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CONFRONTATION AND ITS IMPLICATIONS FOR RUSSIA»
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1. Presentation

Gabuev Alexander: Thank you very much everyone. I'm very glad and grateful for you that you've chosen to spend with us this morning. I'll try to be very quick so we'll have more time for discussions. The topic today is a triangle and I think that for the Russian context Russia likes very much the metaphoric policy of triangle, the policy which involves the U.S., former USSR (now Russia) and China. I don't think that Russia is on the same level as China and the U.S. but it definitely entertains grand and inflated national ego of being in that league. Since we are in Moscow I think that what we will cover today is the way that Russia structures its relationship predominantly with China but also with the U.S. and how it relates to the ongoing rift in the U.S.-China relationship.

To start with, the point that the Kremlin uses – the rivalry between China and the U.S. is a systemic rivalry, something that is here to stay and something that will shape the international landscape for many years and probably decades to come. I think there was rivalry at schools of thought in the Russian policy community whether they will be aware of peaceful ... between the two and cooperation not necessarily like the G2 with Barak Obama but China will keep... becoming very aggressive... we definitely notice a change in region foreign policy ... much more forceful someone say aggressive policy supported by the comprehensive national power of China. So, it's deep and systemic, the rivalry is across the board covering all domains: military, economy, technology, ideology. And I think that the one particular point is that the Russian leadership views highly ideological dimension of that as something significant. They believe that this is a narrative envelope to frame the great powers competition in geopolitic and realpolitik sense. I think this is somewhat wrong interpretation of that but this is how Moscow views the world.

So, where does Russia sit in that relationship? If you go back to 2011 when President Vladimir Putin pretended to be a Prime Minister, he gave a very remarkable interview to the free national TV channels in which he was asked whether Russia is competing with the U.S. and China for global leadership. And he said that "it's the sport of the U.S. and China to compete, we want to be respected as a great power and operate independently in a norm-based world order defined by the international law". I think that for the Russian elite unlike for referees of the television it is pretty clear that even our comprehensive national power doesn't put us in the same category as China and the U.S. What Russia really wants to be is a power that operates on full strategic autonomy and has a global reach. And that's a very small category. If you go through statements or interacts with Russian scene interlocutors Russia takes a lot of pride in being autonomous and in having a global reach as a great power. The list of these countries is really small. We can put India probably in that category and that's about it. Other major powers are the U.S. allies – Japan, France, Germany, UK. There are some powers that are probably aspiring to this group like Brazil but so far, their comprehensive national power doesn't really qualify them to be there. Iran and North Korea are fully sovereign, have a lot of strategic autonomy but definitely has no global reach. So, this group of countries in Russian thinking would be steering the world like the concert of powers in Europe in the 19th century or something like the post-Yalta composition of

great powers before the Cold War interruption. So, that is the ideal place where Russia would like to sit and it doesn't want to choose side between China and the U.S.

So, let's go back to reality. The reality is very different for one obvious reason – deep bitter confrontation between Russia and the West and the United States. I won't go into the details, you know that all very well. My only observation concerning this is that steps towards positive cooperation have already been done – the extension of the START Treaty, we keep channels of communication on Syria, on avoiding dangerous military incidents, there are intellectually complicated discussions about strategic stability, that's about it. And there's a list of core issues and frictions that last so long and are expanding day by day like it was happening on the border of Ukraine. The prediction is that it's going to get worse before it gets worse and Moscow is not naïve about that, everybody is cold-blooded and embraces a prolonged fight. I think that this will impact the relationship with Europe as well. We've seen a disaster of the visit of Josep Borrell and definitely Moscow is not helping itself by treating Navalny the way it does and multiple other things. Under current circumstances it's improbable to expect any significant improvement in Russia's relationship not only with the U.S. but also with their allies.

Back to China. There's a dominant view in the West that Russia and China are brought together by a virus competition with the U.S. and if you put the U.S. out of the picture there isn't that much left that brings these two countries together because there's strategic issues, there's a growing asymmetry in comprehensive national power, what about Chinese in Siberia, what about a competition in the Arctic, what about a competition in the Central Asia, what about new technologies – so, there is not much in common except a competition with the U.S. I would disagree with that. I think there's at least three drivers that bring Russia and China together regardless of a competition with the U.S. Let me name them.

