

## **IMPROVING BALANCE: RECENT TRENDS IN RUSSIAN MERCHANDISE TRADE WITH CHINA AND EUROPEAN UNION**

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European Union and China are the key trading partners of Russia. On the one hand, this fact leads to permanent seeking for optimal balance between China and EU in Russian export policy. On the other hand, European and Chinese merchandises compete in Russian market. This paper analyses the recent shifts in the shares of China and EU in Russian foreign trade and discusses the perspectives.

### *Before crisis*

Below I consider three time periods, the last years before global financial crisis, the crisis as such and the recovery. In the first period, the permanent growth of China's share in Russian foreign-trade turnover masked the opposite changes in export and import (see table 1).

Table 1

### **Percentage of China and EU in Russian foreign trade in merchandises**

	2005	2006	2007	2008	2009	2010	2011	2012 (Jan.- June)
<b>China</b>								
Export	5.4	5.2	4.5	4.5	5.5	5.1	6.8	7.2
Import	7.4	9.4	12.2	12.6	13.6	17.0	15.8	16.1
Turnover	6.0	5.2	7.3	7.6	8.4	9.5	10.2	10.3
<b>EU</b>								
Export	55.3	58.7	55.8	56.7	53.3	53.3	51.6	53.5
Import	44.2	44.7	43.7	42.1	44.9	41.7	41.8	41.6
Turnover	52.1	54.3	51.4	52.1	50.3	49.0	48.0	49.6

Source: Calculations on the basis of Russian Federal Customs Service data <http://customs.ru>

During this period Russian merchandise export to China increased slower than to EU and to the world in total; the indexes (2008 to 2005 in current dollars) amounted correspondingly 1.62, 1.99 and 1.94. Percentage of China in Russian

export tended to decrease while that of EU revealed the fluctuating growth. The constraints of Russian export to China in this period are well-known and include the poor oil and gas transport infrastructure, the controversy on gas export prices, the energy security concerns.

In contrast to merchandise export, index of Russian merchandise import from China (2008 to 2005 in current dollars) amounted to 4,79 and leaved far behind the corresponding values for EU (2.67) and the world in total (2.81). The leading increase of Russian merchandise import from China resulted from the rapid growth of both economies in the period. Economic upsurge in Russia contributed strongly to the incomes of low and low middle strata of Russian population and expanded their demand for relatively cheap Chinese goods.

#### *Global financial crisis*

Global financial crisis resulted in the marked shifts in the balance between EU and China in Russian foreign trade. In contrast to previous period share of China in Russian merchandise export increased from 4.5 per cent in 2008 to 5.5 per cent in 2009 while EU share shrunk from 56.7 to 53.3 per cent. This change was mainly resulted from macroeconomic reasons.

The crisis changes dependence of the change in Russian export to given country on this country GDP growth rate. In contrast to the previous period export strongly depended on importers' real GDP growth rate (table 2). As known, due to increasing inner demand China could largely decouple itself from the global financial crisis; in contrast to dramatic slump in the most of the world, GDP of China continued to growth. Moreover growing export to China helped many Asian economies to compensate partly the losses caused by recession in U.S. and Euro zone. Also, as statistical analysis shows the main world importers' y-o-y import growth rate in 2009 correlated strongly with their real y-o-y GDP growth rate ( $r=0.73$ ,  $\alpha=0.02$ ). Thus increasing of Russian export in China was in line with global macroeconomic context. So, the lesson of the crisis was that to decouple the

crisis one must expand the choice of importers. For Russia this lesson is urgent up to date because of constant threat of crisis in Euro zone.

Table 2

**Some linear regressions for yearly growth rate of Russian export to the given country (y) on yearly growth rate of this country real GDP (x)\***

Current year	Basic year	<i>a</i>	<i>b</i>	$R^2$	<i>F</i> -test significance level
2008	2007	44.08	-0.75	0.08	0,424
2009	2008	-31.95	0,82	0,46	0,022
2011	2010	16.55	3,97	0,57	0.007

