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## **REINING IN RUSSIA: THE PARABLE OF THE CHINESE FINGER TRAP**

by Anthony Silberfeld

It is a simple device made of woven bamboo, but the Chinese finger trap has befuddled children for generations. Put an index finger into each end of the cylindrical tube, and there is seemingly no escape. The more force exerted from opposing directions only serves to tighten the grip further. The solution, while counterintuitive, is equally simple. If both sides apply pressure towards the middle, the finger trap mercifully releases its captive digits.

Far more complex than extricating oneself from a children's party favor, the standoff between the West and Russia over Ukraine is well into its second year with combatants once again on the precipice of open conflict. The United States and the European Union have coordinated their approach by imposing sanctions on Russia with the objective of changing President Vladimir Putin's behavior, but have, thus far, failed to return Ukraine to the status quo ante. Conventional wisdom would suggest that the Europeans should continue to look west and impose more stringent sanctions in concert with the United States. But what if the solution to this particular foreign policy trap lies, instead, in the east?

### **Geo-Economics on the Rise**

While escalating friction in the South China Sea between China and its neighbors highlights Beijing's shortcomings in the use of hard power, China happens to be particularly adept in its practice of economic diplomacy. From Africa to Latin America and North America to Europe, unrestrained Chinese investment and trade links have provided the country with global credibility and diplomatic currency that have, consequently, elevated China's geopolitical influence. However, China's commitment to respecting sovereignty has given rise to a self-described non-interventionist foreign policy that has sidelined the emerging superpower on issues in which it can have a decisive impact. In the case of Ukraine, China's repeated abstentions at the United Nations on relevant resolutions are consistent with its preternatural inclination for minding its own business, given its concerns over its own domestic separatist movements. However, would a threat to its economic interests in Eastern Europe be sufficient to justify a uniquely Chinese intervention with its Russian neighbors?

Though China's economic engagement in Ukraine remains largely under the radar, Beijing has made a series of strategic economic moves in recent years. In 2013, China signed an agreement to purchase up to three million hectares of land in Ukraine to bolster the former's agriculture sector. China has complemented its economic overtures with humanitarian ones. Its commitment to provide Kyiv with \$15 billion in loans over the next 15 years for development and housing is a notable example. Vice Agriculture Minister Niu Dun, reflecting on this investment, summed up China's overarching criterion for deepening economic ties by noting that while China sees great potential in cooperation with Ukraine, sustained engagement can only be possible in a "stable environment".

The crisis in Ukraine has also had a ripple effect throughout the Eastern European neighborhood. The Baltic countries have well-founded fears from a security perspective, but all of Eastern Europe is mindful of the impact of escalating violence on the region's economic prospects – and so is China. Although the trade volume between China and Central and Eastern Europe is relatively modest at about \$43 billion annually, transactions have increased tenfold in the past decade. This upward trajectory portends a relationship of increasing significance and interest from China in the years ahead. The trend toward deepening trade links has yielded an additional investment from China of \$10 billion in credit for infrastructure projects in the region.

Looking to the future, the cornerstone of President Xi Jinping's international economic policy will be the proposal for the Silk Road Economic Belt and the 21<sup>st</sup> Century Maritime Silk Road that would connect China with the economies of Europe, Africa and the Middle East via overland and sea routes, creating an estimated \$150 billion in economic benefits in the Eurasia region. China signaled the seriousness of its commitment to this project in April, with a \$46 billion infrastructure investment package for Pakistan. Closer to the European crucible, Beijing has committed approximately \$2 billion to finance the Belgrade-Budapest segment of the Silk Road. In order for this dream to come to fruition, China needs a stable right-of-way for the route between Asia and Europe. As a volatile Eastern Europe undermines that investment, it is in the Chinese interest to reduce points of friction throughout this neighborhood.

Focusing exclusively on China's economic interests in Eastern Europe cannot loosen the vice-like grip this crisis has created. Indeed, the Sino-Russian dynamic is equally important in fashioning a viable solution.

### **A Gentle Bear Hug**

The relationship between China and Russia is almost always described in cautious and tenuous tones. A long history of suspicion and enmity does not vanish overnight, but Putin and Xi have entered into a marriage of economic convenience that suits both parties well. China has taken full advantage of the Kremlin's isolation over Ukraine to improve its economic bargaining position vis-à-vis Russia. The highly-publicized \$400 billion gas deal signed in May 2014 and the increase in arms exports to China (despite Russian intellectual property concerns) are but two examples. Regardless of the imbalance of the agreements, these deals have bolstered the economic links between Beijing and Moscow that were already significant.

From a trade perspective, transactions between Russia and China add up to approximately \$100 billion per year. This robust trade relationship is further buoyed by more than \$5 billion of Chinese FDI in Russia in 2014, and the creation of a \$2 billion investment fund between the two nations to develop agricultural projects in their respective farm belts.

While at first glance, China clearly benefits from Russia's political isolation and economic fragility, its long-term objectives in the Eurasia region far outweigh any short-term contractual gains. From the Silk Road project to the booming investments in Moscow's perceived sphere of influence, Beijing is positioning itself to maximize the economic impact of stability.

## **Escaping the Trap**

With China's economic interests in Eastern Europe on the rise, and its influence on the Kremlin tied to the asymmetry of its economic relationship with Russia, it is clear that Beijing is well-placed to lower the temperature in Ukraine. If geo-economics is indeed paramount for the Chinese, Beijing must take the necessary steps to encourage Moscow to restore stability to the region.

If we have learned anything from the Chinese Finger Trap, it is that conventional approaches do not always yield solutions. In fact, sometimes they exacerbate the problem. This is certainly the case in the West's current stance toward the Ukraine crisis. With further sanctions likely to be ineffective and military engagement off the table, perhaps China's growing stake in Eastern Europe in tandem with its present credibility with Russia as an ally, is capable of exerting the requisite pressure on both sides to allow all parties to escape this unique finger trap.

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