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## China's Economic Statecraft and Political Influence in the Russian Arctic

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Khang Minh Pham  
*Waseda University*

**Abstract:** *Despite the geographical distance, China's increasing engagement in Arctic affairs raises questions about its motivations and influence. Numerous studies have examined how China leverages trade and investment to pursue its political goals across regions, yet there remains a notable scarcity of research on China's economic statecraft in the Arctic, particularly in the Russian Arctic. Drawing on English and Chinese sources, official policy documents, and trade statistics, this paper aims to address this gap by examining how Chinese economic engagement in the Russian Arctic serves as a tool of economic statecraft to exert political influence through the analytical framework for Chinese economic statecraft and political influence. The findings reveal that China has deployed various mechanisms of influence—including bargaining power, structural power, and the creation of vested interests—to advance its Arctic ambitions while presenting itself as a “near-Arctic state.” However, Russia's multi-level response strategy, combining historical precedent, domestic regulation, and international frameworks, has constrained China's ability to translate economic engagement into political influence. The 2022 Russian invasion of Ukraine has significantly altered this dynamic by creating an asymmetric interdependence that potentially enhances China's leverage, as evidenced by record-breaking bilateral trade, the opening of Vladivostok port, and unprecedented military cooperation. Yet, Russia's persistent wariness of Chinese influence and determination to maintain strategic autonomy suggests continuing tensions in their partnership. This paper contributes to the understanding of how rising powers use economic tools to build influence in regions of strategic significance, while highlighting the importance of target state capacity and geopolitical context in determining the effectiveness of economic statecraft.*

**Keywords:** *Economic statecraft, Arctic geopolitics, Sino-Russian relations, Political influence, Polar Silk Road*

## **Introduction**

China has emerged as a significant stakeholder in Arctic affairs in recent years, despite its geographical distance from the region. This engagement has raised important questions about China's motivations and the potential implications for regional dynamics, particularly in relation to Russia. Chinese economic statecraft, especially its political influence through economic means, has become a focal point in international political economy scholarship. Numerous studies have explored how China leverages trade and investment to pursue its political goals over countries in different parts of the world such as Africa<sup>1</sup>, Asia<sup>2</sup>, the Caribbean<sup>3</sup>, Europe<sup>4</sup>, Latin America<sup>5</sup>, and Oceania<sup>6</sup>. These studies often suggest that China frequently struggles to utilize its wealth for political influence.<sup>7</sup> Other studies also explore how China's domestic factors and leadership influence its economic statecraft, often emphasizing the interplay between internal priorities and external strategies.<sup>8</sup> However, there is a notable scarcity of research addressing China's economic statecraft in the Arctic, as well as in the Russian Arctic. Additionally, while scholarly work remains limited in this regard, there is a noticeable rise in grey literature from think tanks that highlight the geopolitical significance of Chinese actions in the Arctic.<sup>9</sup> Nonetheless, this gap signals an opportunity for further research to examine China's economic statecraft in the Arctic with a focus on its role in Sino-Russian relations and the broader geopolitical implications, especially after Russia's 2022 invasion of Ukraine.

This paper aims to address this gap by investigating how China's economic

engagement in the Arctic serves as a tool of economic statecraft to exert political influence over Russia, particularly in the context of Russia's 2022 invasion of Ukraine. It argues that China's economic statecraft in the Russian Arctic represents a strategy of influence-building that operates through various mechanisms, yet China faces significant limitations due to Russia's multi-level response strategy and historical wariness of Chinese influence. However, Russia's 2022 invasion of Ukraine has fundamentally altered this dynamic, creating new opportunities for Chinese influence while potentially sowing the seeds for future tensions. The analysis draws on the conceptualizations of power and the analytical framework for Chinese economic statecraft with official policy documents and sources written in English and Chinese. It is guided by the following sub-questions: (1) *what is the intent behind China's economic statecraft in the Arctic?* (2) *how has China used economic statecraft in the Russian Arctic?* (3) *how has Russia reacted to China's economic statecraft?* and (4) *what are the implications of Russia's invasion of Ukraine for the dynamic between China and Russia in the Arctic?* For Chinese economic activities in Russia, the trade and investment statistics are mainly drawn from the "Russian–Chinese Dialogue: The 2023 Model"<sup>10</sup> with an update from recent and reliable information from non-governmental sources that include those from Russia and countries other than Russia and China. This paper focuses on the broader patterns of Chinese economic statecraft in the Russian Arctic, particularly the mechanisms at the state level and their implications for Sino-Russian relations and regional dynamics. While it acknowledges the complexities of state-firm relationships, including varying levels of state control and conflicting objectives between firms and the state, these factors are not explored in detail. Similarly, the paper does not try to address soft power or media influence, even though they could be a relevant factor.

