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## The Great Western Gas Fiasco

BY ERIC MARGOLIS

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GENEVA – Russia’s leader Vladimir Putin usually wears a perfect poker face. But last week in Shanghai, the icy-cold Russian president came awfully close to bursting into a big grin.

And why not? Putin had just stolen a march on his western rivals. The US-British attempt to wound Russia’s economy and punish Putin for disobedience had just blown up in their red faces.

After 20 years of difficult talks, Russia and China had just signed a huge deal that called for Russia to export 38 billion cubic meters of gas worth some \$400 billion to China. The agreement begins in 2018 and will involve one of the globe's largest engineering projects that links Russia's remote gas fields to China's pipeline system.

In addition, China will invest at least \$20 billion in Russian industry and boost imports of Russian products, notably military systems. China will become Russia's largest trade partner.

This was not the much ballyhooed "pivot to Asia" that President Barack Obama expected. It is, however, the long-dreaded embrace between the Chinese dragon and Russian bear that has given western strategists the willies.

One must suspect that the recent fracas in Ukraine was the last straw that pushed China to make a strategic alignment with Russia. Until now, the two great powers had quietly cooperated, not always without problems. Thanks to all the bluster and sabre-rattling from the US and its allies over Eastern Europe and the South China Sea, China decided to deepen and expand its entente with Moscow.

The Republicans in the US Congress who have been beating the war drums and calling for Obama to get tough with Russia (whatever that means) now share blame for pushing Moscow into China's arms. All perfectly predictable and perfectly dumb. A diplomatic fiasco of the first water.

Russia has thus given its economy a big boost and made western sanctions look inconsequential. Chinese funds will allow cash-strapped Russia to modernize its oil and gas industry. The new gas pipelines will be a major economic boost for Russia's distressed eastern regions and Siberia.

If the gas deal works and prospers, it will serve as a template for heightened Sino-Russian cooperation in military projects, such as fifth generation fighter aircraft, missile systems, naval forces and advanced electronics. Until today, Russia had been reluctant to share more advanced military systems with China because of China's copying of Russian technology, then refusing to pay adequate royalties.

For China, the deal offers many advantages. China has been energy deficient for years. Beijing desperately needs to find new energy sources to fuel its growing economy. Russian gas offers a clean alternative to the filthy coal China has used for power and heat. Estimates are that a switch to gas will reduce air pollution by at least 25% in China's northern cities, maybe much more. Having gasped for air through numerous Beijing nights, I fully appreciate what this means.

Russia has long been reluctant to cooperate too closely with China on Far East industrial projects. Russians have little love for China – or “Kitai” – because China evokes memories of the Mongol-Tatar invasions that ravaged large parts of Russia for hundreds of years. Distrust and even straight out dislike is wired into the mentality of many Russians. During the 19th century, Russia joined the western powers and Japan in raping China.

Demography lies at the heart of Russia’s fears of China. Russia’s far eastern regions, with the vital port of Vladivostok, has only 7.4 million citizens. Ten times as many Chinese lived just across the border in the northeast region known as the “Dongbei.” This highly strategic region and Manchuria became an arena of conflict at the end of the 19th century between Russia, Japan, and China, leading to the bloody 1904-1905 Russo-Japanese War, the first big, modern war of the 20th century.

Some 1.5 million Chinese infiltrate annually over the Russian border and settle illegally, producing a situation akin to that between the US and Mexico. Fears are expressed in Moscow that the 2 million illegal Chinese settlers in Russia’s Far East may one day expand to 20 or 30 million, outnumbering Russian inhabitants.

When I was invited in 1980 by Chinese military intelligence to “exchange views” in Beijing, I cheekily asked how long it would take for the Chinese Army to take Vladivostok. After a long, uncomfortable silence, a general spat out, “one week.”

Russia still holds vast tracts of land seized in the mid 1800’s from China. Beijing and Moscow will have their work cut out to resolve lingering disputes and build mutual respect and trust. There is a big deficit on both sides right now.

Today, China’s growing energy imports are very vulnerable to interdiction. The US and lately India have the capability to block inbound Chinese oil tankers and maritime cargo exports, either of which would shut down China’s major industries.

Key choke points would be the inner and outer island chains of the South and North China Seas, and the narrow Malacca Strait. India’s new aircraft carriers and submarines are being specifically built to interdict China’s oil imports.

Pipeline oil from Russia would be secure from most attacks and offer China its long-sought energy security.

This new deal is so good on many levels that old fears and mistrust must yield to its logic.

Most important, the Sino-Russian energy deal may further alter the world's balance of power to the East. Russia and China working in tandem could offset the great power and wealth of the US and its rich allies. It is a major geopolitical event.