



Flossbach von Storch
RESEARCH INSTITUTE

MACROECONOMICS 20/09/2022

Sino-Russian trade relations: partnership with limits

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Abstract

Since the Russian invasion on Ukraine and subsequent Western sanctions, Russia's trade relationships experienced seismic shifts. Trade flows with seven of its major trading partners have declined substantially, leaving holes in the supply chains as well as in the foreign sales opportunities for Russian producers. This prompted Russia to substantially strengthen its ties with China. Although this new partnership was declared to have "no limits", it is in fact subject to significant limits – and this on both sides.

Zusammenfassung

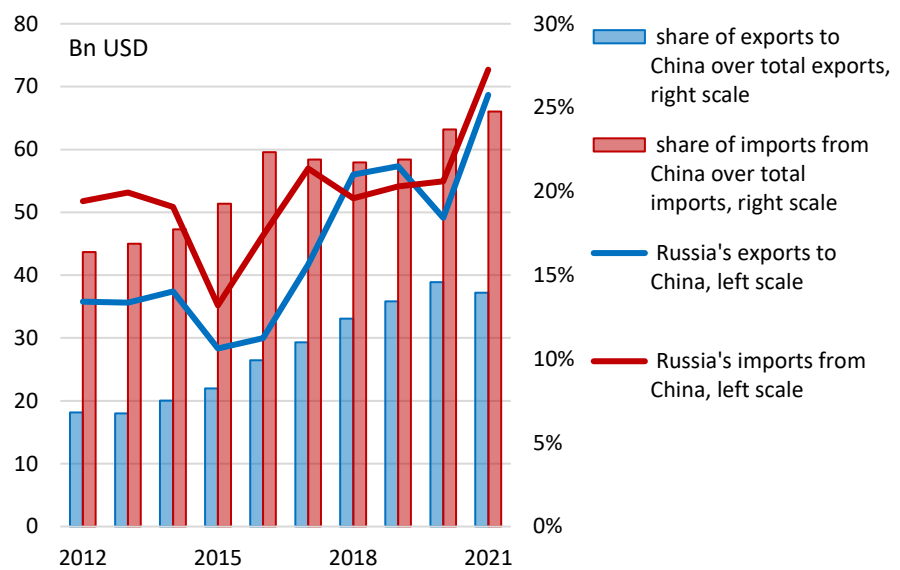
Seit der russischen Invasion in der Ukraine und den anschließenden westlichen Sanktionen haben sich die Handelsbeziehungen Russlands grundlegend verändert. Die Handelsströme mit sieben seiner wichtigsten Handelspartner sind erheblich zurückgegangen, was Lücken in den Lieferketten und in den Absatzmöglichkeiten für russische Hersteller im Ausland hinterlassen hat. Dies veranlasste Russland, seine Beziehungen zu China erheblich zu verstärken. Obwohl diese neue Partnerschaft als "grenzenlos" deklariert wurde, sind ihr in der Tat erhebliche Grenzen gesetzt - und zwar auf beiden Seiten.



Russia's pre-war trade linkages

Russia's trade relations with China have grown strongly over the past decade (**Figure 1**). In particular, the relative importance of Russia's exports to China as a share of total Russian exports increased significantly from 7% in 2012 to 15% in 2020 and 14% in 2021. Russia's imports from China have also increased in value as a share of total Russian imports, from 16% in 2012 to 25% in 2021. But as Russia accounts for only 2.8% of total Chinese trade, Russia relies on China more than China on Russia.

Figure 1. Russia's merchandise trade relations with China up to the war in Ukraine



Source: Own elaborations Flossbach von Storch Research Institute based on UN Comtrade database

Before the war Russia traded intensively with other countries besides China (**Table 1**). Among Russia's top ten export destinations in 2021, the Netherlands, Germany, the UK, Italy, the US and the Republic of Korea together accounted for 30 % of total Russian exports. The same group of countries plus France imported 31 % of total Russian imports in the same year.

