

CHINESE MARKET AS THE MAIN DIRECTION FOR THE DEVELOPMENT OF RUSSIAN NON-PRIMARY EXPORT

Abstract: The article is devoted to the research of perspective directions of development of non-primary export from Russia to China in the current conditions of the digitalization of the world economy, including the framework of the project "One Belt and One Road". The existing potential of bilateral cooperation in the form of non-primary export of Russian goods to the PRC on the basis of high-tech products has been identified. The author has conducted a factor analysis of the development of this process and identified possible external threats which stand in the way of cooperation between these two countries.

Keywords: Non-primary development, Russian export, digital economy, high-tech products, Russia, China.

Introduction

The relevance of the research is explained by the fact that Russia and China are quite deeply involved in the global processes of innovative construction and the formation of the digital economy, however, the potential of their possible partnership in this area is only partially revealed. And the development of export of non-primary goods might become an effective incentive for the innovative growth of Russian industry, which will result in a reduction of international economic cooperation, where Russia predominantly acts as a raw material base for partner countries. At the same time, the People's Republic of China is one of the main geographical priorities for the external economic development of the Russian Federation, as it is the fastest growing consumer market in the world.

These issues, including the framework of the Silk Road Initiative, are being fragmentary studied by A.A. Kazantsev, I.D. Zvyagilskoy, E.M. Kuzmina, S.G. Luzyanin [7], Z. Marat [8], experts of the Russian Export Center [11] and the International Discussion Club "Valdai" [6]. The features of the modern economic model of China are explored by many domestic and foreign experts, in particular, Zhang Zhangbin [16], V.Yu. Salamatov, A.N. Spartak [2] and other authors. The use of digital technologies in the export of goods to China, as well as the implementation of high-tech exports are considered in the researches of such scientists as O.D. Andreeva, I.R. Gililov, N.O. Yakushev [13] and others.

However, the question of common development, leading to the diversification of Russian exports in favor of increasing the share of non-primary and high-tech goods with higher value-added, as well as more effective entry into the Chinese market, requires in-depth study to give the most perspective ways of the development. So the scientific novelty of the work consists in developing proposals for the balanced cooperation between the two countries in the sphere of Russian non-primary goods' export to China and joint work in the scientific and technical sphere carried out in the framework of this process.

Hypothesis

On one hand, Chinese-Russian trade relations are characterized by high rates of development and a high degree of complementarity of interests, but, on the other hand, an imbalance of forces and a lack of trust are observed. The most likely scenario for the further development of bilateral relations is harmonious and mutually beneficial development, taking into account the goals of all the involved actors and leading to the harmonization of the economic situation on the territory of Greater Eurasia and the Silk Road.

The development of non-primary goods' export from Russia to China will be reinforced and implemented on the basis of the linking of the SREB and the EAEU initiatives while strengthening cooperation in the creation of new technologies and high-tech goods.

Research methodology

To create a practical basis for writing this article, a large amount of statistical information and forecast data was processed. The information was taken from various Russian and foreign sources on aspects of bilateral trade between Russia and China and the impact of the increasing digital transformation of the global economy on this process.

The following methods were used: the methods of system analysis and synthesis, structural-logical, economic-statistical, comparative and retrospective analysis. A factor analysis of the characteristics of non-primary export to China was carried out. It is based on the characteristics of the domestic economic, political and social environment of the PRC. It is presented by a graphic model in the research. Finally, main external opportunities and threats for the development of Russian non-primary export to China were identified by a separate factor analysis.

Results and discussion

The main areas of non-primary exports from Russia in recent years are Europe, the CIS countries and the Middle East. East Asia, America and Africa are also of significant importance (Figure 1).

