

Economic Relations between Russia and China – Increasing Inter-Dependence?

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Economic Relations between Russia and China

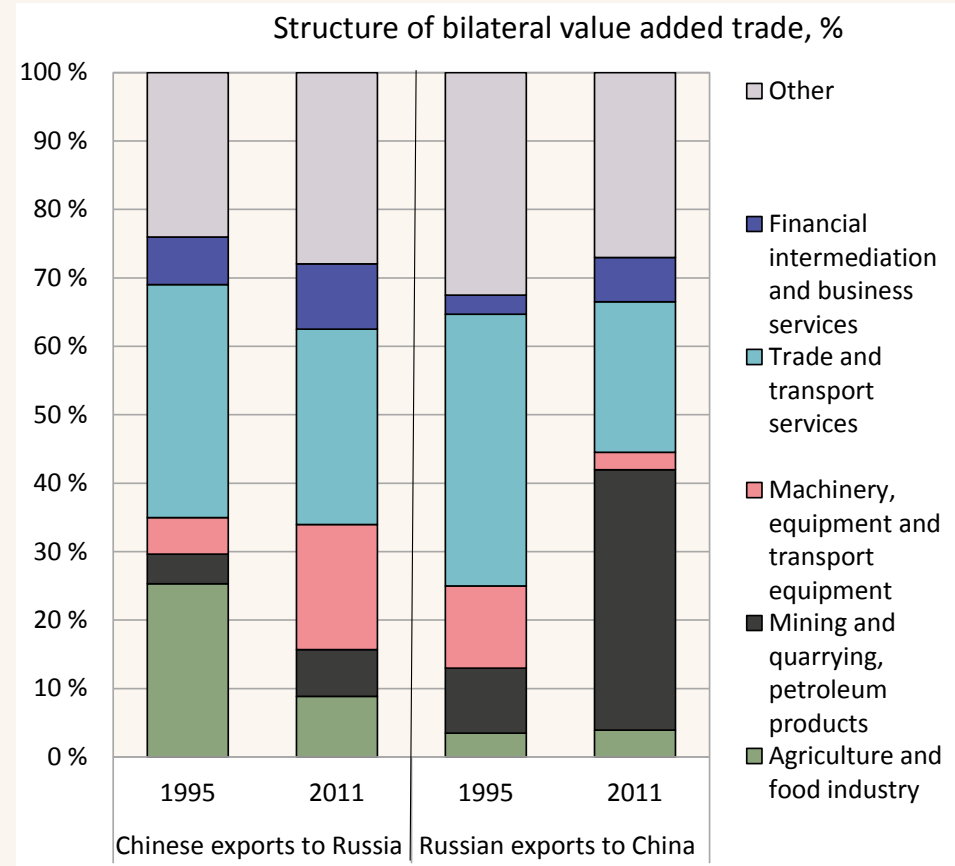


"Year of China" in Russia in 2007

- Russia and China seem to have huge potential for economic cooperation
 - Large neighboring markets
 - Complementary production structures
- Economic relations between countries have long time been even surprisingly narrow despite many years of high-level dialogue