The paper is structured as follows. Section 2 outlines China's Arctic policy. Section 3 introduces the analytical framework for China's economic statecraft and political influence. Building on this foundation, Section 4 analyzes China's intent to leverage its foreign economic ties to increase political influence in the Arctic. Section 5 examines Chinese state enterprises as an instrument in advancing China's Arctic intent through a case study of the Yamal Liquefied Natural Gas (LNG) Terminal project. It also analyzes mechanisms of Chinese influence and addresses the limitations and challenges China faces in the Russian Arctic. Section 6 shifts to analyze Russia's responses, and Section 7 examines how Russia's invasion of Ukraine has altered the balance of power between the two nations in the Arctic. The final section concludes with the main findings.

### **China's Policy in the Arctic**

China's early engagement in the Arctic started when it signed the 1920 Svalbard Treaty<sup>11</sup> in 1925 to establish a legal basis for future economic activities in the Arctic.<sup>12</sup> However, for much of the 20<sup>th</sup> century, China remained largely absent from Arctic affairs due to domestic instability, including civil war and Japanese occupation.<sup>13</sup> Despite this, the treaty later became a key reference point in China's efforts to reinforce its legitimate presence in the region.<sup>14</sup> China's path to Arctic governance evolved through several important developments. In 1996, China joined the International Arctic Science Committee. This was followed in 1999 by the purchase of the Xue Long icebreaker, which China deployed with increasing frequency for Arctic expeditions after 2003. In 2004, China established the permanent Yellow River Research Station in Svalbard, Norway to replace its previous temporary Yilite-Morning Arctic Scientific Expedition and Research Station, which was opened in 2001. China's diplomatic engagement

advanced in 2007 when it first attended the Arctic Council (AC) and gained observer status in this regional forum in 2013.

Building on this foundation, China released its first Arctic Policy in 2018.<sup>15</sup> The policy encompasses four goals: understanding the Arctic through scientific research and exploration, protecting its unique environment and indigenous cultures, developing sustainable resources and shipping routes, and participating in Arctic governance through established international legal frameworks. These goals are guided by four principles: respect for sovereignty and international law, cooperation among all stakeholders through multiple channels, pursuit of a “win-win result” that benefits both Arctic and non-Arctic states, and sustainability that ensures harmonious development between human activities and environmental protection.<sup>16</sup> Together, these goals and principles reflect China’s ambition to be an “important stakeholder in Arctic affairs” while working toward building what it calls a “community with a shared future for mankind in the Arctic region,” balancing its interests with those of the international community and future generations.

China’s approach to participating in Arctic affairs encompasses five key areas. At its foundation, China prioritizes scientific research and exploration by investing in research platforms, personnel training, and international scientific collaboration to deepen understanding of the Arctic. This scientific focus is coupled with an emphasis on environmental protection and climate change mitigation, where China commits to following international environmental laws and supporting Arctic states’ conservation efforts. The policy framework also addresses the rational and lawful utilization of Arctic resources, including the development of shipping routes, energy resources, fisheries, and tourism, all while respecting

Arctic states' sovereignty and indigenous peoples' rights. China actively participates in Arctic governance through multiple levels—global, regional, bilateral, and multilateral—working within existing international frameworks such as the United Nations (UN) Charter, the United Nations Convention on the Law of the Sea (UNCLOS), and engaging with the AC. Finally, China emphasizes the promotion of peace and stability in the Arctic region by supporting peaceful dispute resolution and enhanced cooperation in areas such as maritime security and emergency response, recognizing that regional stability is fundamental to all Arctic activities and serves the interests of both Arctic and non-Arctic states.

### **Analytical Framework for China's Economic Statecraft and Political Influence**

Economic statecraft refers to the strategic use of economic resources to achieve foreign policy objectives.<sup>17</sup> Unlike commercial interests, economic statecraft aims to exert power rather than simply achieve economic gain.<sup>18</sup> Power, as defined by Max Weber, is “the probability that one actor within a social relationship will be in a position to carry out their own will despite resistance.”<sup>19</sup> Robert Dahl further clarifies that power occurs when one actor gets another to do something they would not otherwise do.<sup>20</sup>

For this paper, political influence through economic statecraft is defined as the ability of one state to shape the decisions, policies, or actions of another state using economic tools, in ways that align with the first state's foreign policy objectives. This influence can manifest in two ways. First, direct influence is the ability to compel specific policy changes or actions that the target state would not otherwise undertake. Second, indirect influence is the capacity to alter the

strategic calculations or overall posture of the target state over time. This working definition encompasses both the exercise of power described by Weber and Dahl, and the more subtle, long-term effects of economic engagement.