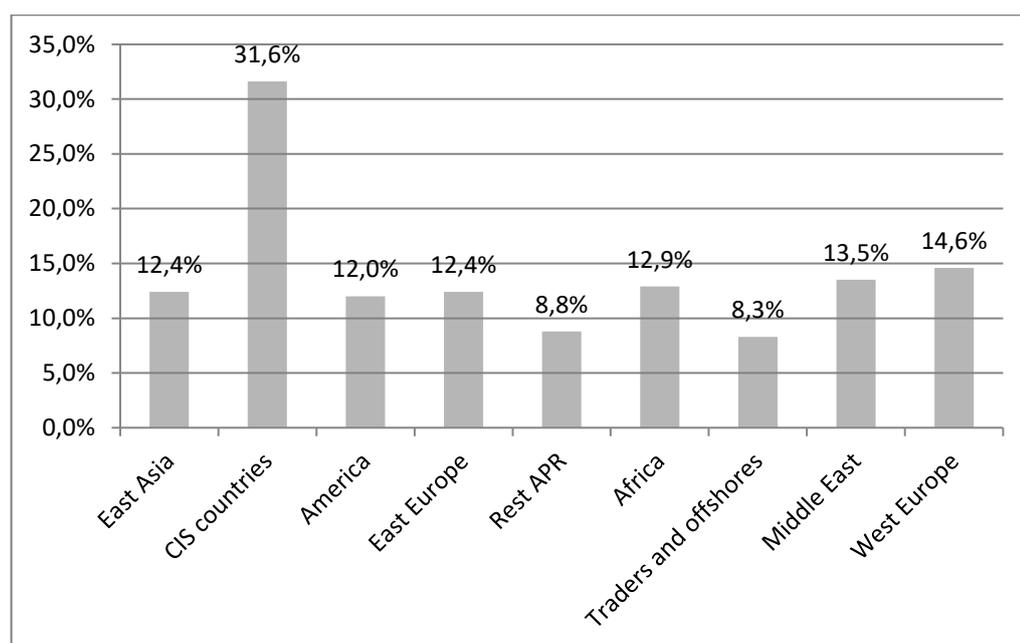


Figure 1. The geographical structure of Russian non-primary export in 2017 [11]

The main counterparties of Russia for non-primary non-energy export are China and Kazakhstan. Belarus, the USA and Turkey are also among the largest partners. Of course, goods are supplied to many other countries, such as Ukraine, the Netherlands, Germany, India, Egypt, Finland and others.

However while export to Kazakhstan or Belarus are growing on a fairly wide range of goods, export to China has only several growth points: engineering products, lumber, petrochemicals, seafood and other food and agricultural products.

The imposition of sanctions against Russia was a turning point when China became not only a global supplier, but also one of the leading consumers of Russian products (Figure 2).