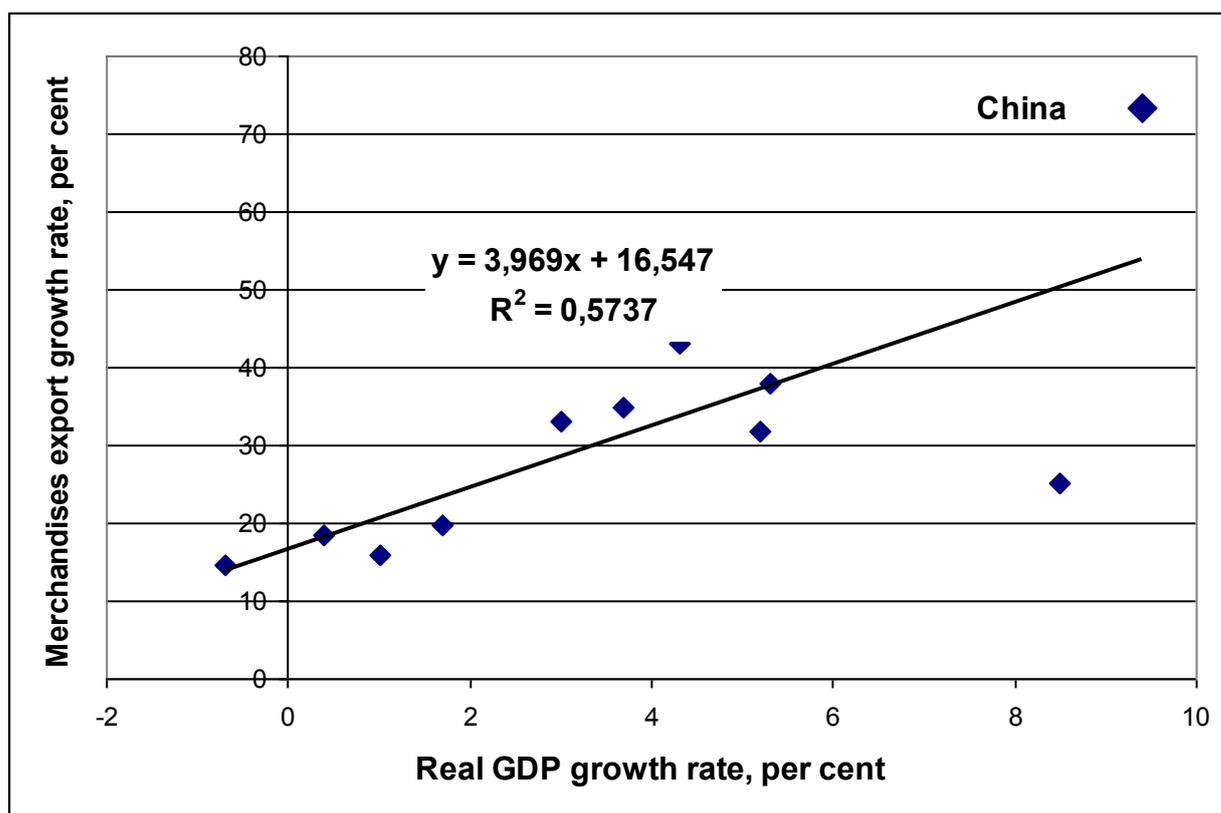
\*Calculated for the set of the countries which are the main foreign trading partners of Russia

*Recovery*

In the late 2010 the crude oil pipeline Skovorodino-Dazin with the yearly transporting capacity of 15 million metric tons was launched. This resulted in the leap of Russian export to China in 2011; the growth was 73.3 per cent y-o-y that contrasted with only 26.0 per cent growth of Russian export to EU and 30 per cent to the world in the total. Also, ‘Amurskaya – Heihe’ overhead electricity transmission line was launched. Due to this hike China was in some sense an outlier in Russian merchandise foreign trade since the growth rate of Russian export to China was higher than it could be expected on the basis of general macroeconomic considerations described by linear regression (see figure 1).

In the first half of 2012 the growth of Russian export to China overturned once more that of to EU (correspondingly 15.8 and 8.9 per cent as compared with the first half of 2011). In the period of recovery import from China increased faster than that of from EU and in 2011 was 2.11 times the 2009 import, while from EU only 1.69 times. This trend continues in the first half of 2012; the corresponding indices (related to the first half of 2011) amounted 1.095 and 1.039. According *Lebanon Daily Star*, which refers to Bloomberg calculations, China’s crude oil import from Russia amounted in the first seven month of 2012 500,000 barrels a day and exceeds Iranian shipments (400,000 barrels a day).<sup>1</sup> I

<sup>1</sup> <http://www.dailystar.com.lb/.../186322-russian-oil-exports-to-china-exceed-shipments-from-iran.ashx>

