



China-Russia trade relations and their impact on Europe

A discussion

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**Bruegel seminar on RU-CHN economic relations
– 21 June 2016**

The considerations made in this presentation are those of the author and do not necessarily reflect the official position of the European Commission

The topic



- Substitutability vs. complementarity of EU vs. CHN exports in Russia and EU and RU exports in CHN
- Both at aggregate and sectorial level
- Based on estimates of elasticity of substitution
- Drawing conclusions on effect of enhanced RU-CHN trade ties on our exports
- -4% exports (cumulative), -1% market share in RU, almost no effect (+0.17%) on share in CHN

Highly relevant (and neglected)

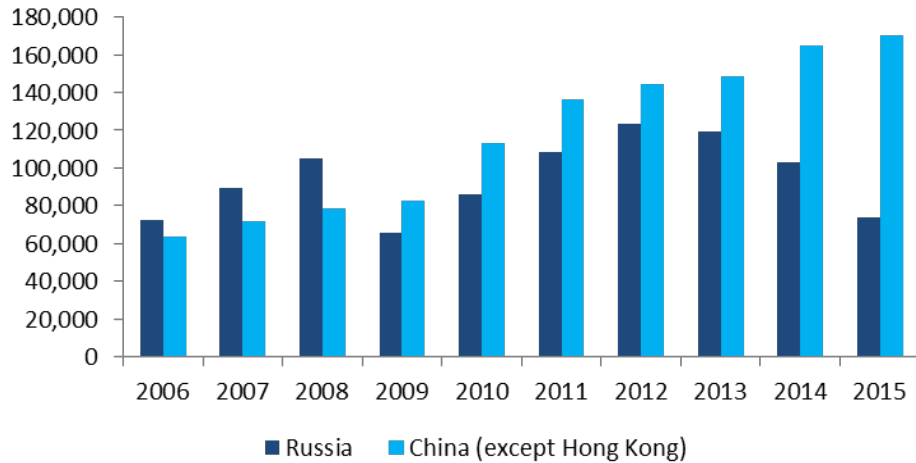


- Current debate on EU-RU economic links:
- Direct effect of sanctions/counter-sanctions on RU and EU economies
- Bilateral trade, financial links, tourism, economic confidence, energy (oil-gas supplies + related investments)
- But not much on possible re-orientation of RU towards other regions (economically and politically)
- ➔ Indirect/long-term effect of prolonged sanctions
- Russia "Pivot to the East" often met with scepticism (more rhetoric than substance)
- This paper (and whole seminar) starts filling a void and provide quantitative estimations on trade implications for the EU

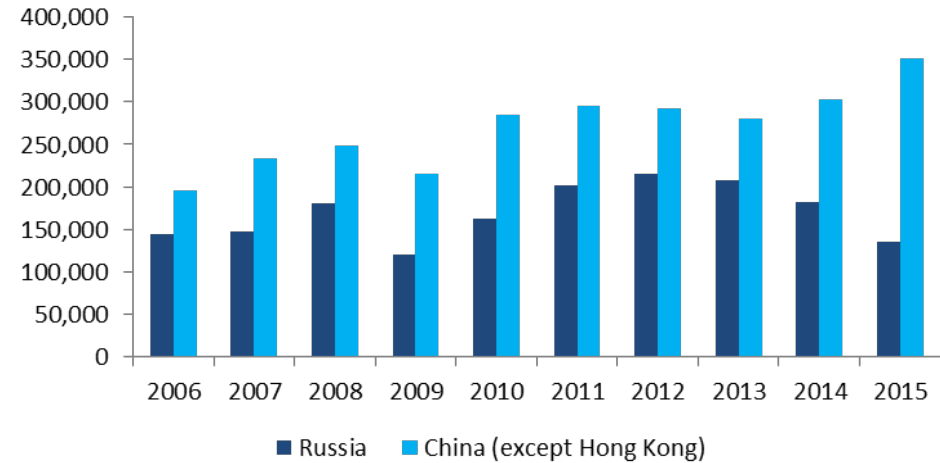
Trade with CHN and RU, basic facts



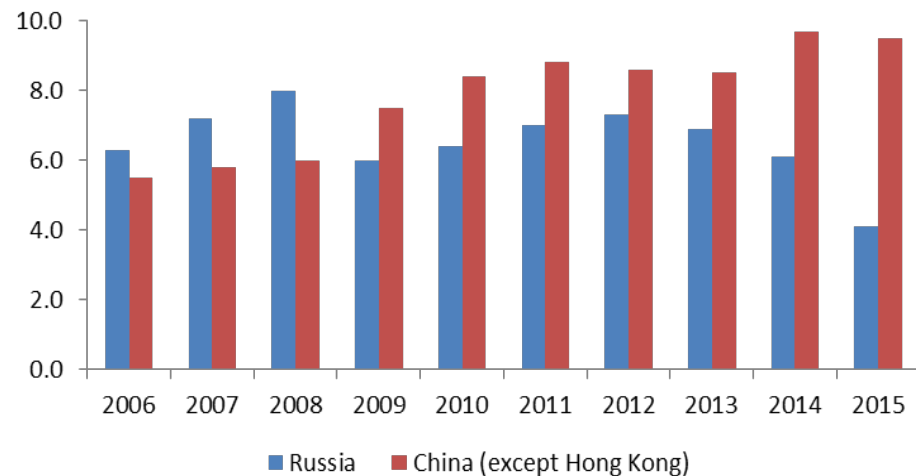
EU exports (mn. EUR)