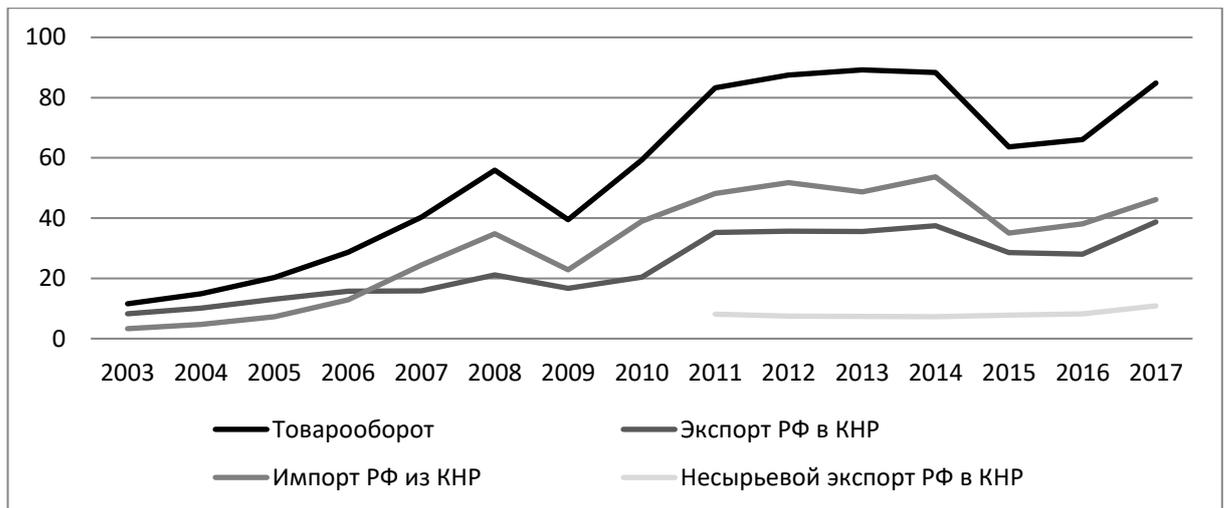


Figure 2. Dynamics of foreign trade of Russia and China in 2003 - 2017 (in billions of dollars)
 Compiled by the author on the basis of data from the Federal State Statistics Service and the Russian Export Center.

As for Russian goods, Chinese market is quite attractive for a number of factors. Firstly, the moment for entering the Chinese market is now extremely favorable. Economic growth in the PRC has slowed down and changed its quality - from a growth due to exports or investments, the country moves to the growth based on domestic consumption (Chin. «新常态», Xīn chángtài). A new, more mature and balanced economic model implies a move towards the development of consumption and the service sector, although foreign investment as a historical driver of China's growth will still have a significant share in the economy in the nearest future (Figure 3).

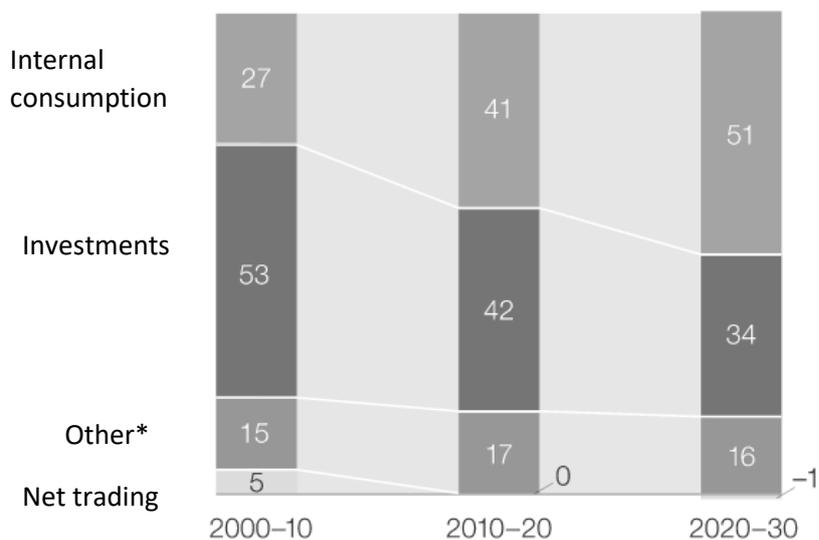


Figure 3. Structure of China's real GDP in 2000-2030 [14]**

* Includes government consumption and inventory investment;

** 2010 - 2030 data - estimated.

So, there are several main specific characteristics of the new economic model of China:

- a slowdown in economic growth for better quality GDP growth at a reasonable rate and with higher efficiency and sustainability;
- the shift of the core of economic development to the secondary and tertiary industries (technological production, service industry, high-quality investment products and consumer goods with high added value);

- growth in per capita income and reducing the gap between urban and rural areas - the transition to land ownership and large-scale agriculture;
- “export of goods” gives way for “export of capital” - an increase in the volume of resources, consumer goods and strategic products in imports. Possible massive export of capital will give China a stronger competitive advantage in the restructuring of global value chains.
- the middle class is the main consumer in the domestic market. It is expected that by 2020, about 600 million citizens will have an average level of income, while total expenditures will triple in relation to the 2010 figure. China’s demand in the world market and its purchasing power will steadily grow accordingly.
- small and medium enterprises and newly emerging industries may become new “engines of growth” in the country. Thanks to new industries such as e-commerce, Internet technologies and warehouse logistics, the traditional market and its forms of competition and business models will be changed, especially on the basis of lower transaction costs [16].

