

An overview of China's economic relationship with Russia

YOHEI NOSE
ECONOMIC RESEARCH OFFICE

MUFG Bank, Ltd.
A member of MUFG, a global financial group

21 APRIL 2022

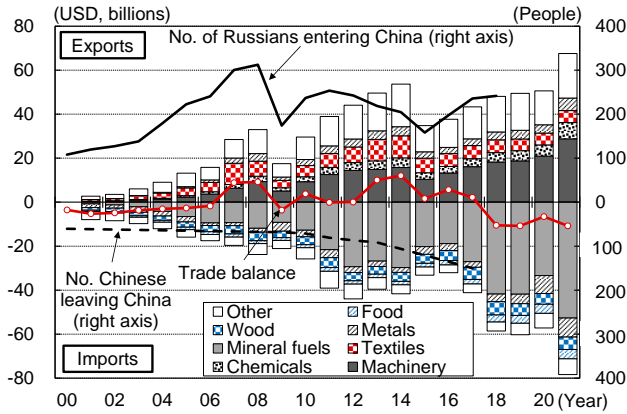
(ORIGINAL JAPANESE VERSION RELEASED ON 1 APRIL 2022)

In response to the crisis in Ukraine, major developed countries imposed economic sanctions on Russia on an unprecedented scale. Although China said “China does not want to see the situation in Ukraine to come to this (sic)” (President Xi Jinping on a virtual call between China and the US), it is keeping some distance between itself and economic sanctions: “sweeping and indiscriminate sanctions would only make the people suffer” (Xi Jinping).

With this in mind, we will review current economic relations between China and Russia. First, trade shows that China accounts for around 20% of Russia's total amount of trade and it is Russia's largest trading partner after the EU (2021). In contrast, Russia only accounts for 2.4% of China's trade, yet the scale of trade between the two countries has risen year after year and it appears Russia is also an important trading partner for China. Major items of trade are “machinery” (China to Russia) and “mineral fuels” (Russia to China), with the total of both items accounting for more than half of total trade (Chart 1). In particular, the share of China's fossil fuel imports produced by Russia is high, and Russia is in the top three countries for China's imports of coal, oil and natural gas respectively. Demand for natural gas in China has increased in recent years given its environmental impact and, since the first pipeline between China and Russia (Power of Siberia) was opened in 2019, there has been a marked rise in China's imports of natural gas (Chart 2). Following talks between China and Russia's leaders in February, China announced it would increase its imports of natural gas and multiple plans are currently underway for developing new pipelines, which means trade between the two countries is forecast to increase further. On the back of this trading relationship, the two countries also have a cooperative relationship in terms of finance; since 2018, the Central Bank of Russia has been adding RMB to its foreign currency reserves and both countries have maintained the currency-swap agreement they signed in 2014 (worth RMB 150 billion). On the other hand, their relationship in terms of investment shows the scale of direct investment and securities investment is limited in both directions (less than 0.1% of nominal GDP for both countries). Currently, there appears to be no marked acceleration investment.

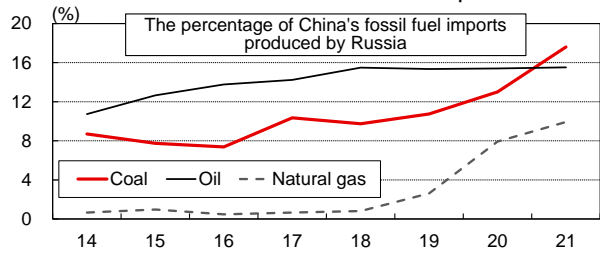
A further strengthening of cooperative ties between China and Russia was confirmed at a meeting between their foreign ministers at the end of March. However, trade is becoming more difficult practically due to the impact of sanctions and it is possible that China and Russia's economic relationship will further exacerbate the conflict between China and the US owing to the crisis in Ukraine. Looking ahead, it looks like China may have tricky situations to navigate.

Chart 1: Trade and Movement of People between China and Russia



Source: China General Administration of Customs, MUFG Bank Economic Research Office

Chart 2: China's Fossil Fuel Imports



Origins of China's fossil fuel imports ranked (2021)

Rank	Natural gas		Oil		Coal	
	Country	Percentage	Country	Percentage	Country	Percentage
1	Australia	25.7 %	Saudi Arabia	17.0 %	Indonesia	60.4 %
2	Turkmenistan	19.6 %	Russia	15.5 %	Russia	17.6 %
3	Russia	9.9 %	Iraq	10.5 %	Mongolia	5.1 %

Source: China General Administration of Customs, MUFG Bank Economic Research Office

Translated by Elizabeth Foster

For further details, please contact the Economic Research Office, MUFG Bank

Managing Director, Rei Tsuruta <rei_tsuruta@mufg.jp>

Written by Yohei Nose <yohei_nose@mufg.jp>

This report is intended for information purposes only and shall not be construed as solicitation to take any action such as purchasing/selling/investing financial market products. In taking any action, each reader is requested to act on the basis of his or her own judgment. This report is based on information believed to be reliable, but we do not guarantee its accuracy. The contents of the report may be revised without advance notice. Also, this report is a literary work protected by the copyright act. No part of this report may be reproduced in any form without express statement of its source. This report is also available for viewing online.