

## **The route choice of optimizing Sino-Russian goods trade**

**Abstract:** Both China and Russia are big developing countries. In 2018, the trade volume between the two countries is expected to reach or exceed 100 billion US dollars. However, in general, the goods trade of the two countries is not high, the degree of intra-industry trade is low, the structure is long-term single, and mainly occurs in resource-intensive and labor-intensive sectors with low added value. This paper attempts to solve the specific problems and propose a feasible path to further optimize the trade of goods between the two countries, and to create favorable conditions for promoting the process of Asian-European economic integration and the multi-polarization of the world economy.

**Keywords:** optimization, Sino-Russian trade in goods complementarity, unity.

### **1. The two countries' goods trade presents two major characteristics**

#### **Feature 1: The overall volatility rises but the scale is still limited**

After China's accession to the WTO in 2001, the development of foreign trade accelerated, and the total volume of Sino-Russian trade in goods showed a volatility (see Figure 1). Since 2005, Sino-Russian trade in goods has grown at an average annual rate of 19%. In 2009, affected by the financial crisis, Sino-Russian trade in goods showed a negative growth of 30.7%, and the trade volume was only 38.14 billion US dollars. However, in 2010, it basically recovered to the pre-crisis level, reaching \$57.06 billion. In 2011, it was 72.33 billion US dollars, and in 2012 it increased to 75.09 billion US dollars, far exceeding the pre-crisis scale. In 2015, it was affected by the international economic downturn and oil prices under 28.1%. It resumed development in 2016, reaching \$86.96 billion in 2017. From January to May this year, the bilateral trade in goods between China and Russia was US\$40.83 billion, an increase of 31.4%. Among them, Russia's exports to China were US\$21.21 billion, up 42.9%; Russia's imports from China were US\$19.62 billion, up 20.9%. Trade growth ranks first among China's major trading partners. It should be said that both in the long run and from the current development situation, the growth trend of the trade in goods between the two countries is very obvious. However, compared with the scale of trade between China, the United States, China and Japan, especially the good political interaction between China and Russia, the annual trade volume of less than 100 billion US dollars is still insufficient.

#### **Feature 2: The trade structure is single and long-term solidification**

For a long time, Russia's exports to China have been dominated by resource-based commodities. Mineral products, wood and products, and chemical products are the top three categories of Russian exports to China, with mineral products accounting for the largest proportion. The top three categories of Russian imports from China are mechanical and electrical products, textiles and raw materials, base metals and products, of which mechanical and electrical products account for the largest proportion. Statistics show that China's crude oil imports from Russia reached a record high in 2016. Russia has become China's largest source of crude oil imports, the largest source of electricity imports and the fifth largest source of coal imports.