Thus, for the implementation of non-primary non-energy exports to China, attention should be paid to a number of the described above factors of development of the economy and business practices of the PRC, as well as some other trends that significantly affect the entire process of such interaction (Figure 4).

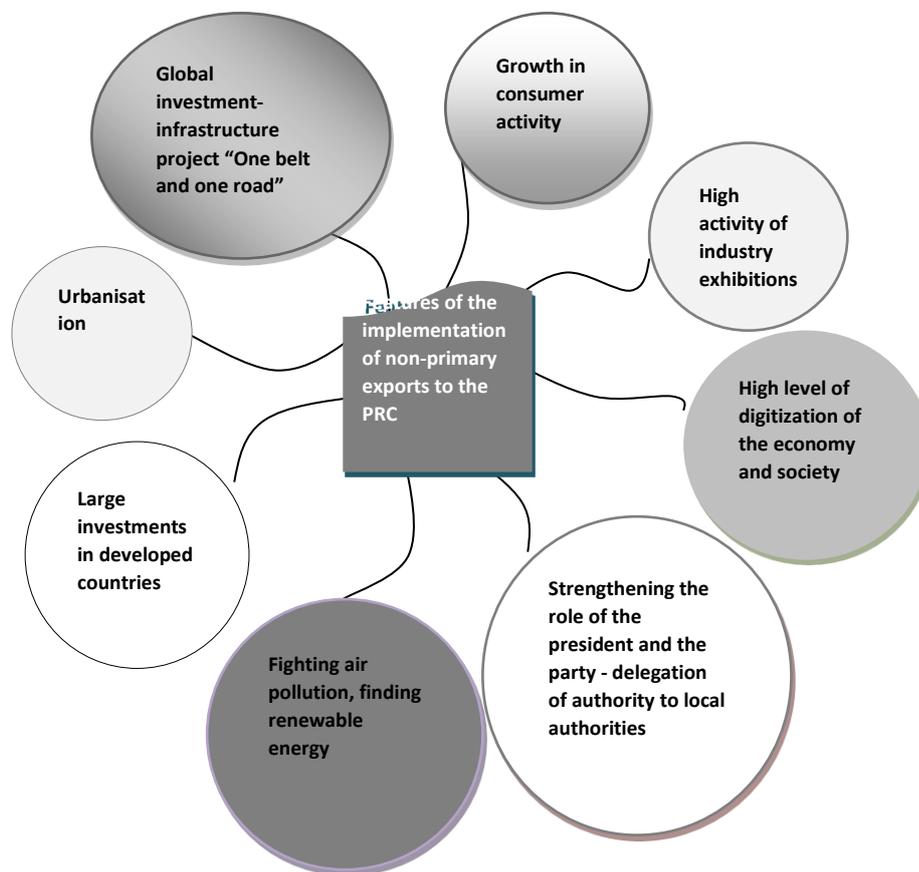


Figure 4. Map of the Chinese internal environment’s features important for carrying out of the Russian non-primary export Compiled by the author.

The basis of Russian export to China while still constitute low- or medium-tech products:

- mineral products;
- wood, pulp and paper products;
- cars and equipment;
- foodstuffs and agricultural raw materials;
- chemical products and some others.

Among technological goods, there is an export of turbines and industrial equipment, plastic products, secret goods [3], which are not goods with high added value as well.

It should be noted that the assessment of the knowledge-intensiveness of products is becoming more and more strict every year, and the global level of technological development is growing. This makes the process of creating high-tech products even more complex. But it is important to remember about the implemented strategy of cooperation between countries in linking together the construction of the EAEU and the SREB initiatives. Therefore, the prospect of supplying non-commodity goods to the Chinese market is explained not only by the development of transport, logistics and trade areas of cooperation, but also by the potential for successful integration into global value chains in high-tech areas, where R & D costs in production make up a significant share in sales of this product. So, in the fields of space, computer, bio-, nanotechnologies, in nuclear power engineering and jet engineering, the joint development of promising products is extremely promising [12].