1. A need to maintain security and stability along the continent and the border between two states. Russia and China have been in confrontational relationship following the Sino-Soviet split and they discovered that having confrontation along 4000+ km border is very dangerous and very costly. At the time when both Moscow and Beijing see their main security challenges and priorities elsewhere. For Beijing it's all about its sovereignty – South China Sea, Taiwan, Senkaku Islands, the Western Himalayas – and its major concern is the U.S. and their allies' presence in Indo-Pacific. For Russia its national obsession is NATO – which is everywhere: in Europe, in the Arctic, in the South Caucasus – then terrorism and instability in the Middle East, Afghanistan and Central Asia, then China. That comes to top five national security with NATO definitely overtakes concerns about China. So as long as both countries realize that and decide to divert resources to some other urgent national security needs or national development needs they are on a pragmatic course to solve out their territorial issues and establish a border of mutual trust and peace that doesn't consume so many resources. For some of you bothered travelling to Russia's Far East by Trans-Siberian Railway you can still see some locations where Russian tanks are used to be positioned in order to stop massive Chinese invasion. So, President Putin actually inherited his China policy from his successors Mikhail Gorbachev and Boris Yeltsin, since then the policy has been consistent. Once the territorial issues were resolved in 2004-2006 we don't have any major challenges to that, and further goes – not always with each other but never against

each other. I think that here the territory and the borders are one of the stabilizing factors in the relationship. Nobody wants to go back to the days of the Sino-Soviet split.

2. Mutual economic compatibility. Russia is a giant oil and gas tank with metals, fertilizers and products. It has a lot of commodities but doesn't have much money to build infrastructure and cutting-edge technologies in many domains. China is exactly the opposite. It has tremendous sorts of capital, has now global cutting-edge technologies but doesn't have enough resources to feed the economy. So, for Russia China is exactly the same ideal economic partner like the European Union. For historic reasons for many decades Russia has been putting all its eggs in the basket of Europe because of the transportation effort. Chinese demand for hydrocarbons emerged only in 1994, before 1994 China was an exporter of hydrocarbons, only after the GDP growth and reforms China started to import oil and gas. Back in the 1990s nobody was interested in exploring that market. The first person who thought about a new market in China was Mikhail Khodorkovskiy, you know how he ended up. Rosneft in a way inherited not only the crown jewel of Yukos but also a plan of a direct pipeline to China build in 2009. So, there's enormous potential to explore the economic bounds between the two. For Russia the ideal picture is to arrive at a situation where 40% of its trade still goes to European Union, 40% is with Asia predominantly with China, and 20% is with the rest of the world. China now is less than 20% of Russia's trade, there's enormous capacity to move eggs from the basket of Europe to the basket of China. And it's mutually beneficial.

3. The similarity in the political regimes. These countries are still about the division of powers. If you read carefully the adopted constitution we still have elections, independent judiciary, a parliament. But in reality, Russian democracy is something completely different from democracy in Germany or the United States. China, if you carefully read a Chinese constitution, is also a democracy, a socialist democracy. They even have 8 democratic parties which help Communist party to govern without trying to take its place. In reality in China there's definitely an authoritarian system, and a pretty efficient one. So, lack of democracy in both countries, the authoritarian nature of both regimes which are very different but still have something in common provide two very important factors for rapprochement. The first point is a cooperation on the international governance arena. If you look at the way how Russia and China vote together at the UN Security Council, if you look at their stands on issues like Internet governance, aid localization, international standards for transition of data, they are naturally in the same boat over time. And because they are part of P5 they need cooperation. The other element is also significant and it is emotional context of their negotiations. Every time any Western leader had a chance to come to Russia they had to be prepared that somebody would ask a question why they didn't ask Mr. Putin about poisoning and they need to say something because they are elected representatives of a large democratic countries that care about human rights. So, many diplomats have to raise all the talking points about rule of law and democracy in Russia that make their Russian counterparts very angry. That context doesn't exist with China. Russia couldn't care less about what happens in Xinjian, Russia couldn't care less about freedoms of Hong Kong. Actually, we can say that this so-called revolution is supported by Western intelligence, we can tell you all about this. That creates a lot of common ground. Xi Jinping couldn't care less about gay people issues in Chechnya, right? That creates a friendly and very different emotional context for negotiations.