Scott Kastner and Margaret Pearson developed a four-parameter framework for analyzing China's economic statecraft: intent, mechanisms of influence, firms as state agents, and reactions.<sup>21</sup> First, the intent behind Chinese economic statecraft is challenging to discern, with actions ranging from overt trade sanctions to implicit threats, creating ambiguity about whether motivations are purely political, economic, or a combination of both.<sup>22</sup> Second, the causal mechanisms of economic influence include bargaining power (using economic leverage as "sticks" or "carrots"), creating vested interests (generating domestic stakeholders preferring stable relations with China), transforming public opinion through soft power strategies, and establishing structural power (setting global standards in technological norms, financial systems, or market regulations), operating both intentionally and unintentionally.<sup>23</sup> Third, the firms as state agents parameter assesses the relationship between Chinese enterprises and state objectives, exploring their autonomy, potential as instruments of state strategy, and implications for China's international influence capabilities.<sup>24</sup> Last, the reactions parameter examines how target states respond to Chinese economic statecraft.<sup>25</sup>

The visibility and effectiveness of these mechanisms depend on internal factors, such as economy size, state capacity to control firms, opaque policy-making processes, and the framing of foreign policy initiatives as "win-win," as well as external factors, including asymmetry between countries, the target state's institutional characteristics, and its ability to find alternative partners or resources.<sup>26</sup> The success of Chinese economic statecraft has been mixed. It has been rela-

tively successful on issues that China considers core national interests such as discouraging leaders from meeting the Dalai Lama.<sup>27</sup> However, China has been less successful when the conflict issue is of great national security importance to the target country such as sanctions against South Korea in 2017 regarding the deployment of Terminal High Altitude Area Defense.<sup>28</sup>

### **Intent behind Chinese Economic Statecraft in the Arctic**

China's involvement in the Arctic reflects a carefully orchestrated approach to building political influence through economic statecraft, strategic positioning, and technological advancements. While China frames its Arctic policy as a pursuit of a "win-win result", its actions reveal long-term aspirations to become a polar power and secure political leverage in the region. This ambition has evolved over time as it transitions from a broader focus on polar regions to a specific emphasis on the Arctic.

China's formal entry into Arctic governance began in 2013 when it gained observer status in the AC.<sup>29</sup> This legitimized its involvement in Arctic affairs despite lacking territorial claims and provided a platform to deepen its engagement. The observer status marked a significant step forward by enabling China to align its activities with existing governance frameworks while laying the groundwork for its Arctic ambitions. At this stage, the Arctic remained part of China's broader polar strategy, which encompassed interests in both the Arctic and Antarctic.

By 2014, China's broader polar ambitions were underscored by President Xi Jinping's announcement of a commitment to making China a "polar powerful country" by 2030.<sup>30</sup> This declaration framed the polar regions as vital to China's

global aspirations. The following year, China codified this ambition domestically through Article 32 of its National Security Law, which identified the polar regions as priorities for “safe passage, scientific investigation, development, and exploitation.”<sup>31</sup> These early efforts emphasized both the economic and security dimensions of China’s polar interests, creating a foundation for deeper involvement in the Arctic.

In 2018, China released its Arctic Policy, marking a shift toward a more Arctic-focused narrative. Central to this policy was China’s self-designation as a “near-Arctic state,” a political construct aimed at legitimizing its Arctic ambitions despite its geographic distance from the region. To put this into perspective, countries such as the United Kingdom, Estonia, Latvia, Denmark, Lithuania, Belarus, Kazakhstan, Ireland, Germany, and Poland are geographically closer to the Arctic Circle<sup>32</sup> than China, but they do not use this term. This self-proclaimed status is not officially recognized under international law or by any existing Arctic governance frameworks.<sup>33</sup> The Arctic Policy explicitly framed the region as critical for China’s scientific, economic, and geopolitical interests, aligning these priorities with domestic goals, including the development of its northern provinces.

A centerpiece of China’s Arctic ambitions is the Polar Silk Road (PSR), which forms the economic foundation of its regional engagement. The PSR focuses on Arctic shipping routes with an emphasis on the Northern Sea Route (NSR) along Russia’s Arctic coast. Echoing the Belt and Road Initiative (BRI) at large, its main goals are to create profitable economic connections and build political and strategic influence through interdependence as stated in the “Vision for Maritime Cooperation Under the Belt and Road Initiative” in 2017.<sup>34</sup> These

goals can be achieved via (1) infrastructure development in the Arctic with investment in ports and facilities, and (2) technological advancements such as the development of icebreakers, Arctic-specific satellite navigation systems, and communication technologies.<sup>35</sup> The PSR is not simply an economic initiative, but it is also a geopolitical tool designed to create systems and infrastructure so that recipient countries will come to rely on China. This reliance, in turn, could translate into political influence and a greater say in how the Arctic is managed and developed, thereby legitimizing China's involvement in Arctic affairs.<sup>36</sup> Domestically, connecting the Arctic with the BRI through the PSR is a part of China's strategic efforts to rejuvenate its northern provinces (namely Heilongjiang, Jilin, and Liaoning) as detailed in its 14<sup>th</sup> Five-Year Plan by fostering stronger economic ties with the Russian Far East (RFE) and Siberia.<sup>37</sup>