As a result of the invasion of Ukraine in February 2022 and the resulting Western sanctions, there were seismic shifts in Russia's trade relations. The seven trading partners mentioned above drastically reduced their trade relations with Russia, leaving gaps in supply chains as well as in sales opportunities for Russian producers. For example, while German exports to Russia in January and February 2022 were still above the levels of the respective months on average from 2018 to 2021, they collapsed by almost 56% thereafter (**Figure 2**).



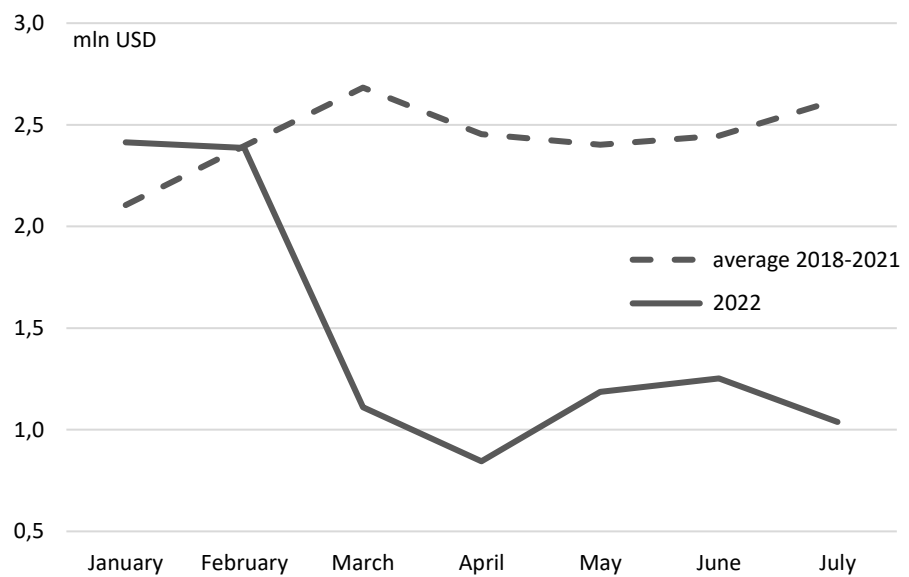
Table 1. Main Russia's partners in merchandise trade in 2021

Trading partners:	Russia's exports	
	In billions USD	As a % of total exports
1. China	68.7	14%
2. Netherlands	42.1	9%
3. Germany	29.6	6%
4. Turkey	26.4	5%
5. Belarus	23.1	5%
6. United Kingdom	22.3	5%
7. Italy	19.3	4%
8. Kazakhstan	18.5	4%
9. USA	17.7	4%
10. Rep. of Korea	16.9	3%
Total exports	492.3	100%

	Russia's imports	
1. China	72.7	25%
2. Germany	27.4	9%
3. USA	17.3	6%
4. Belarus	15.6	5%
5. Rep. of Korea	13.0	4%
6. France	12.2	4%
7. Italy	12.0	4%
8. Japan	9.1	3%
9. Kazakhstan	7.1	2%
10. Turkey	6.5	2%
Total imports	293.5	100%

Source: Own elaborations Flossbach von Storch Research Institute based on UN Comtrade database