Let me sum it up. Security along the border, economic compatibility, increasing similarity of the political regimes are three pillars of the relationship that predate Russia's rupture with the West. And on top of that come sanctions and annexation of Crimea in 2014, deepening rift between Russia and its partners in Europe and the United States of America and increasing competition between China and the U.S. That's when Russia started to embark on its journey to build more reliance on China. Because Russia looked around at experience of other countries who survived sanctions and realized that it really needs a strong partner who would provide new markets, new sources of technology and new sources of capital. Many major countries in the world have been a part of sanctions officially or unofficially supported the sanctions because they are U.S. allies. So, it's only China which is next door, it has tremendous market, a lot of capital, cutting-edge technology.

We see a lot of changes in relationship. And I think that one of underappreciated factors here is that Russia started to look in a new way at risks about deepening its relationship with China. Before 2014 there were risks that really bothered Russian leadership. What about Chinese population in Siberia, demographic imbalance between the Chinese Northeast with 10 million people and Russian Far East with 6 million and the population is decreasing, a competition in Central Asia, depth of Russian military technologies. All these issues had been looked at as far as I know pretty meticulously by Russian pragmatic standards in the first part of 2014. And the interagency studies found that those risks either didn't exist, they were outdated or they were not as bad as they appeared before or there's nothing that Russia could do about them.

Let me unpack them really quickly. On the demographic overhang the reality is at any given moment there are less than 500,000 Chinese before Covid on the Russian soil with half of them being in the European part of Russia because the labor market is there and it's so much bigger than in the Far East. The problem of the Far East is that there's not enough jobs there even for local population which causes migration to the European part of Russia and to other parts of the world. In China where it's nearly 5-6 % of GDP growth over the last two or three years and same projected for the next five years, the salaries are far higher than in Far East. The economic intention to migrate to Far East just doesn't exist. A lot of case studies currently shows that Chinese who were residents in Russian Far East are now coming back to China because of aging of Chinese population. And it's much easier to find a job back at home without facing Russian migration police and other pleasures of being a Chinese worker in Russia.

On Central Asia, Russia's problem here is that the «stans» are exactly the same perfect match made in heaven on terms of economic compatibility with China. The «stans» are also providers of commodity and labor to the Russian market just as Russia. In fact, we are competitors in international market. If you try to put yourself in shoes of countries like Kazakhstan, Turkmenistan, Uzbekistan where do you go with the commodities in long term? Russia is their direct competitor, it wants to be alone transit country, it doesn't allow a direct access to European market, it is interested in buying commodities on the border and resell them to Europe through Caspian pipeline that involves Kazakhstan. Trans-Caspian pipeline won't materialize any time soon because of multiple reasons. Iran is the same smaller version of Russia, large commodities producer who is interested in bringing its own commodities to the market not its neighbors'. The only country next door who has a market for their commodities, has a lot of capital to build the infrastructure is China.

Over the long run, China would become number one trade partner and investor in Central Asia. It's inevitable and Russia can't do anything about that and Russia has just realized that. And Russia is now okay to live with this idea.

Finally, depth of military technologies. Russia has now a very clear eye that Chinese have invested tens of billions of dollars in their indigenous systems. So, in ten years they will probably be at the spot when they simply don't need some, they will crack the engine for their jet and they won't need Russian harbor. We look at this part in terms of window of opportunity. China needs this harbor now because of increasing competition with the U.S. and Russia is ready to deliver large munition. And then magic happens. The more you sell to China the more concerned neighbors of China who are not U.S. allies that include Vietnam, Indonesia or India, will knock at a door for Russian foreign export of military systems. China was the first customer of hundreds of surface-to-air missiles, India was the second because of concerns over Chinese military expansions. Another customer would be Indonesia if there's no sanctions issue which is definitely in need to fight back in South China Sea. So, this risk is not viewed as an obstacle. Let me say clearly where we stand. I think that on military we see an expanded cooperation with Chinese, Chinese regular participation in all Russian exercises and we will definitely see some Chinese contingent in Zapad. So, it's now a permanent feature. We have an expanded nature of table talks, exercises on missile defense and maritime exercises. It has become a routine and Russian and Chinese force are developing sublimated integrability. There's growing portfolio of military contracts. There was a contract to build Chinese early warning system for nuclear attack and there's yet not announced large contract that Vladimir Putin has mentioned in his Valdai speech last year without specifying what it is. So, we know that the military cooperation is booming.