China's scientific and technological investments in the Arctic further reinforce its political influence strategy. China has developed and deployed advanced maritime research technologies through its Arctic research programs, with the Xue Long icebreaker serving as a primary platform for these activities. Key technologies include the Haiyan glider, which features deep-sea monitoring capabilities and operates with minimal acoustic signature. China has also expanded its testing of various unmanned systems in the Arctic, including underwater robots, unmanned ice stations, and submersibles.<sup>38</sup> These technologies, while primarily designed for environmental research and data collection, possess inherent dual-use capabilities common to advanced maritime systems. For example, the Haiyan glider's technical specifications – particularly its low acoustic signature and deep-sea monitoring abilities – could theoretically support military applications such as underwater navigation or submarine detection.<sup>39</sup> China's Arctic research activities have also contributed to the development of its satellite nav-

igation capabilities through the BeiDou system,<sup>40</sup> as well as advancing technologies for high-latitude communication and data transmission.<sup>41</sup> These scientific and technological development patterns align with China's Arctic Policy of prioritizing scientific research while building comprehensive capabilities in the region. The dual-use nature of these technologies creates strategic ambiguity that benefits China's position as an Arctic stakeholder, regardless of whether military applications are intended.

The Arctic, therefore, is not just a region of economic opportunity for China and its northern provinces, but a strategic landscape where economic investments are designed to generate political leverage through interdependence. By integrating its self-proclaimed "near-Arctic state" identity with economic initiatives through the PSR and technological developments, China has systematically positioned itself as an important stakeholder in Arctic affairs. This evolution, from broader polar ambitions to a focused Arctic strategy, highlights China's long-term commitment to shaping the region's future to align with its global interests.

### **Firms as State Agents and Mechanisms of Influence in China's Russian Arctic Economic Statecraft**

#### ***Firms as State Agents***

The use of China's state-owned enterprises (SOEs) in Arctic projects reflects a strategy to combine economic objectives with geopolitical ambitions. These firms are not merely profit-driven entities but are instrumental in advancing China's Arctic intent. The investment structure in the Yamal LNG Terminal project provides an example of how Chinese SOEs act as tools to establish profitable

economic connections while fostering political and strategic influence through interdependence.

China National Petroleum Corporation (CNPC), one of China's largest state-owned oil and gas enterprise, acquired a 20% stake in the project in 2013. This investment proved crucial when the project faced financial constraints in 2014, as CNPC facilitated the entry of Chinese lenders to meet capital requirements.<sup>42</sup> The Silk Road Fund (SRF), a state-backed investment fund, later contributed a 9.9% stake. Together, these investments brought China's total ownership to 29.9%, which established China as a key stakeholder in this Arctic energy venture alongside Russia's Novatek (50.1%) and France's TotalEnergies (20%). In addition to equity stakes, the project was supported by financing from Chinese state institutions. CNPC invested USD 5 billion, while the SRF committed USD 5 billion plus USD 800 million.<sup>43</sup> In 2016, the Export-Import Bank of China and China Development Bank—both state policy banks—provided credit lines totaling EUR 9.3 billion (approximately USD 10.4 billion) and Renminbi (RMB) 9.8 billion (approximately USD 1.4 billion).<sup>44</sup>

Moreover, Chinese SOEs' involvement encompasses technical and operational contributions. Multiple CNPC subsidiaries participated in various aspects of project construction and operation.<sup>45</sup> Their contributions included the construction of 16 modules across four work packages.<sup>46</sup> The project's reliance on Chinese manufacturing capabilities was particularly evident, with Chinese companies supplying 120 of the 147 fabricated modules, numerous ice-class LNG carriers, a polar drilling rig, and over 100 different products from 45 Chinese manufacturers.<sup>47</sup> The engagement of Chinese SOEs also helped establish new logistical corridors that enhanced China's regional presence. Since 2015,

more than 60% of the project's modules have been transported via the NSR and through the Bering Strait, demonstrating the practical significance of the PSR.<sup>48</sup> These routes reduce transit times compared to traditional pathways through the Suez Canal, while simultaneously establishing precedent for Chinese shipping activities in Arctic waters.<sup>49</sup>

Overall, the participation of multiple state-backed entities - from energy companies to investment funds – in the Yamal LNG Terminal project showcased China's ability to leverage various state instruments to support strategic objectives as it secures access to vital Arctic resources, establishes a physical infrastructure presence, and fosters economic corridors that increase regional reliance on Chinese involvement. In doing so, China not only enhances its economic footprint in the Arctic but also builds legitimacy for its growing role in shaping Arctic development and governance.