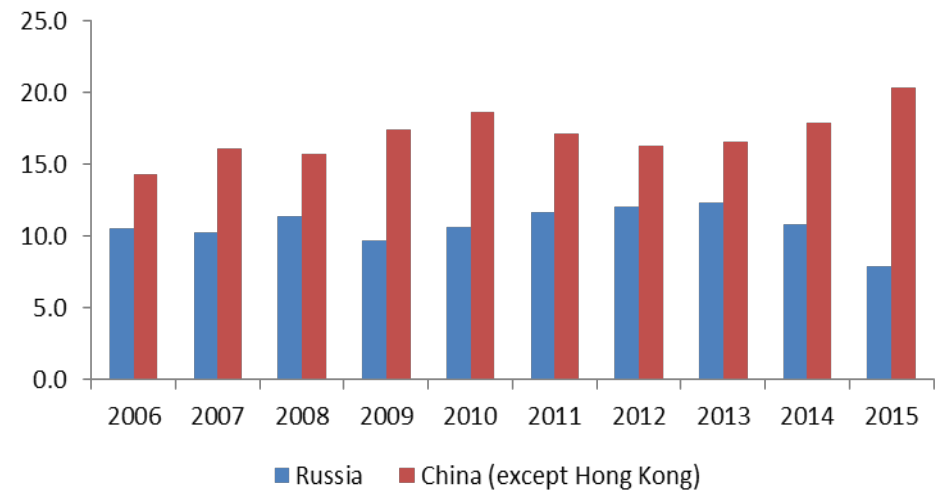
EU imports (mn. EUR)



Share of EU exports (%)



Share of EU imports (%)



Trade with CHN and RU, basic facts



Negative trade balance with both

Stable/rising exports and imports to/from CHN

Decreasing exports and imports to/from RU (oil price fall for M, Russia's recession for X)

In 2015 CHN accounted for around 20% of our imports and close to 10% of our exports,

...with respective figures for RU at 8% (largely oil and gas) and 4%.

[-4% X to RU&CHN worth around EUR 10bn (2015 data)]

Prospects for CHN-RU trade ties



Is a sharp increase in CHN-RU bilateral trade likely?

- RU still in recession (albeit bottoming out), with large risks of a protracted stagnation
- Low potential growth, anaemic investment, subdued domestic demand amid large income squeeze
- Gain in price competitiveness via a weak rouble not sufficient to kick start exports and growth
- Emphasis on economic self-reliance (import substitution programme)



Prospects of a CHN economic re-orientation towards RU to the disadvantage of the EU remains unlikely...

Prospects for CHN-RU trade ties



although with some caveat:

- Structural reform momentum might gain traction in RU ("Plan K", stronger commitment by authorities)
- ...supporting investment and production diversification, thus leading to greater import demand
- but past reform plans did not fare greatly and a long election cycle looms in the horizon
- Prospects might be brighter for individual sectors: enhanced supplies of Russian oil/gas to CHN via new pipelines
- ...with greater penetration of CHN imports granted in return
- but subject to long-term investment/infrastructure projects

The methodology



- Two aspects:
 1. Complementarity/Substitutability across sectors: easy to grasp, EU and RU specialised in different sectors as regards export to CHN, but EU and CHN compete on similar goods in RU market
 2. C/S within sector would require more explanations
 - Sound econometric specification estimates elasticity of subst. from equations linking market shares with cross-market import prices
- ➔ seems fairly neat and intuitive
- Should evolution over time be further investigated?
 - More explanation on the quantification of the shock simulating stronger RU-CHN trade ties (-20% X prices)

Summing up



Real risk is whether the EU could be **displaced** from RU market by aggressive CHN exports, but...

- Sharp demand slow-down in RU makes this unlikely in the short-term, turnaround in the long-term unlikely
- Exports to RU from non-sanctioning countries (including CHN) fell nearly as much as from the EU in 2015
- EU export share in RU quite low and decreasing
- ...and EU Member States often managed to divert trade to alternative markets during the current RU recession

➡ Research motivation could/should be strengthened (focus on more exposed EU MS? Pay more attention to sectorial specificities, e.g. oil-gas?)