Trade has increased notably and its structure has changed

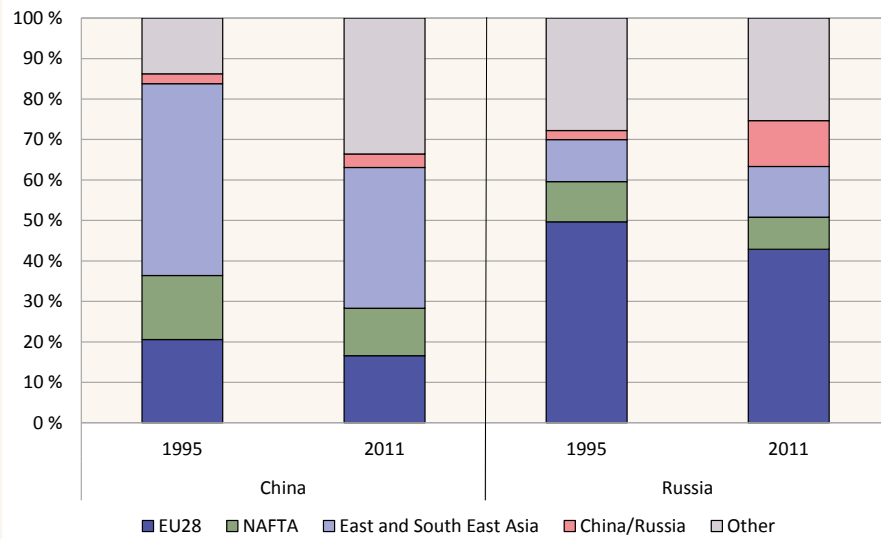


Source: Author's calculations based on OECD-WTO TiVA data

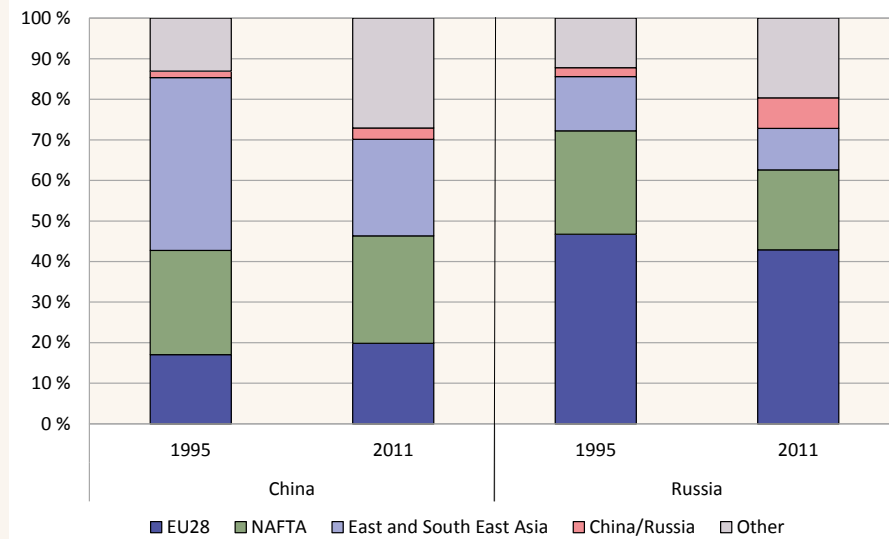


Bilateral dependency still low

Supply (import) dependency



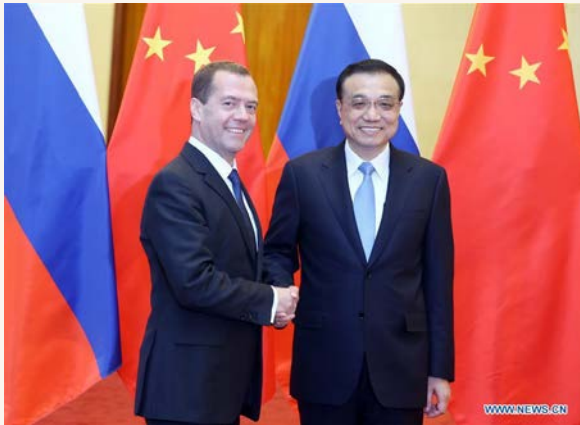
Demand (export) dependency



- Bilateral dependency has increased, but remains low
- Both more oriented towards other markets
- Rather one-sided dependency of Russia from China than inter-dependency