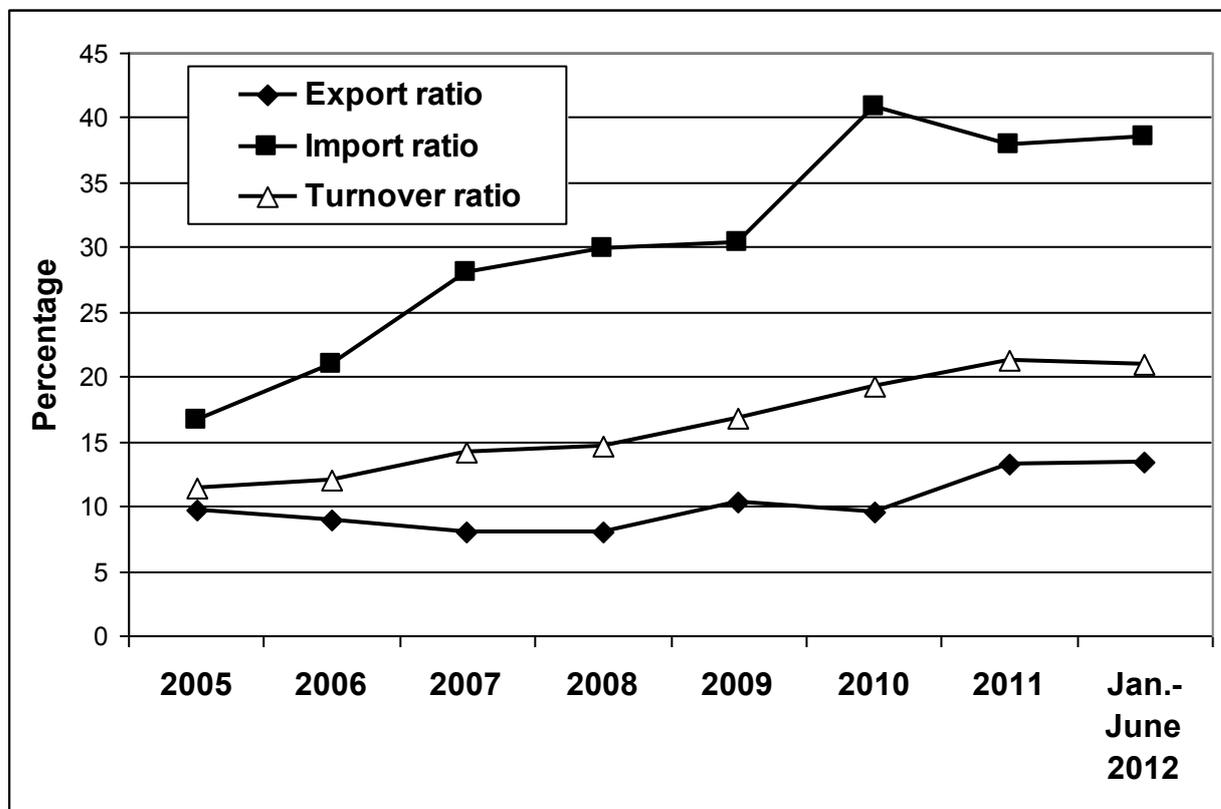


**Fig. 1. Dependence of Russian merchandise export growth rate on real GDP growth rate (2011 to 2010)**

*Conclusion: general tendencies and perspectives*

Statistical analysis shows the upward trend of China/EU ratios in Russian export, import and turnover in the period in question (see figure 2). In 2005 the shares of China in total export, import and turnover amounted 5.4, 7.4 and 6.0 per cent, in the first half of 2012 they reached correspondingly 7.2, 16.1 and 10.3 per cent. On the contrary, the EU shares in Russian export reduced from 55.3 to 53.5 per cent, import from 44.2 to 41.6 per cent and turnover from 52.1 to 49.6 per cent. According official Russian statistics, in the first half of 2012 China with its 10.3 per cent in Russian merchandise turnover was the second largest Russian trading partner after the Netherlands (10.5 per cent) and passed ahead Germany (9.0 per cent). Nevertheless, the specificity of Russian statistics which classifies a lot of merchandises transited through the Netherlands as Russian export to this country should be taken into consideration. Also, a shadow import from China is likely underestimated. At last the share of Hong Kong (0.2 per cent) which is calculated

by Russian statistics separately should be added. It means that practically China becomes the world largest trading partner of Russia. At the same time the volume of Russian foreign trade with China is still significantly less than with EU countries in the total.



**Fig.2 Russian merchandises export, import and turnover with China as percentages of those with EU in 2005-2012**

The macroeconomic background for the further shifts in Russian foreign trade with China and EU in favour of the former is auspicious. China's GDP growth rate exceeds constantly that of EU. This in its turn leads to the rapid growth of China needs in energy. On the other hand, Chinese goods meet increasing competition in the developed market. In the third quarter of 2011 the shares of Chinese export to U.S., EU and Japan decreased by 1.3, 1 and 0.6 percent points correspondingly. According Chinese officials, in 2012 Chinese foreign trade will meet the hardships caused by increasing competition and limited demand.<sup>2</sup> It means that Russian market preserves its attractiveness for Chinese exporters.

<sup>2</sup> Газета «Жэньмин Жибао он лайн» 11 янв. 2012г.  
<http://russian.people.com.cn/31518/7702006.html>

In the recent APEC summit in Vladivostok Russian President V.Putin emphasized the role of China as the main trading partner of Russia. According Russian vice-premier I.Shuvalov, Russia will try to reach 50 per cent share of APEC in its foreign trade.

Geopolitically both Russia and China are interested in increasing Russian energetic export to China. For China such increasing allows to reduce the risks connected with political tensions around Iran and the sea shipments in general. Russia in turn is interested to secure its oil and gas demand against the instability in Euro zone and eventual political tensions with the West. The successful start of the new 'Skovorodino-Dazin' pipeline became the new practical argument in favour of further developing of Sino-Russian energetic co-operation.

At the same time the favourable macroeconomic and geopolitical background for co-operation cannot increase China's share in Russian foreign trade spontaneously. Statistical analysis shows that the pronounced positive changes in the share of China in Russian merchandise export occurs only when the large-scale joint project are realized. In addition, during the last one and a half year the share of China's import in Russian market stop increasing; the saturation of Russian market by Chinese goods cannot be excluded. Thus the further shift in favour of China in Russian foreign trade will require the intensive work both at governmental and private levels.