

TRADE DYNAMICS: EXPLORING FUTURE DIRECTIONS OF CHINA-RUSSIA COOPERATION

Vokhidova M.Kh.

*Head of the chair of Tashkent State
University of Oriental Studies, Ph.D*

Uroкова D.A.

*Master's student of the University of
World Economy and Diplomacy*

Annotation:

The purpose of this article is to explore the potential directions of foreign trade cooperation between China and Russia, delving into how this dynamic relationship could evolve in the coming years. Also, this article analyzes the main directions of the economic cooperation of the countries. Given the current state of robust growth and strategic alignment in their trade relations, it's important to consider the future pathways and opportunities that could further enhance and diversify this economic partnership.

Keywords: Sino-Russian trade relations, bilateral trade agreements, economic sanctions, energy cooperation, belt and road initiative (bri), geopolitical dynamics, trade diversification, technological exchange, agricultural trade, export-import dynamics, infrastructure projects, strategic partnerships

The trade relationship between China and Russia, rich in history and complexity, has evolved through centuries, shaped by geopolitical shifts and cultural exchanges. This historical journey reveals a partnership that has weathered ideological rifts and embraced cooperative strategies in the modern era.

The roots of Sino-Russian trade can be traced back to the ancient Silk Road. This network of trade routes connected Imperial China with various regions, including the territories of what would become modern-day Russia. This early exchange was not just about goods like silk and spices but also ideas and culture, laying the groundwork for future interactions.

The dissolution of the Soviet Union in 1991 ushered in a new era. The 1990s witnessed the normalization of Sino-Russian relations and a gradual rebuilding of trade ties. The turn of the century was particularly transformative, marked by the declaration of a 'Strategic Partnership of Coordination' between China and Russia. This period saw a surge in trade, particularly in the energy sector.

The 21st century has seen the Sino-Russian trade relationship reach new heights. The partnership has diversified beyond energy into areas like technology, military equipment, and infrastructure. China's Belt and Road Initiative has further solidified this relationship, with Russia playing a key role in several infrastructure projects. In recent years, the relationship has adapted to global economic and political shifts. Facing international sanctions, Russia has increasingly turned to China as a vital economic partner. This pivot has not only reinforced traditional trade in energy and

raw materials but also opened new avenues in agriculture, technology, and e-commerce.

The current state of trade relations between China and Russia is characterized by robust growth, diversification, and strategic alignment, reflecting a deepening economic partnership amidst a changing global landscape. For more than a decade, China has been Russia's top trading partner, mainly importing mineral products and exporting sophisticated technological goods. As of 2022, the roles in their bilateral trade have remained consistent, with China reinforcing its position as a leading supplier of high-tech equipment to Russia, and Russia maintaining its status as a significant provider of gas and oil to China. China represents about 20% of Russia's total international trade, while Russia accounts for roughly 3% of China's foreign trade.¹

Assessing mutual direct and cumulative investments presents challenges, yet it is evident that China ranks among Russia's top investors. Conversely, Russia's direct and cumulative investments in China are likely more substantial than official figures suggest, but still remain modest in comparison. The collaboration between Russia and China in science and technology is facing limitations, though new opportunities for expansion have arisen in the context of increasing US-China strategic competition and the crisis between Russia and the West. In finance, Russian-Chinese cooperation has seen some achievements, particularly in increasing the use of national currencies in bilateral trade, although this progress is notably hampered by sanctions against Russia.

In today's international environment, the potential for deepening Russian-Chinese relations exists, but realizing this potential will require the establishment of various mechanisms that allow major Chinese firms to circumvent secondary sanctions.

In the arena of global economics, China stands as a formidable powerhouse, showcasing a blend of rapid growth, strategic diversification, and increasing global integration. This journey from a primarily agrarian society to an industrial and technological behemoth is a narrative of meticulous planning and adaptation. Below we delve into the strengths, focuses, and strategic interests that define China's current economic landscape.

At the heart of China's economic might is its status as the 'world's factory.' An extensive manufacturing sector, capable of mass-producing a diverse range of products, forms the backbone of its economy. This sector is crucial in the global supply chain, underpinning China's export-led growth model. China's recent strides in technology are noteworthy. It has emerged as a global contender in telecommunications, artificial intelligence, and renewable energy technologies. This technological advancement is not just a marker of progress but a driver of future economic resilience and global competitiveness.