Source: Author's calculations based on OECD-WTO TiVA data

High-level relations blooming after Russia's relations with West cooling

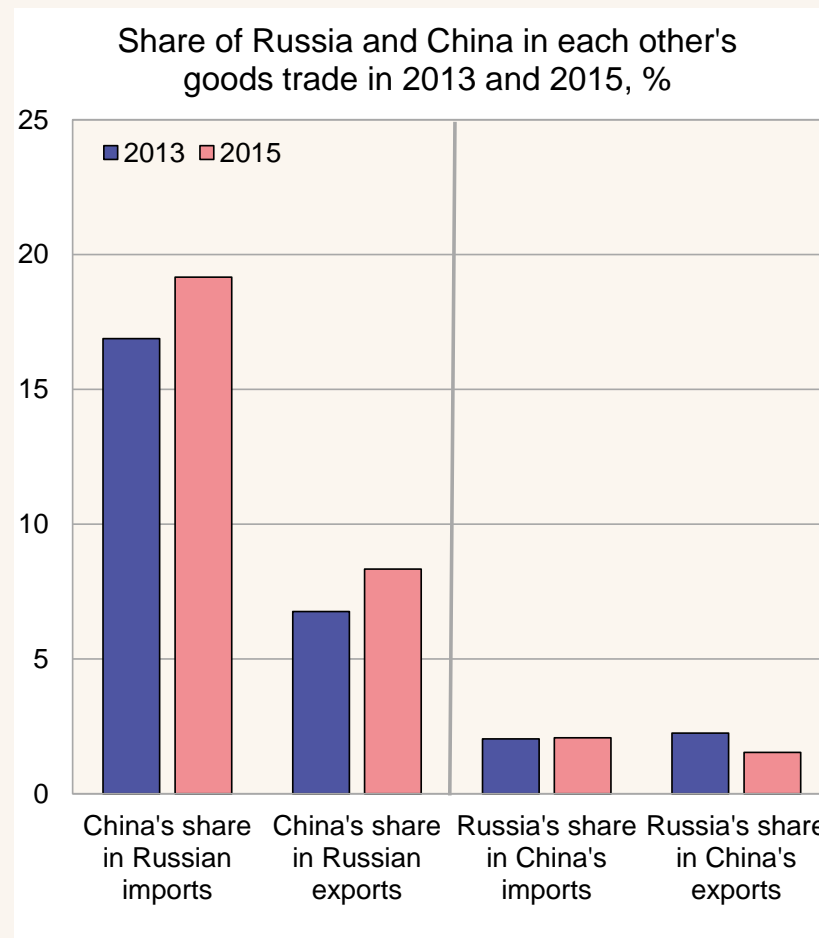
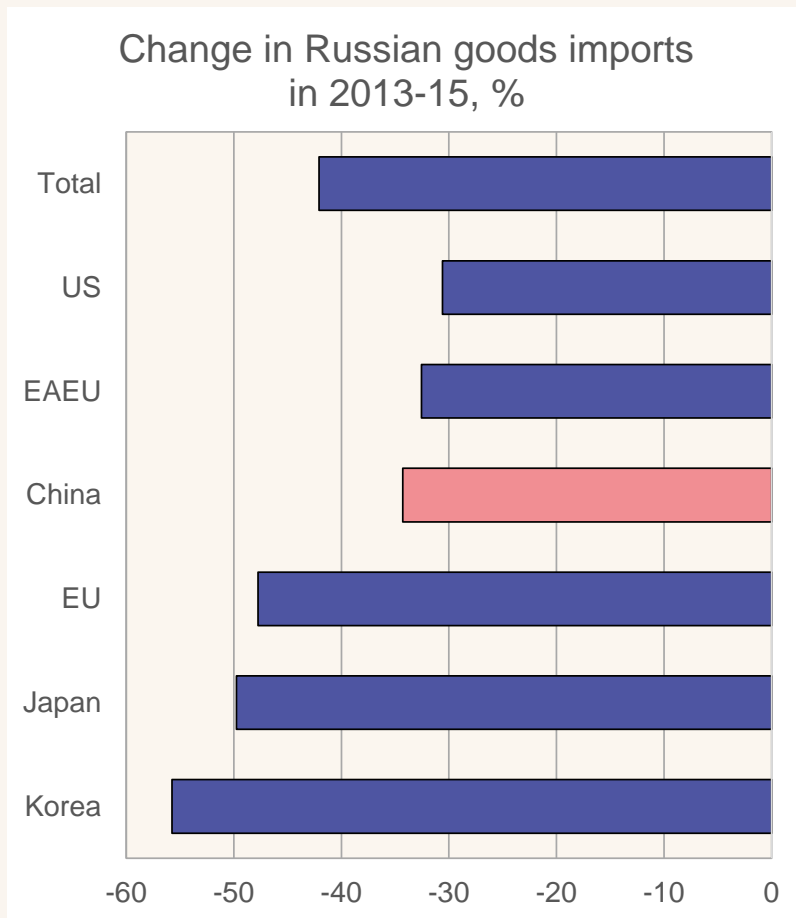


- Russia's statement of "pivot to Asia"
 - Hope to receive additional income and financing under western sanctions
- Much attention for new steps in cooperation
 - Agreements on natural gas supplies from Russia to China
 - Contract on Russia selling missile defense system to China
 - Joint declaration on cooperation in coordinating development of Eurasian Economic Union and Silk Road Economic Belt

Sources: Kremlin, Xinhua.