We see increased cooperation on the international arena on Internet governance and many other things in the UN. On the economy back to 2014 before Western sanctions the trade between Russia and the EU was five times of the amount of trade between Russia and China. Now the difference is just two thirds over the past 7 years. China's share increased by over 20%, when in 2014 it was just 10%. It's growing at the expense of Europe. And it's growing not only because of hydrocarbons but also because Chinese machines and industrial equipment are substituting European and German machines. Last year China sold three times more industrial equipment than Germany did. So, it overtook Germany as a major source machinery import to Russia back in 2016. That covers a very important aspect which is critical technology. Now there's a big discussion in Russian national security establishment and the market about the future of Russian 5G whether it will combine solutions by Nokia, Ericsson and Huawei or whether Russia will entirely import substituting-based stations. Currently Russia cannot do that. So far, the main reason going from national security to ability to localize production here China looks like getting this race. This is not set yet but there're many areas where Russia is increasingly relying on China and its drive to limit exposure to western equipment and hardware which is seen as a liability in the time of sanctions and increasing competition. And it's because Chinese are very smart taking Russian import substitutions and readiness to localize or pretend to localize equipment there and give Sberbank or Rostech an easy victory that they have developed something indigenous when in reality it's 80% Chinese.

Where does this lead us? And that is my final point. I think that the relationship so far is mutually beneficial, both Russia and China need each other. But this relationship is increasingly asymmetric. It's Russia who needs China more than the other way around. So far China is very carefully balancing and managing its Russian policy. It knows that Russia has an inflated ego. Chinese are very great at massage, so massaging the Russia's ego is a national sport. And so far, Chinese are doing that very well. The problem is that once they build enough leverage it's very hard to resist the temptation. We've seen that so far on limited examples in economy. Rosneft is the best case in point. When Rosneft with Transneft has built a direct pipeline to China in 2010, China suddenly started bargaining the price despite it was agreed in contract. China was very clear saying that Rosneft built that pipeline on Chinese loan so it needed to pay back 20 billion U.S. dollars and Rosneft would have a pipeline leading nowhere when China would buy more oil from Saudi Arabia and Oman. Therefore, Rosneft had to provide China with a discount. Last year China forced Rosneft to withdraw from a joint search of hydrocarbon resources in the continental shelf of Vietnam because that part of Vietnam fell into historic Chinese possessions. China was in a position to force Russian oil champion to quit and abandon its project in Vietnam because China is more important market in terms of sales. Rosneft sales more than half of its oil to China. Is it impossible that in 10-15 years down the road when 40% of Russian trade is dependent on China and there's much bigger exposure to Chinese investments and technologies China would say: well, Russia, why are you still selling submarines to Vietnam? You know, Vietnam is not a friend of China, we are your friend, you need to choose between the two. Why are you selling them to India? India is not a friend of China, India has occupied some Chinese territories in Himalayas, you need to stop this. And probably in 10-15 years China will have a full leverage to do that in a very quiet fashion but without any mercy, any diplomacy. That is a real risk and Russia's position is to balance its relationship. Having strategic depth is handicapped by lack of structural reform at home and protracted confrontation with the West which is very unlikely to go away very soon. I stop here and thank you so much.

2. Q&A session

Question: Thank you very much Alexander. One question that I personally have is. Two weeks ago, I was in China with Sergey Lavrov as a part of delegation of Minister of Foreign Affairs. Before going there, I had had a meeting with an ambassador of a large European country who had told me "even though there's a certain rapprochement it's a forced marriage, it's never going to be sincere and cordial as with Europeans and the West, there's no chemistry". On the other hand, the visit was an absolute success in comparison to fiasco of U.S.-China meeting in Alaska just several days before. The question is how sincere is that? Is it really a forced marriage and it is not meant to be cordial and chemistry as with the West?

Answer: There are many marriages that are not necessarily built on passion or passion goes away. But there are very well calculated partnerships that work for both sides. You don't need a mutual affection or shared values in order to have a functional relationship. The expansion of magnitude of security and economic partnership is really undeniable. These are hot facts. When Europeans would like to talk about common values, it's nice, and many Russians consider themselves as a part of European civilization while reading Shakespeare and Goethe and spending their money in London or in the South of France (what they used to do before the pandemic or some of them still do), that doesn't

constitute to a very solid foundation for a close partnership as we've seen over the past ten years. I don't think that indulging cultural similarities between Russia and Europe worked well. And again, I don't think that passion level is important here. What's important is practical and pragmatic cooperation. Russia-China cooperation is not without problems. You can ask coal suppliers who cannot ship their commodities now according to Covid restrictions, Far East fishers are suffering from Chinese restrictions but its normal, it happens between many countries. The pragmatic aspect of relationship is here to stay.