### *Mechanisms of Influence*

#### 1. Bargaining Power

China's most prominent and tangible method of exerting influence is bargaining power through inducement strategies by offering economic benefits as “carrots” to reward favorable behavior. These strategies often involve loan-for-oil deals that benefit Russian state-owned companies such as Rosneft, which focuses on oil exploration, production, and refining—and Gazprom, which monopolizes natural gas exports via pipelines. For example, in 2005 Rosneft needed financial support to take over Yuganskneftegaz<sup>50</sup>, the key production unit of the now-defunct Yukos, another major Russian oil and gas company that was privatized in

1995.<sup>51</sup> CNPC then gave Rosneft a USD 6 billion loan in exchange for a contract to supply oil to China by rail until 2010.<sup>52</sup> This relationship deepened further in 2009, when China provided a USD 15 billion loan to Rosneft to help refinance its debts and invest in projects such as the Eastern Siberia Pacific Ocean Oil Pipeline.<sup>53</sup> In return, Rosneft agreed to supply China with 9 million barrels of oil annually for 20 years.<sup>54</sup>

Another example is CNPC's commitment to importing at least 3 million tons of LNG annually for 20 years from the Yamal LNG project.<sup>55</sup> More recent agreements further illustrate China's long-term resource acquisition strategy, including a deal between Novatek—Russia's largest independent natural gas producer—and Zhejiang Energy Gas Group<sup>56</sup>, a Chinese SOE, for the supply of 1.6 million tons of LNG per year from the Arctic LNG 2 project for 15 years.<sup>57</sup> Additionally, there are agreements between Gazprom and CNPC for an extra 10 billion cubic meters of natural gas annually, and between Rosneft and CNPC for 100 million tons of oil over the next decade.<sup>58</sup> By securing contracts with favorable terms, such as the pricing agreements in the Power of Siberia deal<sup>59</sup>, China not only solidifies its position in the energy sector but also uses financial leverage to encourage Russian companies to maintain favorable trade and investment conditions.

## 2. Creating Vested Interests

Through the first mechanism, China has created a network of vested interests who have gained from cooperation with China and support strengthening these ties. Rosneft has cultivated a long-standing partnership with China, facilitated by substantial Chinese loans and contracts since the early 2000s. The unintended

outcome of Rosneft's close ties with Chinese counterparts has been the de facto revision of Russia's energy strategy. While the Kremlin planned to diversify oil exports across Asia, targeting markets in Japan, South Korea, and Southeast Asian states, 'Rosneft's activities led to China becoming the dominant buyer, purchasing between 70 and 80% of the oil sent to Asia.<sup>60</sup> The influence of Rosneft's CEO, Igor Sechin, a trusted ally of Putin, makes him arguably the most powerful proponent of close cooperation with China in Putin's inner circle.<sup>61</sup>

Novatek has secured significant Chinese investments for its projects such as the Arctic LNG 2 Project. While it is not a state-owned company, Novatek operates with significant state support and maintains close ties to the Russian government. Its success is closely linked to its owners' connections to President Putin's circle as evidenced by Gennady Timchenko, a major shareholder, being included on the United States sanctions lists in 2014.<sup>62</sup> Additionally, Leonid Mikhelson, Novatek's largest shareholder and CEO, is considered closely aligned with the Russian government.<sup>63</sup> These political connections, along with financial backing from state-linked entities such as Gazprombank—a major Russian financial institution closely linked to the Russian government and Gazprom—and the National Wealth Fund have enabled Novatek to overcome Western sanctions, secure substantial Chinese investments, and accelerate project timelines.

Other beneficiaries such as Russian Railways (a Russian state-owned monopoly) and Roskomnadzor (a Russian state cyberspace watchdog) profit from economic and technical collaboration with China in areas such as the BRI and cyberspace governance, while Rosgvardia (a Russian militarized internal security agency) has engaged in joint exercises with the Chinese People's Armed Police.<sup>64</sup> The creation of vested interests also extends to agricultural investments as Chinese

farmers and companies have made notable investments in the RFE with reports of over 200,000 Chinese farmers resettling and more than 200 companies making agricultural investments in the region.<sup>65</sup>

These actors have formed an informal “China lobby” advocating closer bilateral ties, reflecting their dependence on Chinese capital and markets for economic stability and growth.<sup>66</sup> The absence of significant anti-China players also makes it easier for the Kremlin to pursue closer ties with Beijing.<sup>67</sup>

### 3. Structural Power

China’s pursuit of structural power is most evident in its monetary policy initiatives aimed at challenging Western financial dominance and promoting the internationalization of its currency in the Russian Arctic. This strategy employs two approaches: encouraging the use of RMB in bilateral trade with Russia and influencing Russian institutions to increase their RMB reserves.