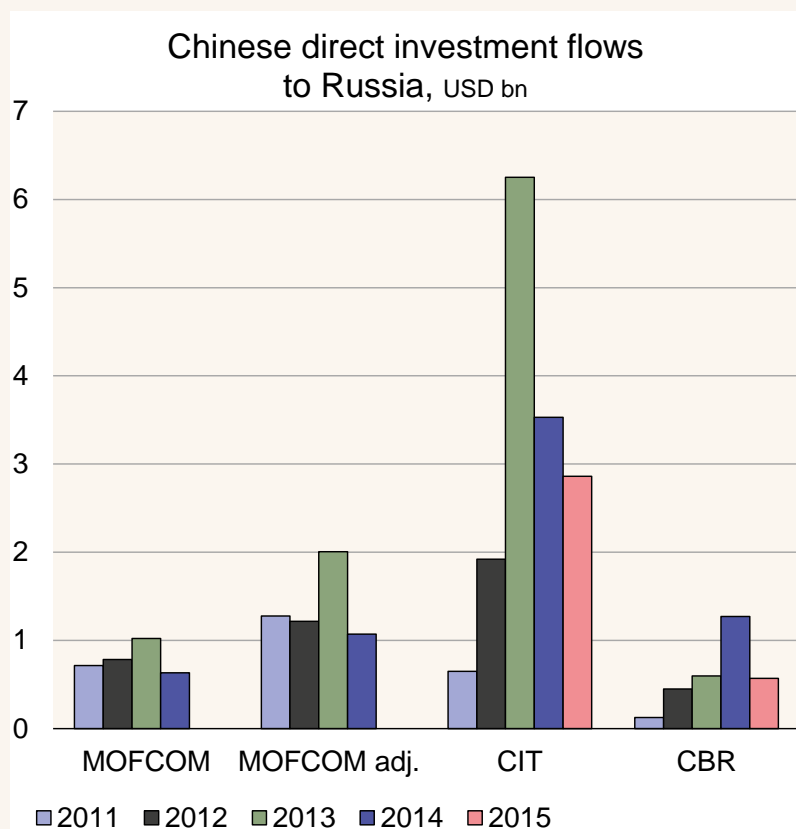
Trade development more moderate and again one-sided



Sources: Russian Customs, IMF DOTS



Investment flows have continued small and fallen



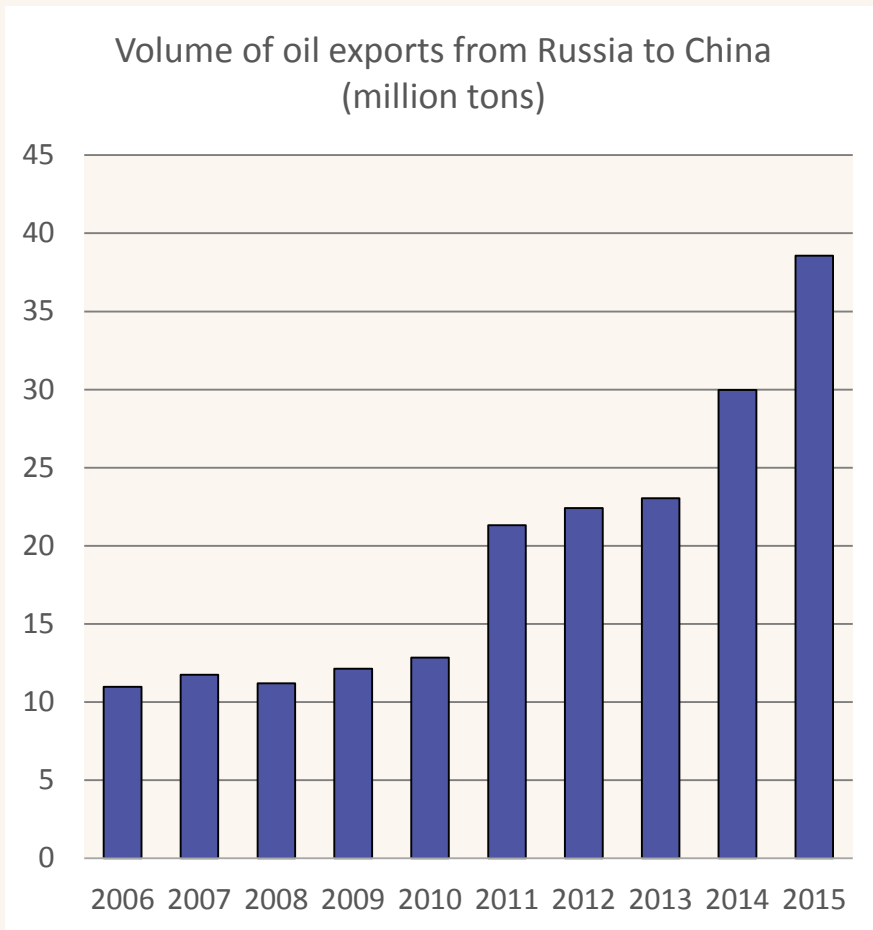
N.B. Figures from different sources are not comparable due to different methodologies.