Home to the world's largest population, China's domestic market is a vast ocean of consumer demand. This market drives a significant portion of the economy, from basic consumer goods to advanced technology products, offering immense opportunities for both domestic and foreign businesses. China's ability to rapidly develop and deploy infrastructure is unparalleled. Domestically, this strength has

¹ Sergei Lukonin . "Russia-China Relations: An Asymmetrical Partnership?". Research article of Mgimo Review Of International Relations. February 16, 2023. 65-86

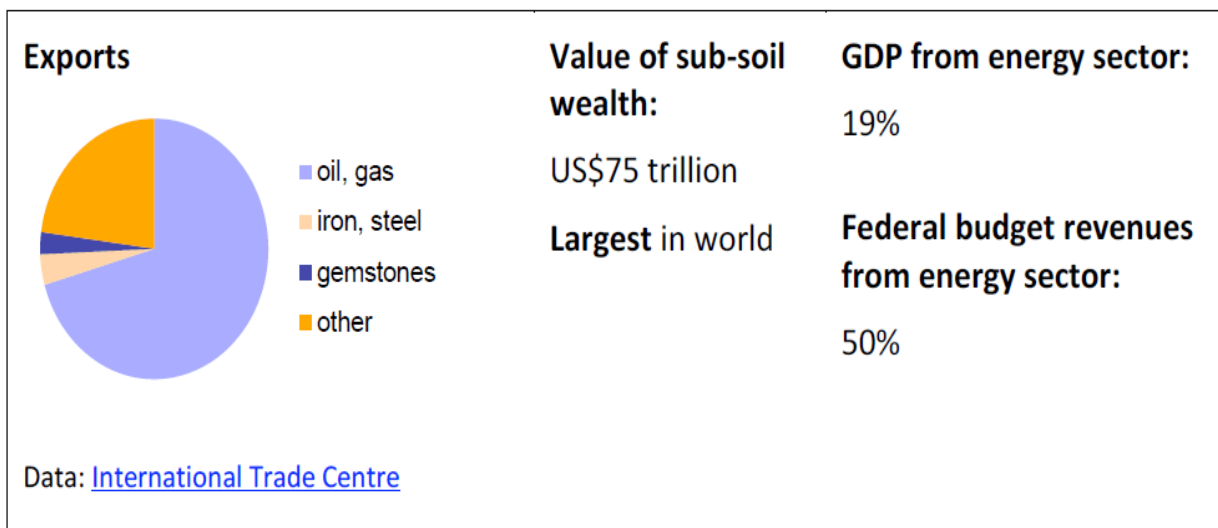
propelled regional development and urbanization. Globally, initiatives like the Belt and Road Initiative showcase China’s capability and ambition in shaping infrastructure beyond its borders. A pivotal focus for China is transitioning from a manufacturing-reliant economy to one led by innovation and high technology. This shift aims to position China at the forefront of the next wave of global economic development. In response to environmental challenges, China is investing heavily in sustainable development. Its commitment to peaking carbon emissions by 2030 and achieving carbon neutrality by 2060 reflects a strategic shift towards green growth.

China's strategic interest lies in expanding its role in global trade. This ambition is evident in initiatives like the Belt and Road Initiative and participation in the Regional Comprehensive Economic Partnership (RCEP). China is increasingly focusing on outbound investment, particularly in developing countries. This strategy aims to secure resources, open new markets, and expand geopolitical influence.

Russia's economy, characterized by its vast natural resources, dynamic sectors, and strategic positioning, presents a unique blend of challenges and opportunities. As the world's largest country by land area, Russia's economic narrative is as vast and complex as its geography. Here, we outline the key facets of Russia's economy and its strategic economic objectives.

Graph 1.

Russian natural resources²



Russia, endowed with key natural resources like coal, oil, gas, gold, and timber, has an estimated natural resource value of \$75 trillion, making it one of the richest countries globally in terms of natural resources³. It possesses vast deposits of iron manganese, chromium, nickel, platinum, titanium, and various other minerals. Siberia's expansive forests account for a fifth of the world's timber. In addition, Russia is

² Russia Natural Resources Map. <https://libraryeuroparl.files.wordpress.com/2018/03/eprs-ida-551320-russian-natural-resources.png>

³ Craig Anthony. “10 Countries With the Most Natural Resources”. Investopedia. <https://www.investopedia.com/articles/markets-economy/090516/10-countries-most-natural-resources.asp>

abundant in nonfuel minerals and is self-reliant regarding industrial raw materials. A significant 95.7% of its national wealth is attributed to natural resources, predominantly oil and gas. Russia leads globally in gas reserves and production and ranks second in oil production. It also holds considerable coal reserves and is among the top countries in gold reserves. Despite this immense natural wealth, Russia's per capita income is only marginally higher than that of OECD countries, by about a quarter.