It can be assumed that such cooperation with the People's Republic of China will be carried out on the basis of Russian educational and scientific organizations, their employees and Chinese capital. And many inventions will find demand precisely in the capacious market of China. A successful example of such cooperation is the creation of data centers in Irkutsk region by the En + Group and HUAWEI companies to provide cloud services in Russia and Asia [4]. From an organizational point of view, such cooperation at the state level can be implemented within the border areas of economic and trade cooperation, as well as in innovation and technology clusters alongside the Silk Road, where products of joint Russian-Chinese cooperation will be created with the implementation of the latest achievements of scientific and technological revolution, personnel and other resources [5].

No doubt that such cross-border cooperation and work on the integration of strategically important national initiatives are associated with certain challenges and risks. In particular, the following can be noted:

- increased competition between Russian and Chinese companies selling their products on the common market of the EAEU countries;
- further deepening the orientation of the economies of Russia and the countries of the EAEU towards the supply of resources in relations with the PRC;
- aggravation of the issue of economic and political security from the point of view of protecting the sovereignty of the country.

However, the implementation of this project will not only realize the strategically important advantage of the geographic location of the EAEU countries and improve the transport infrastructure, but also more effectively counteract discrimination in world commodity markets, gain access to Chinese capital, and also increase the competitiveness of Russian companies in third countries based on Chinese capital and collaborative technology.

It is also important to notice the high degree of development of electronic trading platforms in China. For several years, online trading platforms (Taobao, Aliexpress, TMall, etc.), which provide access to production, logistics, distribution and payments for the most numerous entrepreneurs in China - small and medium businesses, - have been the driving force behind the development of trade. They connect small and medium-sized enterprises with a consumer base, and provide a significant competitive advantage over large state-owned enterprises. So such a trade model is understandable for Chinese consumers, and we can make an assumption that when creating a digital export platform in Russia, the bulk of purchases will likely be made from this market.

So far, consumers from China occupy only the 13th place in the geography of online buyers of Russian non-energy products, - 13% of the market share [10]. And this tendency can be explained by the language barrier, significant differences in consumer preferences of buyers in Asia and the supplied Russian goods, as well as the high degree of development of e-commerce in the domestic market of China itself.

The close interaction with China and its customers infrastructure, customs, technology and even financial integration are important. In the longer term it is likely to require the development of an unified software, operating system and close cooperation in the field of information security. Nevertheless, if the growth of the Russian economy is internally ensured, the linking of the SREB and the EAEU initiatives, including electronic platforms, will lead to the attraction of high technologies and investments in the real economy.

We need to understand that the above mentioned developing projects will not independently launch high-quality economic growth in Russia. Only under the conditions of an effective regulatory state policy on the development of the Russian industry and its digital infrastructure, this cooperation can really become an important factor in the development of the Russian economy.

At the present stage of development of bilateral relations between Russia and China, there is a strengthening of their interaction on many issues, which leads to deeper cooperation and a strategically important partnership even in sensitive areas for both countries. Trade relations between the PRC and the Russian Federation are characterized, on the one hand, by high rates of development and a high degree of complementarity of trade interests, and, on the other hand, by an imbalance of forces and a lack of trust (Table 1).

Table 1. Factor analysis of the development of non-primary export from Russia to China

«Window of opportunities»	Challenges
Increased demand for high-quality consumer goods due to an increase in the capacity of the Chinese market	Balancing the benefits from the interaction of Russia and China
Initiative to integrate the EEU and the Silk Road Economic Belt	The need to move from exporting basic, including agricultural, products to high value-added goods
Growth drivers: machinery and equipment; agriculture and food; wood products	Increasing competition in world food and other consumer goods markets
Electronic platforms and marketplaces	Complexity of tariff and non-tariff regulation
Stagnation of demand in the domestic market of Russia, which is an incentive to search for exits to foreign markets for small and medium-sized businesses	Implementation of intellectual property rights protection in China
	Insufficient financing of export support institutions in Russia

The main drivers of the development are the engineering industry and the agriculture and food industry. Among the machines and equipment exported to China, the main role is devoted to jet turbines, power and agricultural equipment. The main obstacle in the way of most products of this group is the high competition from highly developed countries: Japan, Taiwan, South Korea, the USA and the EU.