Sources: MOFCOM, China Investment Tracker, CBR, author's calculations

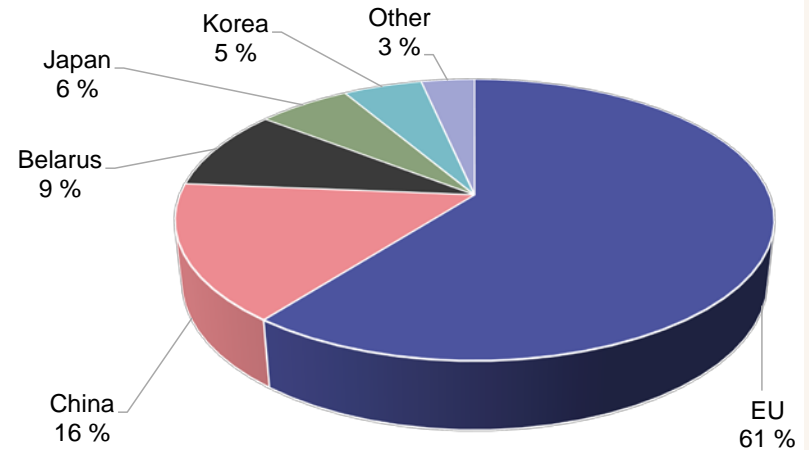
- Russia and China not among each others' most important investment partners
 - FDI stock from Russia to China (incl. Hongkong) 1.5 bn USD
 - Estimates for Chinese FDI stock in Russia vary from 1.5 bn to 25 bn USD
- Chinese credit to Russian companies has not increased notably in general except some individual deals
 - Chinese banks take Western sanctions into account
 - Difficulties to agree on price



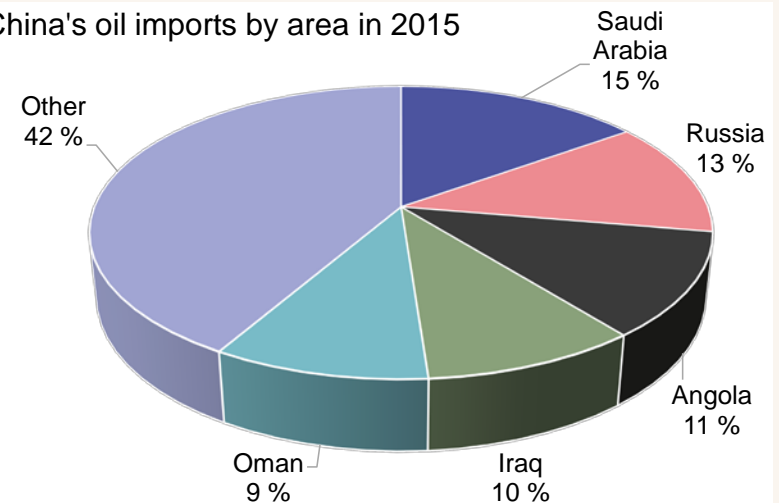
Oil trade volumes and inter-dependency have increased – reflecting earlier developments