The first approach aims to reduce reliance on Western currencies in Sino-Russian transactions, thereby increasing China’s financial leverage and decreasing vulnerability to Western financial sanctions. For example, the 2022 agreement between Gazprom and CNPC to settle gas payments in rubles and RMB, instead of dollars, demonstrates this mechanism in action by marking a significant move towards de-dollarization in their bilateral trade.<sup>68</sup>

The second approach, focusing on increasing RMB reserves in Russian institutions, is designed to enhance the RMB’s status as a global reserve currency and expand China’s financial influence in the Russian Arctic. Over the years, the

Russian Central Bank increased its RMB reserves from 0.1% in 2015 to 13.8% in 2021, which makes China the biggest holder of Russian Central Bank reserves.<sup>69</sup> In 2022, the RMB's share in the National Wealth Fund doubled to 60%, and its share in stock market trading skyrocketed from 3% to 33%.<sup>70</sup>

#### 4. Limitations and Challenges

The gap between China's Arctic ambitions and actual achievements reveals significant limitations in translating economic engagement into political influence. While China envisioned the PSR to connect the entire Arctic region, actual developments have been modest. For example, in the 2019 list of deliverables of the Second Belt and Road Forum (BRF) for International Cooperation—a document cataloging all cooperation agreements, investment projects, and practical outcomes from BRI partnerships—Russia's participation appears limited.<sup>71</sup> The 2019 deliverables list shows that while Russia participates in several multilateral cooperation mechanisms (such as the Maritime Silk Road Port Cooperation Mechanism and the Belt and Road Accounting Standards Cooperation Mechanism), only one specific bilateral infrastructure project is mentioned: the Russian part of a cross-border railway bridge over the Heilongjiang River.<sup>72</sup> More concerning for China's Arctic ambitions is that by 2023, updated deliverables lists contain no mention of any bilateral infrastructure projects between Russia and China in the Arctic region.<sup>73</sup>

Earlier regional cooperation programs with Russia, such as the “Program of Cooperation between the Northeast of the People's Republic of China and the Far East and Eastern Siberia of the Russian Federation (2009-2018)”<sup>74</sup> and later “the Program for the Development of Russian–Chinese Cooperation in Trade,

Economic, and Investment Spheres in the Far East of the Russian Federation (2018-2024),”<sup>75</sup> also demonstrate the difficulty of converting ambitious plans into impactful results. For example, the 2009-2018 program was criticized for its lack of funding and implementation mechanisms and resulted in only 45 of its 339 proposed projects being completed.<sup>76</sup> Furthermore, between 2014 and 2015, Russia created 20 special economic zones in the RFE to attract foreign investment. However, by 2018, only six of these zones attracted Chinese investment.<sup>77</sup>

There are three major reasons behind these economic limitations. First, they are compounded by significant logistical and environmental barriers. The first Chinese commercial voyage along the NSR, undertaken by China Ocean Shipping Company’s Yong Sheng in 2013, highlighted many of these challenges as the ship encountered problems such as a lack of detailed navigational information, outdated infrastructure, language barriers with Russian officials, highly unpredictable ice conditions, inconsistent ice reporting, and high fees for Russian icebreaker services.<sup>78</sup>

Second, both the RFE programs and China’s Arctic projects show a pattern of one-sided trade that causes problems. In the RFE programs, the focus was mostly on taking resources such as minerals and wood from Russia to help China’s industries, rather than working together to build factories or other industries in Russia. This made Russia’s economy depend too much on selling raw materials without diversifying. In the Arctic, a similar issue exists. China depends on Russia’s control of key infrastructure, such as icebreaking ships and shipping routes, which limits how much power China can gain from its economic activities there.

Third, China faces institutional and geopolitical constraints in the Arctic. The existing legal framework governing the region established by the Arctic states limits China's ability to pursue its Arctic ambitions. In the Arctic, existing legal frameworks such as the UNCLOS, the 1920 Svalbard Treaty, the 1996 Ottawa Declaration, and the 2008 Ilulissat Declaration prioritize the interests of Arctic states, which leaves China as an outsider in decision-making processes.<sup>79</sup> These limitations highlight the gap between China's long-term strategic goals and the realities of implementation, whether in the Arctic or the RFE. While China's economic activities in the region continue to grow, they are constrained by logistical and environmental challenges, institutional structures, and mismatched priorities.