Question: Thank you very much for your comprehensive and fresh speech. What are the goals of China in the Arctic? And how does Russia see the situation in the Arctic? What are the risks?

Answer: Sure. I think that the Arctic is one of the areas where China as a growing super power is very interested in. We've seen that polar research is one of priorities in the fourteenth five-year plan adopted by National People's Congress in China a couple of weeks ago. I don't think that China has a clear strategy of what is achievable in the Arctic given the fact that it's not an Arctic country, it is not a full member of the Arctic Council, it doesn't have a lot of legal power there. It's definitely interested in exploring transit potential. China is also interested in exploration of resources, it doesn't have technologies to do so in deep shelf but it builds its own capacity to do so. And it's also interested in military use of the Arctic at least for now in reconnaissance and intelligence gathering as was evident by a Russian citizen Prof. Mytko who was a military scientist in Saint Petersburg but worked for Chinese intelligence.

For Russia, I think, the major goal of its diplomacy is not to give the observers of the Arctic Council rights to drive their policies in the Arctic. Here Russian approach is similar to all Arctic countries', Russia works together with its NATO partners and it worked out really well. China is in the Council as an observer but has no right to do anything about it.

At the same time China really needs cooperation with coastal states to pursue its ambitious economic agenda. Russia really needs money to develop its Arctic projects. The government approach of hydrocarbon development is changing. I remember talking to senior officials of Kommersant five years ago when they said that "we should not rush in developing all wealthy gas fields as the demand is still stable, it will last for decades, we need to wait till hydrocarbons are really precious so we can justify development of resources in the Arctic". This point is changing very rapidly with technological advancement of renewable and nuclear power. Russians understand that the demand of hydrocarbons may last for like 20 years and it's probably done when it won't be a primary source of energy anymore. They need to bring to the market as much as they can and as faster as they can as there's a competition to do so. What does the money come from? Definitely, only China as an external partner with some other parties that are eager to go there. If you look at two largest projects to develop gas fields in the Arctic, China is the major foreign partner for both. There's a Russian company that has a control share, there's a significant Chinese participation and there're some global companies that are taking risks. The question mark around this is whether the Arctic will be covered by new sanctions. And that is an actual risk considering what's going on in Ukraine. The rick of sanction is already there and the only party that is here to help Russia to mitigate those risks is China. For now, there's a certain tactical concern

but there's no way to develop those fields without China. One of the major announcements that we are waiting is whether China would be offered a stake in oil project developed by Rosneft in the Arctic.

Question: Thank you, Alexander, for your interesting presentation. I don't like to ask rhetorical questions, this is just to wake up those who are still sleepy and to engage our keynote speaker and co-chairs, maybe the audience. I think that we do hear this question quite a lot in different corners. Should Russia consider adjusting its strategic partnership policy vis-a-vis China, including on missile defense, to have a more flexible discussion with the United States on strategic stability? Needless to say, that we heard this question during the Trump administration, we do hear this question from American colleagues now under early Biden administration. Personally, I do not like to go into some compromises with the United States. I see it quite the opposite myself that Russia should even go further with all those common points that Alexander so elegantly indicated. Russia should go further with its strategic partnership with China including the most sensible issues. Let's say I'm not afraid of that, I'm not afraid that the next generation will say what have you done. But there're different opinions so I want to ask Alexander and co-chairs how would they answer this question? Thank you.

Answer: I need to separate political element and the strategic stability, arms control, missile defense element. On missile we have General Buzhinskiy who is a military and will comment. There are no permanent friends, so you need to be prepared and ready to deter China for sure. I think that the Russian leadership is not blind or naïve towards that and it has enough capabilities to deter a Chinese attack and will continue to develop those capabilities. Chinese do the same towards us and it's only natural. We don't want a full-fledged military alliance because we are fully autonomous powers and have enough of comprehensive national powers to protect our interests and definitely have enough security resource. We don't need to be involved into issues of each other, we don't have that much skin in the game. Why should Russia participate in confrontation in South China Sea? Why should Chinese recognize Crimea as a part of Russian territory? We can handle our own issues without support of the other guy.