Russia's oil exports by area in 2015

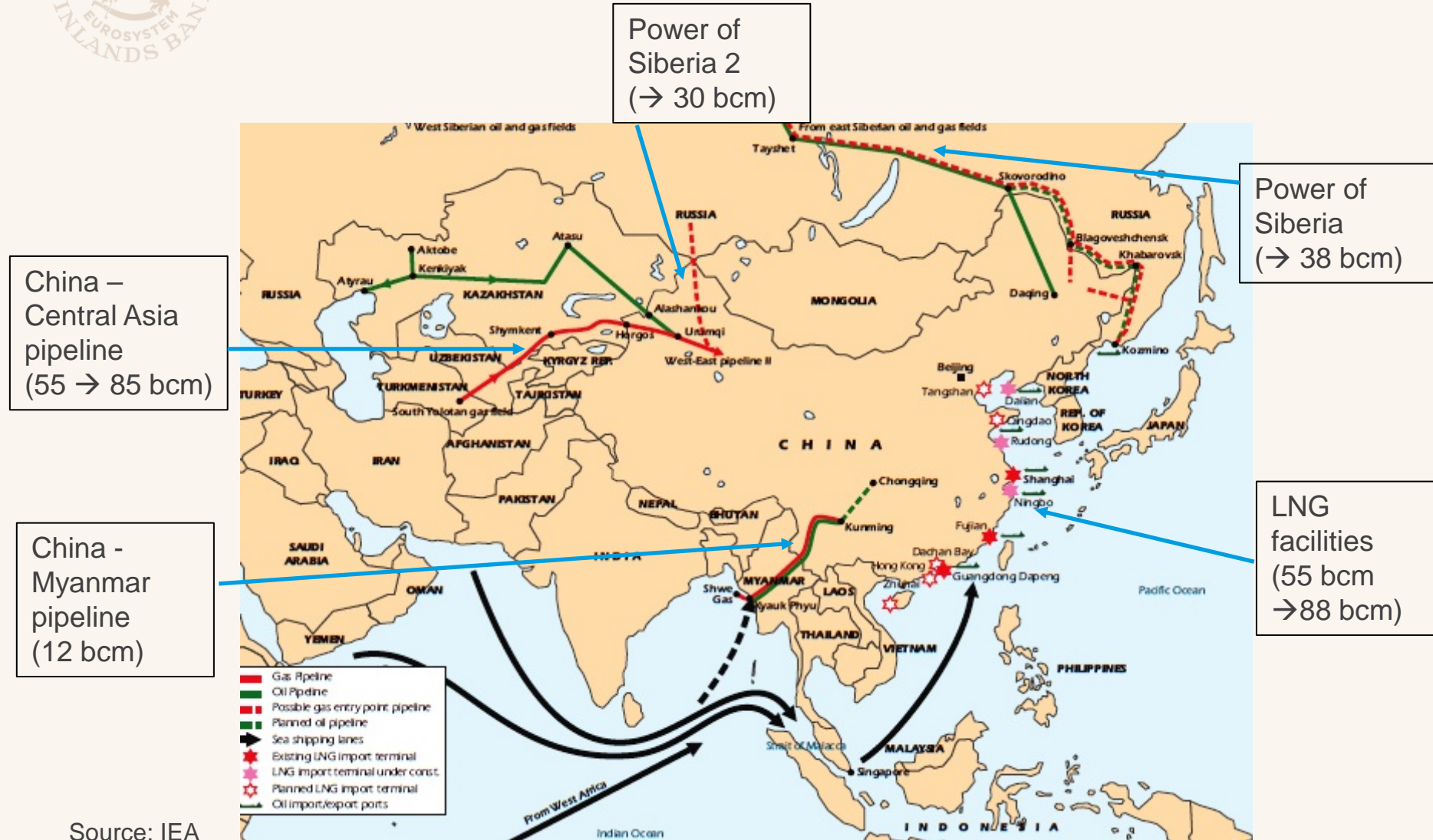


China's oil imports by area in 2015