Russia's industrial sector, though overshadowed by its energy dominance, is a crucial component of its economy. This sector includes manufacturing, aerospace, and defense industries, with a long history of engineering and scientific expertise.

Agriculture in Russia has seen resurgence in recent years. With vast tracts of arable land, the country has the potential to be a major player in global agricultural markets, particularly in grain and dairy products.

While not traditionally seen as a tech powerhouse, Russia has made strides in fostering innovation, particularly in areas like information technology, biotechnology, and nuclear energy.

One of Russia's primary economic objectives is to reduce its reliance on oil and gas revenues. Diversification into sectors like technology, agriculture, and manufacturing is seen as key to creating a more resilient and balanced economy. Russia aims to expand its global trade footprint, seeking new markets and trade partnerships. This objective is particularly crucial in the context of Western sanctions, prompting Russia to look towards Asia, Africa, and the Middle East.

Despite geopolitical challenges, attracting foreign direct investment remains a strategic goal. Russia aims to improve its investment climate through regulatory reforms and development of special economic zones. In the face of international sanctions and supply chain disruptions, Russia is focusing on achieving technological self-reliance. This includes investment in domestic technological capabilities and fostering a homegrown innovation ecosystem.

Russia faces significant environmental challenges, including pollution and climate change impacts in its vast Arctic region. Addressing these through sustainable development practices is increasingly seen as both an economic and strategic necessity.

Developing infrastructure, especially in its vast and sparsely populated regions, is crucial for economic growth. This includes transportation, energy, and digital infrastructure to connect and develop remote areas. Russia's economic landscape is a tapestry of immense natural wealth, industrial capability, and untapped potential. Its strategic economic objectives reflect a desire to harness these strengths, overcome challenges, and assert its role in the global economic arena. As Russia navigates its path, these objectives will not only shape its economic future but also have significant implications for its global partnerships and geopolitical strategies.

In the evolving landscape of global trade, the economic relationship between China and Russia stands out for its depth and dynamism. Recent years have seen a significant increase in trade volumes between the two nations, marked by a diversified trade composition that extends beyond their traditional exchanges. This article delves into the current state of their trade, exploring the volume and variety of goods and services that flow between these two global players.

As of the latest data, the trade volume between China and Russia has reached unprecedented levels. In 2022, bilateral trade hit a record high, with figures surpassing \$140 billion, marking a substantial increase from previous years. This growth trajectory reflects not only the strengthening economic ties but also the strategic efforts by both nations to bolster trade relations amidst global economic challenges. The bedrock of Sino-Russian trade remains energy. Russia is one of China's largest suppliers of oil and natural gas, meeting a significant portion of China's burgeoning energy needs. In 2022, energy exports, including crude oil, natural gas, and coal, constituted a substantial part of Russia's exports to China, reflecting the critical role Russia plays in China's energy security⁴.

Complementing energy trade, Russia exports a considerable volume of raw materials and minerals to China. These include timber, precious metals, and a variety of ores, catering to China's vast industrial and manufacturing sectors.

On the flip side, China exports a significant amount of machinery and electronic equipment to Russia. These range from consumer electronics to more sophisticated telecommunications equipment and machinery used in various industries, underscoring China's role as a global manufacturing hub.

China's exports to Russia also include a variety of high-tech products and consumer goods. These encompass everything from smartphones to household appliances, reflecting the diverse needs of the Russian market and China's prowess in manufacturing a wide range of consumer products.

In the intricate web of global trade, infrastructure and investment play pivotal roles, acting as catalysts for economic growth and integration. This is especially true in the context of China and Russia, where large-scale infrastructure projects and strategic investments have significantly influenced their bilateral trade relations. Central to this dynamic is China's ambitious Belt and Road Initiative (BRI) and various Russian infrastructure projects, which together are reshaping the economic landscape of Eurasia.

The Belt and Road Initiative, launched by China in 2013, is a vast network of trade routes and infrastructure projects spanning Asia, Europe, and Africa. Its impact on Sino-Russian trade relations has been profound. The BRI has led to the development of new transportation routes and logistics hubs that have enhanced connectivity between China and Russia. This improved infrastructure has facilitated smoother and faster trade, reducing costs and transit times for goods.

Chinese investments in Russian infrastructure, such as ports, railroads, and industrial parks, have bolstered Russia's export capacity. This investment has been vital in integrating Russia more deeply into the BRI network, enabling it to become a more active trade partner.