In the end, we all know that NATO members are equal but some of them are more equal than the others. In every powerful military alliance there's always a question of hierarchy. When the U.S. want their allies to do something for them there're many instruments of influence. Former leader of the CIA at his memoire pretty openly discussed how he pressured his partner allies to do something that the U.S. need. So, Russia doesn't want to lock itself into an alliance with much more powerful China. When Chinese power continues to grow while Russia's stays flat. I think that here the military deterrence will definitely work and we need to continue to invest resources into that. But that doesn't include that we should deepen the cooperation with the Chinese.

The problem is that there's a magical thinking in some corners of Washington that... Russia is so afraid of Chinese... Our confrontation with the U.S. has its own logic, it has now a significant emotional level into it particularly from the U.S. side which is unappreciated in Moscow. I believe, it won't be solved by any Russian moves around China. That is the answer.

Answer: I don't agree that military capabilities of Russia are flat. We are improving constantly. China is also improving but with much more financial and investment

resources. They are building warships like crazy. I don't think that they need such number of warships, they are definitely trying to build more than the United States. On cooperation in the strategic field, let's say missile defense. When we started cooperation on missile defense at the end of 2003 I was responsible of a joint working group of missile defense. Chinese asks us a lot of questions, after having analyzed them we found out that they were not actually interested in building missile defense in their own country to protect themselves against missile threats. They were mostly interested how to overcome missile defense in Taiwan and other countries. Afterwards the cooperation has become more balanced. Now the Ministries of Defense of Russia and China are regularly involved in joint exercises on missile defense. There's certain exchange of technologies as it is now known that Russia gives assistance in creating an early warning system which is closely connected with missile defense potential. The cooperation in this field is going on and I think that in the nearest future China as the third country in the world will have a full-fledged early warning system. It's mutually beneficial as together with agreed exchange of information an early warning system gives both Russia and China strategic depth against missile warning from the Indian Ocean for Russia and from polar routes for China. The cooperation in strategic field is quite good.

Question: Talking about marriages. How to have passion in a marriage? Maybe Russia is avoiding passion with China because when you have passion you open yourself to getting hurt very intensely. So, speaking of passion, Christianity is the fastest growing religion in China if I'm correct. Other than the Communist party leadership it is growing and it is not compatible with Russian aims. Would Russian Orthodoxy expansion in Asia lead to passion or more calculated pragmatism? The problem within a triangle relationship is that one party is always dependent on the relationship between the two which is very dynamic. I'd like to hear your opinion on a left field question on religion, Russia and China.

Answer: Sure, thanks. I agree that Christianity in China is booming in a way in order to feel the moral left by disbelief, official ideology and very visual materialism of Chinese society. Although, Christianity is very tightly controlled. The Russian problem here is that mostly Protestants and Catholics are growing in China, not Russian Orthodoxy. I think that the Chinese government is very strict about limiting Russian Orthodox church. Russia has faced numerous issues about opening new churches or operating the old ones particularly in Harbin and another parts of China. So, it's very hard to get that permit and I don't think that Russian Orthodox church will be ready to accept the same amount of control that China wants to impose. The influence of Russian Orthodox church is limited to extend. Finally, we don't expect that a large layer of Chinese elite or the leadership will rush Orthodox and that will provide additional bonds. We have enough bonds in pragmatism, pride and anti-Americanism. Moreover, materialism also provides a lot of connections here.

Question: But no passion?

Answer: We are passionate people by our national character. And I think that passion is a problem for our foreign policy. Look at how people take a rupture with the EU so emotionally? Russians got so hurt about support of Alexey Navalny. And it's very deep, people are not pretending. It was so naïve to believe that we will be integrated into the club and when that didn't happen people get really angry as they were emotionally

involved. More cold-blooded calculations and pragmatism will drive Russian foreign policy in life view.

Question: Thank you, two questions if I may. The first one deals with regional security architecture in Asia-Pacific. You've mentioned that in a long run China may insist on quitting Russian military technical cooperation with our partners of Asia-Pacific, with Indian and Vietnam. But even now our partners from Indonesia, India and Vietnam are concerned about this rapprochement of Moscow and Beijing. How can be balanced that perception in Asian capitals that Russia is becoming less independent in terms of its regional policy in Asia? The second question deals with global security. It seems to me that Russian officials now intend to move away from privileged U.S. partnership on issues of arms control, strategic stability, global security, nuclear nonproliferation and they really want to include China with close coordination with us to set up a global leadership in terms of global security. Are there any intentions in Beijing? Because such sort of leadership requires acting by the rules, more transparency in your intentions and military capabilities. Is China willing and ready to be engaged in such sort of leadership?