If we talk about the export of agricultural products and food, then, of course, we should highlight the agricultural sector (wheat, soybeans, corn, leguminous vegetables, grain processing residues) and animal products, oils, cereals and confectionery. There are also a large number of competitors in the supply of these goods to the Chinese market both in Asia and in the distant to China foreign countries.

However, the process of exporting food is also complicated by the fact that China has one of the most complex certification systems in the world. Also the tariff barriers are still applied to this type of products. For example, the highest protective duties are used in relation to the following sections of the commodity nomenclature relating to food:

1. live animals and goods of animal origin;
2. herbal products;
3. fats and oils of animal or vegetable origin and their cleavage products, prepared edible fats, waxes of animal or vegetable origin;

4. prepared foods, alcoholic and non-alcoholic beverages and vinegar, tobacco and its substitutes [2].

The above limitations raise the issue of increasing support for food and agriculture exports from the relevant Russian institutions. It can be:

- consulting services on existing barriers, marketing, branding, search for distribution channels, etc .;
- activation of trade missions;
- export lending and insurance;
- provision of state guarantees.

In addition, exported agricultural, food and other types of Russian products are often characterized by a low level of processing and, accordingly, low added value. New technologies are always the main driver of increasing the added value, which is also reflected in the “flying geese” paradigm as one of the final stages of diversification of production and development of the industrial cycle towards investment products.

Therefore, the innovative development and development of high-tech products in the strategically important for China areas: energy, biotechnology, medicine - can simultaneously become a driver for the growth of non-primary non-energy export from Russia to China and for increasing Russia's share in the global gross value added.

So far, high technologies still are not the basis for interaction between the two countries, and the imbalance of the forces of the considered economies can be noted. This leads to the issue of harmonization of interests on the territory of Greater Eurasia and the so-called “balance of dependence” in regional integration.

Of course, the obvious threat is the strengthening of the raw material orientation of the economy and the transit function of Russia in trade relations with the Chinese side. And while maintaining the existing trends of cooperation, the role of the PRC will gradually grow, the economic imbalance will increase, which will lead to an expansion of China’s presence in the Russian market.

Another development direction is also possible - a significant deterioration in bilateral relations due to the strengthening of external threats (Table 2).

Table 2. Main external threats to the development of Russian-Chinese cooperation

Russia	China
Conflict of the West and Russia on the balance of power on the world stage	US trade wars
The use and strengthening of sanctions against Russia by the West	Territorial disputes on the issue of maritime borders with Japan, Vietnam, the Philippines
Terrorist actions on the territory of Russia and Europe	Complication of the problem of the Korean Peninsula
Complication of the problem of the Korean Peninsula	Introduction of US ships in the South China Sea
The crisis of the European Union as a single economic space	Restraining Europe of the development of the Silk Road Economic Belt Initiative

So, under the most negative set of circumstances and the confrontation of the economic development models of both countries, we can assume that China will try to realize its advantage in the Far East and Siberia, aimed at the constant use of Russia's energy and natural resources.

Of course, Russia and China are already facing or may face serious external challenges in the near future, and the situation at the moment is characterized by foreign policy instability.

The basis for preventing the possible negative impact of these economic and political threats in Russia will be an effective regulatory domestic policy for the development of Russian industry, import substitution and non-primary non-energy export.

The answer of China is the already implemented shift towards the development of the domestic economy, the consumer market and the growth of the population’s standard of living. It is very likely that the authoritarian model of government and the role of the party in the life of society will continue to strengthen. And, of course, from both countries requires the adoption of additional measures to ensure the internal security of the regions.