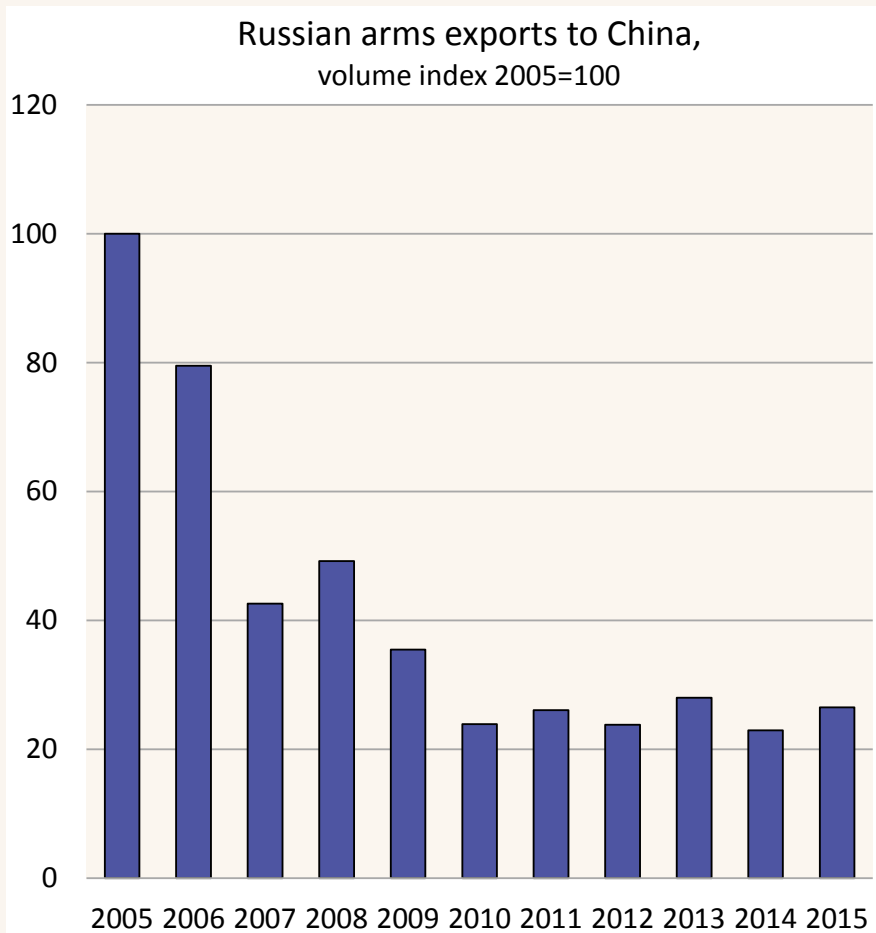
Sources: CEIC, UN Comtrade

Natural gas agreements an important step forward, but much work remains to be done





