. Mackinder warned that the advantages from mobility upon the seas were only temporary due to the emergence of new technologies for physical connectivity:

Steam and the Suez Canal appeared to have increased the mobility of sea-power relatively to land-power. Railways acted chiefly as feeders to ocean-going commerce. But transcontinental railways are now transmuting the conditions of land-power and nowhere can they have such effect as in the closed heartland of Euro-Asia.⁹

Mackinder's predictions did not come to fruition as Russian geoeconomics was abandoned in the era of communism and the divisive Cold War. Economic statecraft was virtually absent under the Soviet authorities, while the military and ideological divide of the Cold War obstructed economic connectivity and militarised divisions in Eurasia.

The world changed profoundly since the fall of communism, which presented Russia with another opportunity to promote economic connectivity in Eurasia. Geoeconomics is no longer the prerogative of the West as the global diffusion of power and the rise of Asia creates incentives to construct alternative transportation corridors and mechanisms for cooperation. In recent years, most of the major economies across Eurasia have launched various initiatives promoting integration of Eurasia. Russia's newly proposed Eurasianism should represent a clear break from previous conceptions associated with backward militarised geopolitics and subsequent inevitable imperial overstretch. A new geoeconomic concept of Eurasianism should aim to promote selective Eurasian integration to make Russia a leading driver of modernisation and globalisation. A key distinction for a revised concept of Eurasia is the recognition that Russia has neither the capacity nor the intention to dominate the Eurasian continent. Creating viable partnerships with Eurasian powers is pivotal for a balanced and functional Greater Eurasia.

⁹ Mackinder H.J. *The Geographical Pivot of History* // *The Geographical Journal*. 1904. Vol. 170. No. 4. P. 421–444. P. 434.

China as Russia's Indispensable Partner in Greater Eurasia

China is Russia's principal partner in shaping of a Greater Eurasia due to its capacity and the intention to rival the US-led international system. A strategic partnership between China and Russia is indispensable for any format of a Greater Eurasia as the dyad includes the world's largest energy consumer and the largest energy producer, the world's trading leader and a continental land-bridge. In recent years, China and Russia have become the key protagonists to oppose unipolarity, to accrue gold reserves and utilise regional currencies, while establishing new financial and economic institutions such as BRICS, the Shanghai Cooperation Organisation (SCO) and the Eurasian Economic Union (EEU).

The economic miracle of China's revival presents Russia with an opportunity to make Greater Eurasia a viable geoeconomic initiative. The defeat of China in the mid-1800s eliminated China as the world's economic power house and ushered in the 'century of humiliation'. The Chinese initially inward-looking development strategy from the 1970s was rolled out under the veil of a 'peaceful rise', which helped to prevent attracting any negative attention. This strategy later transformed to an open challenge to the US-led world order with the launch of the Silk Road project in 2013, also known as the One Belt, One Road (OBOR) initiative. China's ambition to revive the ancient Silk Road by developing land-based infrastructure and maritime transport routes is to be funded by Chinese-led financial institutions and denominated in what is becoming an increasingly internationalised yuan. Following the Western-backed coup in Kiev and the ensuing tit-for-tat sanctions, economic integration with Russia intensified. Initial physical connectivity took shape of the \$400 billion Power of Siberia pipeline and joint transportation infrastructure projects, denominated in local currencies. New mechanisms for cooperation started to develop with the establishing of new and joint international institutions, financial institutions, payment systems, rating agencies and currency swaps.

However, this newly adopted Russian 'Turn to the East' strategy again came at the expense of the regional balance of dependence since Russia's disproportionate pivot to the West was replaced with yet another disproportionate pivot to China. The asymmetrical economic power of Russia and China was in the past mitigated by diversifying ties. The cancellation of the Angarsk-Daqing pipeline project in favour of the ESPO pipeline was illustrative of Moscow's effort to maintain a regional balance of dependence. Russian Foreign Minister, Sergei Lavrov similarly defined Russia's role in Asia as an important stabilising factor to create a 'truly stable balance of power'.¹⁰ Becoming excessively reliant on China could undermine Russia's ability to keep a neutral stance in China's dispute with Japan, which would undermine Russia-Japan ties and further exacerbate dependence on its more powerful Chinese partner. The growing influence of China in Central Asia and the Russian Far East has also invigorated concerns in Moscow. In other words, merely

¹⁰ Lavrov S.V. *Towards Peace, Stability And Sustainable Economic Development in the Asia Pacific Region* // Ministry of Foreign Affairs of the Russian Federation. 05.10.13. URL: http://www.mid.ru/en/foreign_policy/news/-/asset_publisher/cKNonkJE02Bw/content/id/93642?p_p_id=101_INSTANCE_cKNonkJE02Bw&_101_INSTANCE_cKNonkJE02Bw_languageId=en_GB.

duplicating the leaning-to-one-side policy in Europe with China may condemn Russia to another intolerable and unsustainable asymmetrical partnership. Russia may accept Chinese economic leadership as an inescapable reality, but Chinese dominance must be opposed.

A Eurasian Balance of Dependence

In order to sustain a strategic partnership with China, soft-balancing strategy with a positive-sum economic connectivity is required. For simply replicating the hard-balancing with zero-sum structures similar to those created in Europe would condemn the Greater Eurasia project to the same fate the Greater Europe concept faced. Soft-balancing should entail acceptance of Chinese geoeconomic leadership, while resisting Chinese hegemony. This can be achieved with 1) diversification of partnership that produces positive-sum gain by benefitting from the economies of scale; 2) developing exclusive institutions for collective bargaining power vis-à-vis China that also provide benefits for the latter; and 3) constructing inclusive institutions with China that embrace other major states to ensure an internal balance of power.