### **Russian Responses to Chinese Economic Statecraft**

Russia's approach to managing Chinese influence in the Arctic is rooted in historical experience. These tensions trace back to the Sino-Soviet split of the late 1950s when ideological differences and competition for leadership in the communist world led to a dramatic deterioration in relations. This historical wariness has manifested in specific policy actions designed to limit Chinese influence. For example, in 2003, Russia initially rejected China's request to send a research vessel through Russia's Exclusive Economic Zone as part of China's Arctic expedition, only granting permission after the expedition was completed.<sup>80</sup> In 2004-2005, Russia issued informal instructions to regional governors to "gently push Chinese businesspeople out of bordering regions."<sup>81</sup> In 2012, Russia barred Chinese research vessels from operating along the NSR.<sup>82</sup> Even after the 2014 Crimea crisis<sup>83</sup>, when geopolitical isolation pushed Russia toward closer cooperation with China, Russia's underlying suspicions remained as shown

in 2015 when Russian Defense Minister Sergei Shoigu expressed irritation at non-Arctic states, including China, for striving to have a presence in the Arctic.<sup>84</sup> Recent issues such as alleged intellectual property infringement in military technology<sup>85</sup> and spying allegations<sup>86</sup> have reinforced skepticism toward China among Russian security services.

At the domestic level, Russia publicly welcomes Chinese engagement as evidenced by high-level endorsements such as President Vladimir Putin's 2012 statement encouraging Sino-Russian economic interaction<sup>87</sup> and Foreign Minister Sergey Lavrov's 2015 declaration of China as a priority Arctic partner.<sup>88</sup> However, despite this outward support, Basic Principles 2035, the latest version of Russia's Arctic Policy, continues to stress Russia's sovereignty over Russian Arctic territories and resources.<sup>89</sup> This was demonstrated in the Yamal LNG project, despite China's significant investment, Russia retained a 50.1% majority stake to ensure control over decision-making. Moreover, the project's success mainly came from political support from Moscow, including favorable tax reductions and subsidies, rather than solely on Chinese investment.<sup>90</sup>

This control is further illustrated in the case of the NSR. Although the route can reduce transit times and costs, the fees for Russian services, such as mandatory icebreaker escorts, often diminish the financial benefits for foreign companies. For example, during the 2017 voyage of the *Lian Hua Song*, the costs of these icebreaker fees amounted to USD 140,000, significantly reducing the savings expected from using the shorter route.<sup>91</sup> The Russian Federal Law further reinforces this control by regulating the entry of foreign warships and non-commercial vessels into Russia's internal sea waters along the NSR and allowing for the suspension of their right to passage through navigational warnings.<sup>92</sup>

Furthermore, by self-funding critical infrastructure such as the port in Sabetta, Russia maintains independence in key strategic areas while selectively engaging international partners where advantageous.<sup>93</sup>

At the bilateral level, Russia actively pursues bilateral relationships with other Asian nations to reduce dependence on Chinese capital. India has established a substantial presence through ONGC Videsh Limited's 20% share in Russia's Sakhalin-1 oil and gas project and an Indian energy consortium's stakes in the JSC Vankorneft and LLC Taas-Yuryakh fields.<sup>94</sup> Japanese investment has also been significant, with Mitsui & Co. and Japan Organization for Metals and Energy Security (JOGMEC) securing a 10% share in the Arctic LNG 2 project, making Japan one of the main investors in the RFE.<sup>95</sup> This diversification of partners aligns with Russia's broader strategic emphasis, particularly during its 2021–2023 chairmanship of the AC, where Russia highlighted the growing role of external stakeholders in Arctic affairs.<sup>96</sup>

At the multilateral level, Russia has worked to establish clear hierarchies in Arctic governance. Russia initially opposed China's bid for observer status in the AC. While China was eventually admitted into the AC as an observer in 2013, Russia played a key role in establishing new "observer rules" that limit non-Arctic states' influence. For example, observer states are allowed to participate in meetings, but not at the ministerial level, and do not have the right to vote. These rules reflect Russia's determination to prevent observer states from becoming de facto members, maintaining a clear hierarchical distinction between Arctic and non-Arctic states in regional governance.

This multi-level approach reveals how Russia has created layers of control.

These layers range from historical precedent to national regulations and international frameworks. Together, they ensure that while China can participate in Arctic development, it cannot translate economic engagement into political influence.

### **The Impact of Russia's Invasion of Ukraine on Sino-Russia Relations in the Arctic**

Russia's invasion of Ukraine in 2022 significantly altered the balance of power between China and Russia in the Arctic. The unprecedented Western sanctions and decreased trade flows have jeopardized Russia's attempts to diversify its Arctic partnerships. For instance, Mitsui & Co. and JOGMEC have stopped their involvement in the Arctic LNG 2 project, leaving Novatek, the Russian owner of the remaining 60% stake, to finance the project alone and to sell the gas on the open market.<sup>97</sup> This economic isolation has directly influenced Russia's strategic pivot toward China for support in achieving its Arctic goals. This is evident in their bilateral trade statistics. In 2022, trade turnover was over USD 190 billion. Then in 2023, it hit a record high of USD 240.11 billion: a growth of 26.3% compared to 2022. In the first half of 2024, total trade increased a bit more, by 1.8%, compared to the same period last year, reaching USD 116.9 billion.<sup>98</sup>