Arms trade an exception in economic relations

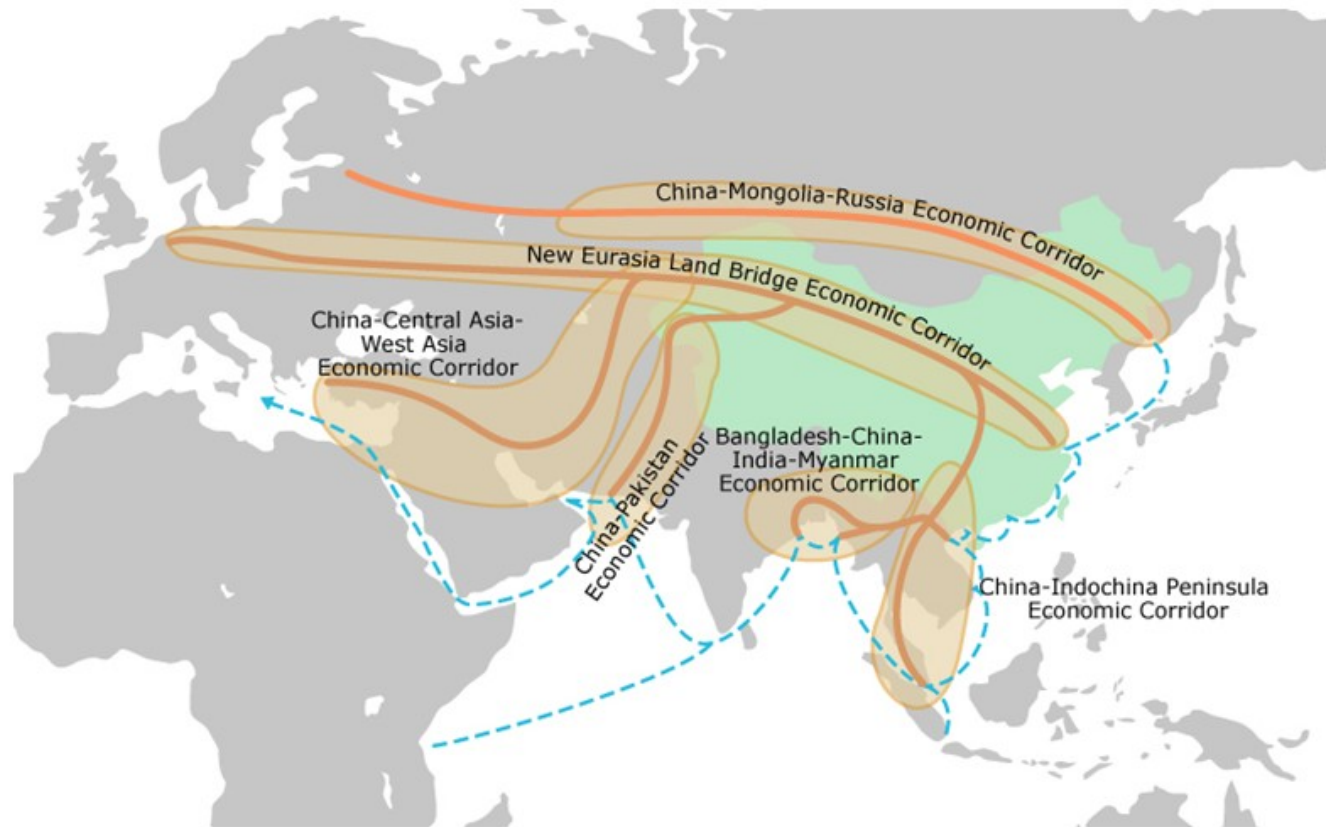


Source: SIPRI

- Arms trade between countries has been declining during past decade
- In arms trade opposite situation than in other economic relations → SIPRI estimates that Russia still accounts 60-70% of Chinese arms imports

Practical implications of regional cooperation unclear and challenges remain

The Belt and Road Initiative: Six Economic Corridors Spanning Asia, Europe and Africa



Source: HKTDC



Future perspectives for economic cooperation depend largely on political relations

- Best potential for further increasing and deepening cooperation in the fields of energy and raw materials, infrastructure
 - Politically the most sensitive areas
 - Especially in these areas both seem to be rather striving for reduced dependency on any country instead of increasing inter-dependency

- Russia wants financing but is not willing to give up on economic independency

- China aims at securing diverse raw material supply and finding new markets for domestic industrial production
 - Emphasis might be shifting to latter with China's rebalancing of growth model and already vast and diversified supply secured
 - Often implies majority stakes and / or use of domestic materials, labour etc.

- Can a balanced approach acceptable to both be found or is it easier to find other partners?

Limited potential for increased cooperation in other sectors



Main entrance of the Matryoshka Park in Manchuria
(Source: Kommersant)

- Traditional attractions of Chinese markets offer less possibilities for Russian companies
 - Poor competitiveness in most other products than energy and raw materials, especially consumer products
 - China is no more a market of cheap labor at least for Russian companies, as average wage in China appears to be already higher than in Russia

- Russia's relatively large markets interest Chinese companies, but
 - Investment hampered by problems in business environment
 - Further increasing exports might be restricted by Russia's protectionist policies (reducing import dependency, import substitution)
 - In sanctioned products China has less to offer and providing finance limited by risks



Conclusions

- Bilateral inter-dependency has increased, but remains low and is rather one-sided
- Recent warming of political relations has led to some important steps forward also in economic relations, but less results in practice
- In the near term, development of economic relations continues to rely largely on political considerations

Thank You for Your Attention