Answer: I think that the first question is really excellent. Russia has a real problem particularly in India when it is not seen as a fully independent player but more and more at a side of China. The Russian leadership is trying to address that problem continuing to sell arms and saying that it is our bilateral affairs where China doesn't have a veto policy. It is a good stuff and probably it wouldn't hurt to say it in public. Verbal pushback is a good start that needs to complement a real pushback. I think that our problem is a counterproductive narrative that goes out of mouth of senior officials. I give you one example. In early 2020 before the whole Covid Sergey Lavrov went to India and he spent a huge chunk of his time lambasting the Indo-Pacific concept which is a pillar of Indian foreign policy thinking now. You come to a country which is your strategic partner and stand a part of your speech at a major gathering lambasting the way that India finds its foreign policy. Imagine coming to a Valdai club and lambasting common activities of China and Eurasian Economic Union over One Belt One Road Initiative and saying that China tries to put you in a trap and aims to dominate in Eurasia. It's nonsense, no sane person would do that. I think that in a way India is calm and pragmatic saying that these are talking points and we don't take them seriously. But in the end, it sends a wrong signal to the Indian public opinion which matters much more than in our country. It irritates a large chunk of Indian bureaucracy. Turning down the criticism of Quad in Indo-Pacific at least when you are visiting those countries would be a very smart move. And then take Indian concerns about China. In Russian narrative the Indo-Pacific Quad is bad because they are invented by Americans which is not true and they are trying to pull you into a simple style group to contain against China which is bad and doesn't serve your national interests. So, there's no rational discussions about what China is doing in Himalayas. Is there something that somebody is doing in the air that might irritate or make Indians really worried? Indian has a lot of concerns regarding China and a lot of need to reach out other partners that include the United States, Japan and Australia. Being sane and having a clear eye about that is one good policy. The final point is under a sanction policy that tries to limit Russian arms sales Russia thinks it's worth going to Africa and the Middle East, but why not allowing the cooperation with the Indian market? We are ready to provide India with systems that they really want, they are very costly, it takes enormous time to train professionals and staff. Why don't we allow Russian to sell their hardware for India to build its

capabilities against China? That what is Russia should work on and probably try to support this school of thought.

Your second question is on China taking a global responsibility. I don't think that China is really interested unless it sees itself on eye-to-eye level with the U.S. in terms of military capabilities. It's interested in how arms control and missile defense work as Gen. Buzhinskiy has presented to us. We currently see a lot of Chinese interest in arms control on the U.S.-China track, in norms of cyber behavior but they are still at a learning stage and building capabilities at the same time. So, once they are ready to negotiate they will probably come to a negotiations table. But it's probably a decade from us.

Question: Just two question from my side. The first one is about China and internal debt? The second question is on China's vision and interests in Africa and potential for Russia's cooperation there?

Answer: I think that concerns about internal debt in China are there for many years. It doesn't materialize so far in any major systemic crisis. Although, we see People's Bank of China, a central bank, is concerned and two days ago the government issued a statement about need to control issues of new loans this year because... it is still rather fragile. Chinese government is concerned about dept financing back projects that generates invisible growth in figures that meet the government's target, generates some employment but is not sustainable because there's no way to pay that debt load back. The problem is a little bit overblown because... all is in internal dept. It's a policy problem how to clean the balance shield of policy banks and commercial banks. I think that China started to address this problem about a decade ago.... The big four banks and regional banks are now in a better shape and I more or less believe in figures that they publish. In China ... smallish and local financial banks are connected to the district level officials where there's lack of transparency. The good news is that China is really addressing the problem and the leaders are aware of that. It is not a big challenge going forward. It is very worth mentioning that the government and the Ministry of Finance during 2019 were really encouraging. China sees that debt as a problem. So, there's a whole notion of China engaging in debt track diplomacy. In some cases that provide strategic benefits but China doesn't really need to sit on a pile of that dept in foreign countries where it cannot control the project or the payback. I think China has become much more cautious about landing overseas and that is good news for everyone.