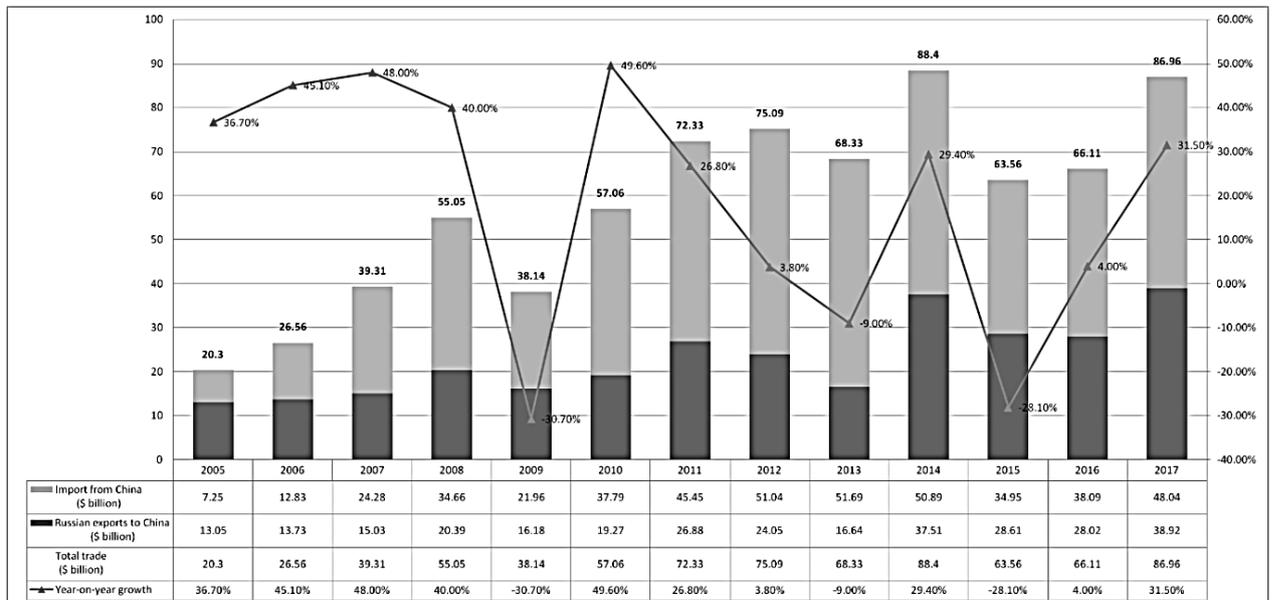


Figure 1. China-Russia trade in goods in 2005-2017. Source: Russian Customs

## 2. The main cause of the problem

### 2.1 The industrial product structure of both parties is complementary and singular

The structure of import and export commodities of China and Russia basically reflects the characteristics of their respective industrial product structures and their comparative advantages, and fully reflects the complementarity of the economies of the two countries. But it is worth noting that if the two sides are only satisfied with this inherent complementarity, it is possible to lose more and better development space.

In terms of resource endowments, China and Russia have enormous differences and strong complementarities. In addition to its rich oil and gas resources, the Russian side is also rich in mineral resources. China is rich in labor resources. Russia is in a leading position in basic scientific research, and China is more prominent in the use of scientific and technological achievements. Russia's industrial structure is relatively simple, and its manufacturing industries such as light industry, electromechanical and consumer goods are weak. Although it has a relatively strong heavy industry base, its technology and equipment are generally aging. China is a veritable "manufacturing power". The output of more than 220 kinds of industrial products ranks first in the world, and the net export of manufacturing ranks first in the world. The added value of manufacturing industry accounts for 20.8% of the world.

From the perspective of the structure of bilateral trade in goods, on the one hand, China's exports to Russia are mainly textile yarns, fabrics and their finished products, labor-intensive goods such as clothing and clothing accessories and shoes, and capital-intensive products mainly revolve around general industrial machinery. Instruments and equipment such as equipment and machine parts, in general, China's exports to Russia have lower added value. On the other hand, Russia's exports to China are mainly petroleum-based resource products. The trade between the two countries has long been a resource-intensive and labor-intensive exchange of inter-industry trade. The degree of intra-industry trade is very low and the structure is relatively stable. This model As a result, there has been no new growth point in the long-term trade between the two countries, and it is impossible to achieve longer-term development space.

### 2.2 The willingness and ways of mutual trust and cooperation between the two countries need to be further strengthened

Compared with the enthusiastic situation of high-level political interaction between the two countries, there are still problems such as insufficient subjective will and insufficient path methods for non-governmental exchanges, especially economic exchanges between the two countries. For example, it is necessary to fundamentally change the impression that the Chinese people formed "low quality and low price" in the early stage of border trade, and it really needs a process. It is

necessary to continuously improve understanding, enhance mutual trust, and constantly enhance the actual recognition.

### **2.3 Lack of more effective mechanisms and means to transform political interaction advantages into economic interaction advantages**

There is a more successful case. In 2006, Russia's exports of mechanical and electrical products to China were only 270 million U.S. dollars, a significant difference from China's exports to Russia of 6.38 billion U.S. dollars. In order to solve the problem of balanced development of trade in mechanical and electrical products between the two countries, during the Russian President Putin's visit to China in March 2006, China hosted the "China-Russia Economic and Business Summit Forum" and set up a sub-forum of mechanical and electrical products. The relevant government departments of the two countries indicated that they will take various measures to increase support for enterprises to expand Russia's exports of mechanical and electrical products to China. During the China National Exhibition held in Moscow in March 2007, the China Electromechanical Chamber of Commerce organized more than 100 domestic enterprises to negotiate in Russia, signing the import contract value of mechanical and electrical products amounting to 509 million US dollars. Since 2015, mechanical and electrical products have become the third largest category of Russian exports to China. In 2017, Russia's exports of mechanical and electrical products to China rose to 2.191 billion US dollars. The current problem is that the effectiveness and sustainability of such operational models have yet to be tested; second, the long-term stable operational mechanism from political interaction to economic interaction has not yet taken shape. Therefore, it is difficult to see results in the field of material trade.