Figure 2. German exports to Russia

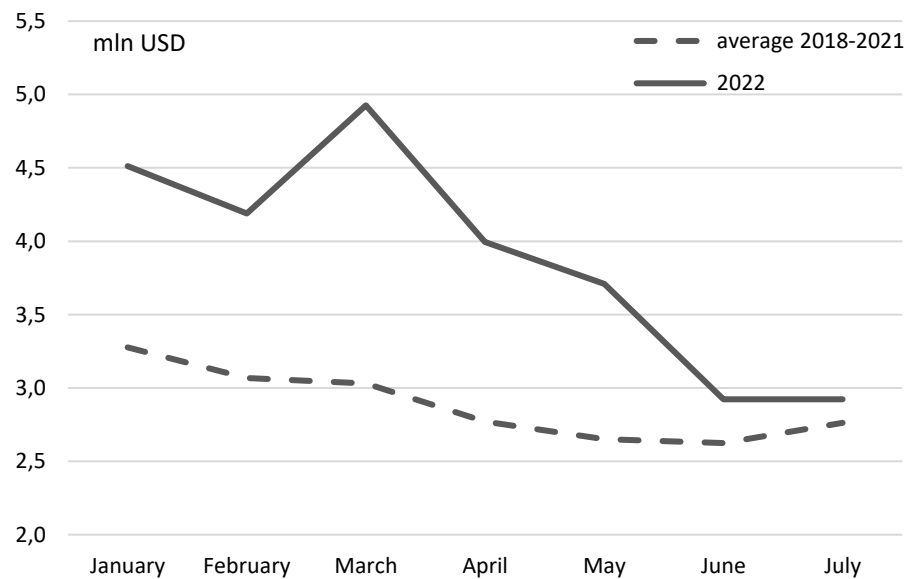


Source: Own elaborations Flossbach von Storch Research Institute based on data from the Federal Statistical Office of Germany



As Russian exports to Germany consist mostly of raw commodities and commodity prices soared, the decline of exports was much less pronounced than that of imports, with the corresponding figure in July 2022 still just above the 2018-2021 monthly average (**Figure 3**). However, as Germany weans itself from the dependence on Russian energy imports the trend is clearly downwards. Moreover, as almost 80 % of German imports from Russia are concentrated in mineral fuels, for which Russia has imposed a supply freeze of late, the disruption in bilateral trade relations between Russia and Germany is likely to be large and permanent.

Figure 3. Russian exports to Germany



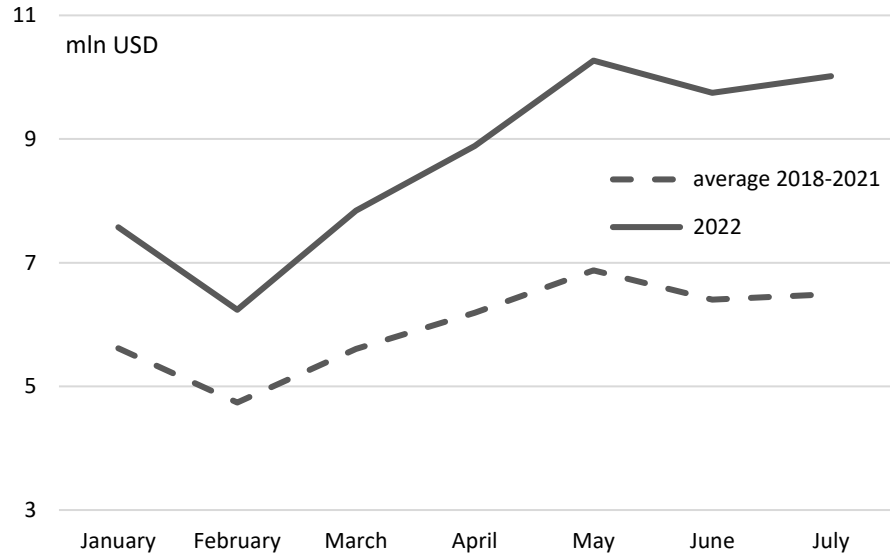
Source: Own elaborations Flossbach von Storch Research Institute based on data from the Federal Statistical Office of Germany

Trade between “friends”

To fill the gaps in its trade relations, Russia made greater efforts to develop relations with countries that have not officially condemned Russia’s aggression against Ukraine. The strongest increase took place with China. Between May and July 2022, Russian exports to China were on average 52% higher than the corresponding figure for 2018-2021 (**Figure 4**). This substantial increase is mainly due to oil and coal exports and is expected to accelerate further as China is keen on absorbing gas supplies otherwise planned for Western Europe.