The second question was on Africa. There's a lot of natural pushback in African countries. China has huge economic presence and growth. Its first overseas base is in Djibouti. I think that China has a desire to deepen interaction because it's an ideal match. Africa has resources and underdeveloped services market which China is ready to feed. If you travel to places like Ethiopia and others you see a lot of Chinese banking and small businesses operated by private Chinese citizens. That has met with a pushback of rising nationalism and concerns of local population. Chine is adapting its policies making them smarter and trying to adapt to local realities. There will be a huge project at Carnegie which is called China Local Global that looks into the way that China relies on local norms, forms and players. I'd share with you some case studies that we're going to have about Africa.

Russia is not really a competitor. We don't have that reach, we don't have resources. The African countries are mostly strategic competitors of Russia in the global market. So, we have only limited niches where we can sell weapons and some industrial tools. I don't think we can enter into a competition there.

Question: Can you say something about 5G? Particularly with American tremendous pressure on China and China is increasingly seeking Russia as a partner to develop 5G. I think that China has already moved tremendous capital into Huawei in Russia. The second question is built on your earlier statement on Indo-Pacific when the Russian Minister of Foreign Affairs kept a very high posture in India. We also see that in South East Asia where Russian embassies keep even stronger position than China on Indo-Pacific initiatives. On one hand, strategic economy is crucial but, on the other hand, they go for such extend insult decisions to show that they are very close partners to China. How to consider that?

Answer: I totally agree with you on your second question. I don't think that this is totally driven by a cooperation with China and need to carry water for the Chinese. But it definitely looks so, it appears so. Russian diplomats have their own reasons to be mad about Indo-Pacific. In my view, these are entirely wrong reasons. Russians shouldn't be ... about intellectual concept that emerged in several countries that have very different visions for that. There are hot facts on the ground that the U.S. Pacific and Indo-Pacific command is doing its most ... about Russia... you need to continue to do your military stuff about it, you need to spread your security and economic engagement, you need to profit more from free aids. Russia should at least start intellectually considering a free trade zone with ASEAN which is great for entering into RCEP negotiations which Russia cannot do so far. Then even if China is considering joining TPP and it probably sees a window of opportunity where the internal politics in the U.S. will prevent them to go back to TPP, so China can join and push structural reforms at home. Russia will at least intellectually benefit by considering what impact TPP with or without China will have on Russian economy if Russia is about to grow its exposure to goods or services market in that part of the world. I don't see that happen, unfortunately. Here Russia has a lot to do.

On 5G. Russian leadership is not naïve about Huawei technology. Our guys in the security establishment and in the civilian part of government elite believe that any equipment might have backdoors. The worst-case scenario that Russian leadership envisages is if around 2030-2035 when we are in a transition to probably the next president (unless there's another constitutional change), the economy is so dependent on 5G and then there's a knock out instigated by hostile foreign powers because there's a killer switch. That is an ultimate concern. And there's a natural concern about intelligence depth. So, everybody believes that both Huawei and western systems might have backdoors exploited by foreign intelligence services. The question is that we need to choose between two evils. But one evil is your systemic rival that is putting sanctions and pushing back against you in every corner of international relations. When the other is not necessarily your friend which will definitely seek commercial or sale espionage but doesn't seek a change of regime in Russia. There's a way more trust towards Chinese. In an ideal world Russia wishes to build base stations and all equipment itself and that's now written in a road map. Rostech claims that it can do so. I don't think it's likely to happen. So far, the capability of Rostech in building something in terms of arms is really nonexistent. It will take time for Rostech to develop that capability.

Here's likely a question of localizing equipment production in Russia. Who is ready to do that? Huawei or Nokia and Ericsson? We've seen with Huawei entering into cloud business in Russia branded as Huawei Cloud but then they found a way to partner with Sberbank. Sberbank was denied by both Microsoft and Amazon web services for obvious reasons, Huawei entered a deal with Sberbank that they abandoned their brand as Huawei Cloud and they became a backend of Sberbank. So, SberCloud is built on Huawei technology. I envisage something like that happening with 5G. It will proudly be carrying a Rostech label and will be presented to Mr. Putin as an entirely Russian manufactured base station when in reality 80-90% of parts will come from Huawei. And Huawei will be okay about that.

The opposite direction is also happening with a pushback against Huawei across the world. Huawei leadership is expecting that. The partnerships that it's benefitting a lot from in Silicon Valley and in Europe will come to an end because of push of the U.S. Russia is not a harbor of super power, we are terrible at many things, but on IT and software and complicated models that are needed to support software part of 5G Russia is still very strong. And here is when Huawei comes and triple research studies as they also had experience with Russia back in the 1990s.

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