The strengthening of Sino-Russian ties in the Arctic is also reflected in agreements and joint statements. In 2022, the two countries issued a joint statement announcing plans to strengthen practical cooperation in the sustainable development of the Arctic and in sustainable transport, including the use of Arctic

routes.<sup>99</sup> Another piece of evidence is the 2023 agreement to add the port of Vladivostok as a transit port for domestic transportation of goods from Jilin province. This development is historic as Russia reopens Vladivostok to Chinese access after 163 years—a port originally ceded by the Great Qing to the Russian Empire in 1860. Economically, the agreement offers substantial benefits to China’s northern provinces, which have traditionally relied on the Dalian Port in Liaoning Province for sea transport. The new logistics routes through Vladivostok shorten land transportation distances, reduce costs, and create opportunities for economic growth in these underdeveloped regions.

Vladivostok’s strategic importance, however, extends beyond its economic advantages. As Russia’s principal Pacific port with advanced maritime infrastructure, it offers China crucial access to the Sea of Japan and the Pacific Ocean, which strengthens its regional maritime presence and provides its northeastern provinces with more efficient trade routes. While primarily a commercial arrangement, Vladivostok’s role as the headquarter of Russia’s Pacific Fleet also means that increased Chinese commercial activity could naturally enhance China’s maritime situational awareness in this strategically vital region, potentially supporting its PSR ambitions.

The strengthening of Sino-Russian cooperation also extends into the military domain, despite Russia’s traditional caution regarding Chinese presence in the Arctic. This became evident when a group of 11 Russian and Chinese warships conducted joint exercises near the Aleutian Islands in 2023, following an earlier encounter between these nations’ vessels and the United States Coast Guard near Alaska in 2022.<sup>100</sup> In 2024, the two nations intensified their cooperation by conducting their first joint bomber patrol near Alaska within the Alaska Air

Defense Identification Zone.<sup>101</sup> While remaining in international airspace, this coordinated bomber patrol represents a significant advancement in their military partnership as it demonstrates their capability and willingness to conduct joint military exercises in sensitive Arctic regions. These military demonstrations signal a deepening strategic alignment between China and Russia in the Arctic region, thus raising concerns about regional stability and potentially triggering increased militarization among Arctic states.

Russia's increasing isolation from Western markets has accelerated its pivot toward China, creating an asymmetric interdependence where Chinese economic leverage could translate into greater political influence in the Russian Arctic. This evolving dynamic, reinforced by joint military exercises and diplomatic alignment, suggests a deepening strategic partnership that could reshape Arctic governance in China's favor, though Russia's historical wariness of Chinese influence may create underlying tensions. First, as Russia becomes more reliant on Chinese capital and markets, it may face pressure from China for greater concessions, which could lead to friction in their broader strategic partnership. Second, this evolving dynamic may provoke stronger responses from Western Arctic states, influencing future Arctic governance and possibly isolating Russia further. Last, Russia's historical wariness of Chinese influence in the Arctic is likely to continue as it becomes more economically dependent on China. This could lead to tensions in the future, especially if Russia perceives China's growing influence as a threat to its strategic autonomy in the region.

## **Conclusion**

This paper examined how China's economic engagement in the Arctic serves as

a tool of economic statecraft to exert political influence over Russia. It revealed that China has deployed various mechanisms of influence, such as bargaining power through investments, the creation of vested interests among Russian elites, and attempts to establish structural power through currency internationalization. These efforts were made via China's SOEs to advance its ambitions in the Russian Arctic. However, China's ability to translate these economic tools into concrete political influence has been constrained by Russia's multi-level response strategy.

However, Russia's invasion of Ukraine in 2022 has reshaped this dynamic as it has created an asymmetric interdependence that potentially enhances China's influence. The dramatic increase in bilateral trade, the symbolic opening of Vladivostok port, and unprecedented military cooperation in the Arctic suggest a shift in the Sino-Russian Arctic relationship. Yet, this evolving partnership contains inherent tensions. Russia's historical wariness of Chinese influence, combined with its determination to maintain strategic autonomy in the Arctic, may create friction as China's economic leverage grows.

This paper thus contributes to the understanding of how economic statecraft functions in regions of strategic significance, particularly when deployed by rising powers against traditionally dominant regional actors. It suggests that while economic statecraft can be an effective tool for building influence, its success ultimately depends on the complex interplay between economic leverage, historical relationships, the target state's capacity for strategic response, and geopolitical circumstances, as well as the practical realities of implementing ambitious strategic visions in challenging environments such as the Arctic. While Sino-Russian cooperation in the Arctic may bring immediate benefits,

the long-term implications could be destabilizing. Hence, the long-term implications of these shifts in the Arctic geopolitical landscape need further research, particularly in light of rapidly changing global circumstances.

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