### **3. Related countermeasures**

Under the background of the current anti-globalization trend of thought, trade protectionism, and unilateralism, further optimize the structure of Sino-Russian trade in goods, expand the scale of trade, effectively deal with Sino-US trade frictions, and impose sanctions on the Russian economy by the United States and other Western countries. It is of great significance to continuously expand economic and trade cooperation between the two countries and work together to build a community of human destiny. Specific measures can be considered from the following aspects:

#### **3.1 Research to establish a long-term operational mechanism from political interaction to economic interaction**

On the basis of good political and diplomatic exchanges between governments, a relatively stable economic interaction platform and mechanism will lay a solid foundation for the development of foreign trade relations between the two countries. It is necessary to encourage research institutions and think tanks of the two countries to strengthen cooperation and strengthen cooperation in top-level design of industry development, so as to realize the effective connection between the "Chinese Dream" and Russia's "Strong Country Dream" and "One Belt and One Road" construction and the construction of the Eurasian Economic Union. On the basis of the remarkable achievements in the cooperation of strategic large projects between the two countries in recent years, we should give full play to the positive role of the "One Belt, One Road" International Cooperation Summit Forum, the China-Russia Expo, the St. Petersburg International Economic Forum, and the Eastern Economic Forum, and make it a booster. An important platform for pragmatic cooperation between the two countries.

#### **3.2 Promote mutual trust and cooperation with the influence of government cooperation**

On the basis of national-level theme activities such as the "Year of the Country", "Year of Language", "Year of Tourism", "Year of Youth Friendly Exchange" and "Media Exchange Year", the two countries will focus on "Chinese and Russian places". "Cooperative exchange year" to achieve "full coverage" of local cooperation areas and regions. It is necessary to sum up the successful experience of local cooperation under the two mechanisms of "Northeast-Far East" and "Yangtze-Volga River", and actively build various platforms to create favorable conditions for exchanges and cooperation between Chinese provinces, autonomous regions, municipalities directly under the Central Government and Russian federal entities. At the same time, local

cooperation and cultural exchanges in the fields of education, scientific research and tourism should be continuously increased to consolidate the foundation of mutual trust and cooperation.

### **3.3 Promote the construction of China-Russia free trade zone in an orderly manner**

The establishment of a Sino-Russian free trade zone is of great significance to the long-term stable development of the economic and trade relations between the two countries in terms of realizing the effective connection between the strategy of revitalizing China's northeast region and the development and construction strategy of the Russian Far East. As far as the specific strategy is concerned, we must first grasp the construction of the comprehensive bonded zone. This is an important condition and key link for promoting Sino-Russian trade liberalization.

### **3.4 Focus on cultivating new cargo trade growth points**

From the perspective of economic structure, both countries have problems in further optimizing the industrial product structure to expand export growth. For example, trade in agriculture in the two countries, especially food trade, has become a new growth point for bilateral trade. In 2017, China imported more than US\$3 billion worth of food from Russia, accounting for 11% of Russian food exports, making it the largest importer of Russian food. Since 2017, China's Shandong Wuyuan Apple and Shouguang Vegetables have also entered the Russian supermarket.

In addition, as far as the export products of the two countries are concerned, further improving product quality, strengthening after-sales service, and effectively solving the issue of integrity are also important growth points.

### **3.5 Promote trade development with infrastructure construction**

Russia is an important country along the “Belt and Road”, and the trade in goods between the two countries mainly relies on railway transportation. On the basis of the good operation of the China-Europe team, we will speed up the construction of important projects such as the Tongjiang Railway Bridge and the Heihe Highway Bridge, and strive to create an international transportation corridor for land and sea transportation, which will create more favorable conditions for the development of foreign trade between the two countries.

### **3.6 Continuously strengthen trade and investment facilitation cooperation**

It is necessary to pay attention to Sino-Russian non-tariff trade and investment barriers, and make full use of the intergovernmental consultation mechanism to achieve trade and investment facilitation cooperation in the areas of customs clearance, commodity inspection and quarantine, food safety, and quality standards. It is necessary to strengthen customs clearance supervision such as multimodal transport and logistics, and effectively improve customs clearance efficiency. In the financial sector, it is important to promote the facilitation and cooperation of settlement methods. Specifically, it can be started from the direct exchange of border banks between the two countries and the further improvement of the settlement of Sino-Russian local currency. It is necessary to establish financial institutions through the two countries to achieve direct exchanges between the border banks of the two countries, and minimize risks such as settlement and exchange of funds for trading enterprises.

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