First, diversification in Northeast Asia is especially imperative as the modernisation of the Russian Far East will culminate the economies of scale for Russia and benefit all the states in the region. Seoul and Tokyo have expressed an especially strong interest in becoming stakeholders in Russia's energy and transportation projects in the region, which will be cheaper in the form of extensions of the larger physical connectivity projects between Russia and China. Rather than resisting Russia's development of its Far Eastern territories, China has become a sponsor and a significant contributor to developing the Russian Pacific Coast and adjoining connectivity. Since the 'unequal treaties' in the mid-1800s China's two north-eastern provinces, Heilongjiang and Jilin, have been landlocked, and Beijing sees a way to enhance their economic competitiveness by improving connectivity with the modernising ports on Russia's Pacific coast. Meanwhile, Russian economic connectivity with South Korea and Japan has been increasing. At the Eastern Economic Forum in Vladivostok held in September 2016, a multitude of economic agreements were signed with Seoul. It serves as a great stimulus that South Korea's own concept for Eurasian integration mirrors that of Russia, and Seoul's request for a FTA membership within the EEU is a positive sign. Additionally, December 2016 witnessed an agreement reached between Russia and Japan about joint economic development on the Southern Kuril Islands.

Second, the EEU is an important tool in Russian foreign policy to use as a collective bargaining benefit to restore symmetry both with China and the EU. Institutionalising a privileged position for Russia in Central Asia to balance the economic prowess of China is imperative to achieve a balance in the region. Obtaining support from China as a non-member is possible by mitigating the disadvantages of exclusion with the offer of material benefits. The common customs zone, standards and legislation within the EEU provides simplified access to the region and its market, and more importantly it makes the region more attractive for transit reducing the number of customs zones between China and the EU to one.

Third, shared institutions and arrangements with China should be multilateral and include other major powers to ensure an internal balance of power and thus prevent Chinese dominance. It is often neglected that regional institutions and arrangements for collective bargaining power vis-à-vis non-members require this balance of power within the Greater Eurasia. To avoid failure the mistakes of Western experience should be recognised. For instance, the EU provided collective bargaining power to skew the symmetry in relations with the US and others, while the North American Free Trade Agreement (NAFTA) was similarly a response to a more competitive EU and Japan.¹¹ However, the differences in economies within these institutions eventually caused their unravelling. Euro is an undervalued currency for Germany and has subsequently fed its export-based development strategy and absorbed production power from the Mediterranean. With the internal balance of power in the EU eroding, the weaker states in the EU will gradually and more fiercely contest German domination in Europe. In NAFTA, the huge differences in labour costs have resulted in the shift of manufacturing to Mexico, which caused resentment culminating in support for Trump's calls to scrap the trade agreement.

In its turn China has been the main driver to reinvigorate the SCO as a major international player by converting it into a vehicle for geoeconomics. An expanded SCO would become 'an emerging cornerstone of the multipolar world in the making, and a platform offering a Eurasian alternative to Western Europe'.¹² One of the important proposals was to construct a joint SCO Development Bank as an alternative to the IMF and the World Bank to fund common infrastructure projects to interconnect the region. Russia was cautious about this initiative since the shift from military security to economic cooperation entails handing over the mantle of leadership to China. Moscow counter-proposal was to develop the SCO Development Bank on the foundations of the Russia-Kazakhstan dominated Eurasian Development Bank (EDB). The Chinese

¹¹ Hurrell A. *Explaining the resurgence of regionalism in world politics // Review of International Studies*. 1995. Vol. 21. No.4. P. 331–358. P. 341.

¹² Lukin A. *Shanghai Cooperation Organization: Looking for a New Role // Russia in Global Affairs*. 10.07.15. URL: <http://eng.globalaffairs.ru/valday/Shanghai-Cooperation-Organization-Looking-for-a-New-Role-17576>.

obstruction that followed deprived Russia of a seat at the table in a powerful rules-based geoeconomic institution, and China has instead maximised an asymmetrical leverage by penetrating the region with bilateral ad-hoc agreements. Furthermore, the multilateral SCO was replaced by China's unilateral Silk Road initiative, and the idea of a SCO Development Bank was substituted with the Chinese initiated Asia Infrastructure Investment Bank (AIIB).

The only options for Russia were to either accommodate China in multilateral institutions to harmonise interests, or resist the shifting international distribution of power and face a zero-sum confrontation that it is unlikely to win. Moscow appears to have found a third path by bringing in other major powers that may obstruct Chinese hegemony without challenging Chinese economic leadership. The decision to expand the SCO by including India and Pakistan, and possibly Iran in the future, mitigates Russian concerns as China's share of power within the SCO declines and a balance is restored. This arrangement bases on a similar principle as the BRICS Development Bank, which brings together relatively strong actors with China in the lead. In 2015, the agreement to harmonise the EEU and Silk Road under the SCO became a model for geoeconomic balancing required for a viable Greater Eurasia. Russia's simultaneous hosting of the EEU, SCO and BRICS in Ufa later was also indicative of the emergence of a complex, multilateral, and balanced Greater Eurasia.

Subsequently, it is vital that Russia's eventual reset or reconciliation with the West should be consistent with the grand strategy of a balanced Greater Eurasia. Any possible grand bargain with the Trump administration should avoid what Washington will most likely seek – for Russia to de-couple from China and implement a hard balancing. Greater Eurasia should be recognised as the only viable geoeconomic project for Russia, which designates China as an indispensable partner. At the same time, Russian economic connectivity with the West should assist Russia's endeavour to diversify ties and reduce its own exclusive dependence on any region, while concurrently increasing Russian influence as an energy swing supplier and transportation corridor. However, any policy that entails hard balancing of China would replicate the zero-sum structures of the failed project of a Greater Europe and lead to failure.

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