However, in comparison with the imbalance of the economic forces of Russia and China, the existing system of international relations, headed by the United States, is more clearly characterized by asymmetry of economic dependence [6]. Therefore, in the opinion of the author, the most likely scenario for the development of relations between China and Russia consists in harmonious and balanced deepening of interaction on political, economic and cultural issues.

The main goal of Russia's foreign economic policy today is the revival and strengthening of its international positions based on the growth of the domestic economy. At the same time, China is committed to building partnerships on a global scale based on the co-development of the countries of the world. These strategically important goals do not contradict each other, and the presence of an active bilateral dialogue and external pressure, especially from the United States, offer the potential for cooperation.

Such a path of development and cooperation implies recognition of China as a geo-economic leader in the diversification of large-scale partnership based on mutual benefit, where each participant has a win. In terms of game theory, such a situation is a characteristic of the “Nash equilibrium,” when each participant in the game uses his ideal strategy, any change of which will only worsen his position, which leads to the creation of a stable equilibrium [15].

Integration processes in the territory of Greater Eurasia should be based on the multilateral interest of most major powers to maintain the internal balance of power. And the EEU can become such a tool for restoring symmetry in relations with China, on the one hand, and the EU, on the other. Russia's position in the EAEU balances China's economic power. A single customs zone of the EEU, standards and legislation increase the attractiveness of the region for conducting trade activities and carrying out transit operations.

The issue of the power balance is also important on a global scale against the crisis of overproduction, the dominance of speculative financial operations, large-scale pollution of the environment and social inequality. Therefore, in addition to mutual benefits, harmonious cooperation between Russia, China and other countries of the world should also be based on the concepts of sustainable development, high-quality long-term progress, decentralized energy, ethical investment, etc.

Returning back to more practical issues the main trend of further development of China, which also affects the types of imported goods, is the modernization of the national manufacturing sector. Nowadays China is implementing the first 10-year plan under the program “Made in China 2025” (Chin. 中国制造 2025). The plan defines nine priority areas:

- increasing the innovative potential of the manufacturing industry,
- increasing the level of integration of information technology and industry,
- strengthening the capacity of basic industries,
- activation of the process of formation of Chinese brands,
- comprehensive introduction of “green” production,
- ensuring breakthroughs in the development of ten key industries,
- deepening the restructuring of the manufacturing sector,
- active development of service industries and production services,
- increasing the internationalization of the manufacturing sector [1].

Russia also has a program with the same name “Made in Russia”. But it is, to a greater extent, aimed at creating an export brand for the recognition of Russian goods abroad, taking into account the characteristics of the importing country.

The priorities for increasing the innovation potential of the Russian economy are defined in the framework of the National Technology Initiative, which includes:

- identification of new markets, including the main drivers of demand, key market niches and possible types of products and services that will fill these niches;
- identification of key technologies that will create products and services in new markets;
- a set of support and incentive measures, including institutional, financial and research tools, allowing to grow national champion companies in new markets [9].

The above named projects of the two countries can become a strategic basis for their further cooperation, since these initiatives are aimed at finding the most effective solutions in the context of the digital transformation of the economy. Technological cooperation between Russia and China will help not only to intensify bilateral exports of high value-added goods, but also to move towards more sustainable production, high-quality long-term growth, co-development and a more equitable balance of forces in the global economy.

One of the effective components of such a partnership could be the development of a youth initiative for linking programs Made in China 2025, Made in Russia and the National Technology Initiative of Russia. When implementing multilateral support by the governments of the two countries, qualitatively new and breakthrough technologies can be created by young scientists and specialists on the basis of higher educational institutions in Russia and China, especially within the framework of building the Silk Road Economic Belt. At the same time, digital technologies can play the most important role of the organizational infrastructure of this process - in the form of electronic platforms that accumulate ideas, projects, roadmaps for their implementation, direct development, as well as information base and consulting assistance from experts.

Credits

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