⁴ Global Times. <https://www.globaltimes.cn/page/202201/1250126.shtml>

Graph 2.
Import and export trade data between China and Russia (2006-2022)⁵



In 2022, trade between Russia and China surged by 29.3% from the previous year, reaching an unprecedented \$190.3 billion. Exports from China to Russia increased by 12.8%, totaling \$76.1 billion, while imports from Russia to China jumped by 43.4% to \$114.1 billion. This significant growth in Russian-Chinese trade, particularly in the face of sanctions, shows a 113.11% year-on-year increase in their combined imports and exports for 2022. This remarkable expansion highlights the vast potential for cooperation between Russia and China.

It's widely known that genetically modified products are viewed unfavorably by Chinese consumers. Russian food products, including not just soybeans but also wheat, vegetable oil, and corn, are perceived as being relatively eco-friendly and safe. This perception provides Russia with a significant competitive edge in the Chinese market. Consequently, it's the Chinese consumers who are particularly keen on broadening the collaborative efforts between the two countries in this sector.

Recently released data from China's General Administration of Customs reveals that in the initial five months of 2023, the trade volume between Russia and China soared to \$93.8 billion. This marks a substantial 41% increase from the same timeframe in 2022 and an impressive 85% rise from the first five months of 2021. These figures underscore China's critical role in supporting both the Russian economy and Moscow's military endeavors.

Of the total trade, 54% (\$50.9 billion) is accounted for by Russian exports to China, resulting in an \$8 billion trade surplus for Russia. The majority of these exports are mineral fuels and oil, with China's import of Russian crude oil hitting record levels in May. Mirroring their approach with Iranian oil, Chinese private refineries have been

⁵ Yue Yu & Shide Feng. 2023. "International Trade Cooperation between Russia and China under the Belt and Road Initiative in the New Global Order". Journal of International Relations /Research article, 74

aggressively purchasing Russian oil at discounted rates despite U.S. sanctions. Iran, for comparison, exports about a million barrels per day to China.

China's exports to Russia, amounting to \$33.7 billion in the first four months of 2023, have grown by 66% compared to 2022 and 85% compared to 2021 for the same period. In contrast to Russia's focus on raw materials, China's export profile to Russia is varied, encompassing manufactured, processed, and industrial goods.

Machinery, mechanical appliances, and electrical equipment make up 38% (\$12.8 billion) of China's exports to Russia, showing a 43% increase from 2022 and a 59% rise from 2021 during the same period.

Another significant export category is vehicles, aircraft, vessels, and associated transport equipment, constituting 19% (\$6.4 billion) of China's total exports. This segment has experienced a 241% growth from 2022 and a 346% increase from 2021. With Western car manufacturers exiting Russia, Chinese market share there has escalated to 40% from under 10% in early 2022⁶.

These export categories are crucial not just for the functioning of the Russian economy but also for supporting its military operations. Ukrainian reports indicate an increasing presence of Chinese components in Russian military equipment and weaponry. China maintains that its export practices to Russia align with its national laws and regulations.

Both Russia and China are actively broadening their global partnerships, with the synergistic nature of their economies being clear. Russia is well-positioned to replace Western imports with Chinese products without much difficulty. In return, Russia can offer China a dependable source of strategically priced resources. The proximity of their overland trade routes reduces the risks associated with transportation and supply, particularly in the event of potential trade or military disputes with the United States, a concern already highlighted by Washington amidst allegations of China potentially providing arms to Russia in the Ukraine conflict.

The goal of reaching a bilateral trade volume of \$300-400 billion between China and Russia seems achievable. This can be attributed firstly to the development of infrastructure in Russia's Far East and secondly to the increasing supply of natural gas to China. For China, Russian gas is pivotal in achieving its ambitious green energy transition by 2050. Currently, Russia's gas exports to China via pipeline are tenfold less than what was sent to Europe in 2021, indicating substantial room for growth. This increase would also help China meet its green energy goals.

Realizing these opportunities will necessitate significant political decisions and substantial investments. The outcome would be a mutually advantageous collaboration with China, one of the world's largest economies, and the true development of Russia's Far East. This development would transform the region from a financially supported periphery to a new center of growth for the entire nation. It would also serve as a vital resource for trade, particularly in agriculture and energy transit, catering not only to China's demands but also to the burgeoning needs of Southeast Asia.

⁶ CNN Business. (2023). China sees biggest trade increase with Russia in 2023, Chinese customs data shows. Retrieved June 7, 2023, from <https://edition.cnn.com/2023/06/07/business/china-russia-trade-increase-intl/index.html>

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