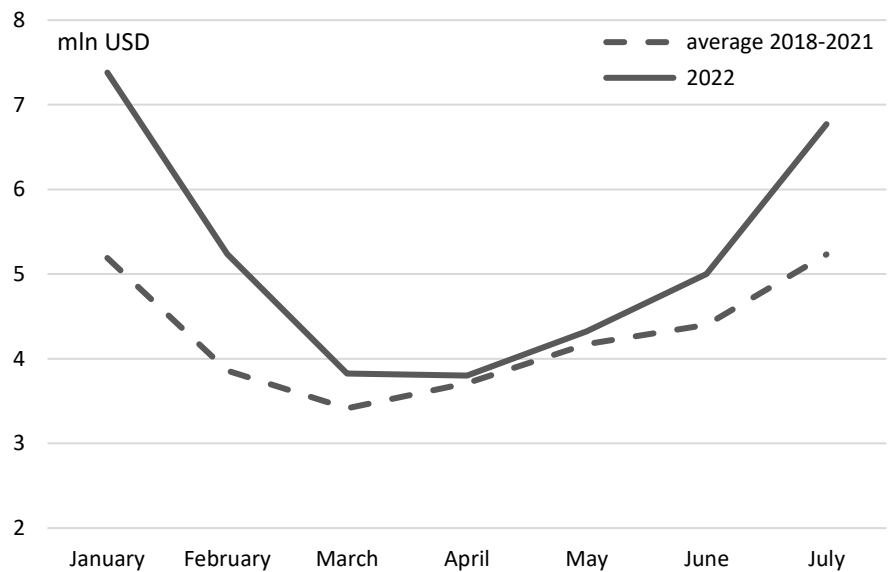
Figure 4. Russia's exports to China



Source: Own elaborations Flossbach von Storch Research Institute based on data from the General Administration of Customs of People's Republic of China

China's exports to Russia between January and July 2022 are also above the 2018-2021 averages and are likely to remain at high levels, providing Chinese companies with a unique opportunity to fill the vacuum created by the departure of Western brands from Russia (**Figure 5**).

Figure 5. China's exports to Russia



Source: Own elaborations Flossbach von Storch Research Institute based on data from the General Administration of Customs of People's Republic of China



Friendship with “no limits”?

At their meeting in February on the occasion of the Winter Olympics in Beijing, the leaders of Russia and China declared that their friendship would have "no limits". At another meeting on 16 September 2022 on the sidelines of the Shanghai Cooperation Organisation in Samarkand, China's President Xi Jinping said his country was "ready to work with Russia" to realise each other's "core interests". The shared perception that NATO and the US pose an obvious threat to national security has brought the two powers closer together over the course of the war.

At the same time, however, the Indian and Chinese leaders voiced open or hidden criticism at Russia's war against Ukraine. It has been reported that Indian Prime Minister Modi told President Putin that “today's era is not an era of war”. That came after Putin acknowledged China's President Xi's “concerns” about the war in public remarks at the event.¹

For China and India, supporting Russia means an increasing risk of undermining their own economic interests. In particular, Russia's military and technological support could draw Western sanctions against them. The fact that Beijing and New Delhi have so far carefully avoided violating Western sanctions against Russia shows that they rely on Western capital and technology to support their ongoing development – at home and abroad. The two Asian powers will therefore probably seek to keep their options open as long as possible.

For Russia, its growing dependence on China and Beijing's continued dominance in bilateral relations are likely to increase the economic risks to the Russian economy should Chinese interests - for whatever reason - turn against Russia. But since Russia needs China more than vice versa, Moscow will be more willing than Beijing to regard this friendship as being with “no limits”.

¹ For more details, see “Xi and Modi ‘not standing with Putin’ over war in Ukraine, analysts say”, Financial Times, September 18, 2022.



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