



The Development of Russian-Chinese Relations: Prospects for Cooperation in Crisis

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ABSTRACT

In the context of the global economic crisis and the trend towards deterioration of relations between Russia and the Russian-Chinese cooperation with Western countries it is one of the most promising areas of Russian foreign policy. China in recent history becomes more and more powerful geopolitical player in the world and try to take as much as possible an active part in world affairs. China's participation in organizations such as the United Nations, Asia-Pacific Economic Cooperation, Shanghai Cooperation Organization, Brazil, Russia, India, China and South Africa, etc. allowing it to implement its national interests. As a global trading power, and based on his potential and its intensified role on the world stage, China is forming a new foreign policy. As is known, Russia and China are now solved similar problems is "the transition to an innovative model of development" (Russia) and the "creation of the state of innovative type" (China). The modernization of the Russian economy requires a major upgrade production facilities and the development of transport infrastructure, largely due to large-scale foreign investment and the import of modern technologies. Part of the problem can be solved with the help of China, which is the world leader in terms of gold reserves and constantly increases the volume of its foreign investments. In our view, the prospects for the development of Russian-Chinese relations in the bilateral economic cooperation are, above all, in the initiation and development of major projects. The key point of the Russian-Chinese economic relations should also be cross-border cooperation.

Keywords: World Financial Crisis, Russian-Chinese Relations, Innovative Development, Trade Cooperation, Economic Cooperation

JEL Classifications: G01, O31, P13

1. INTRODUCTION

On the background of anti-Russian sanctions, and the low rate of the ruble in the political and economic course was taken to the East. However, the volume of Russia's trade with China in 2015 are reduced, and the cooperation in non-oil sectors is happening too slowly.

International organizations predict that by the year 2030 in the Asian region will be concentrated more than 50% of world gross domestic product (GDP) and more than 50% of world trade, while China will rank first in the world in terms of GDP and a number

of other macro-economic indicators by 2020. In this regard, China has a direct impact on the Russian economy. Russia has made considerable progress in strengthening its influence in the world, including at the expense of establishing some strong Russian-Chinese relations. These relationships play a significant role in the geopolitical situation in Russia. This interstate cooperation is especially important due to the strained relations between Russia and the West.

The implementation of the national interests of the Russian Federation in the sphere of international relations on the line with a Chinese partner highlights the issue of the nature of changes

occurring in the world, and in China's foreign policy ("Russian International Affairs Council. RIAC," 2016).

Until the global financial and economic crisis, the high dynamics of growth of the economies of Russia and China's positive impact on the development of trade and economic relations, which was accompanied by the strengthening of the strategic partnership and cooperation.

2. OVERVIEW

Today, China is becoming a powerful geopolitical player in the world and try to take as much as possible an active part in world affairs. China's participation in organizations such as the United Nations, Asia-Pacific Economic Cooperation, Shanghai Cooperation Organisation, Brazil, Russia, India, China and South Africa (BRICS), etc. allowing it to implement its national interests. As a global trading power, and based on his potential and its intensified role on the world stage, China is forming a new foreign policy. This policy has a growing influence on the international political and global economic processes, directly affecting not only its immediate neighbors, but also to all corners of the globe.

The global financial crisis has had a significant negative impact on the economy of Russia and China, which led to a sharp drop in turnover in 2009. In 2010-2012, there was recovery in bilateral trade volume and growth. However, in 2013 many uncertainties in the world economy and international trade, as well as the slowdown in economic growth in Russia and China led to a certain decrease in the dynamics of development of bilateral trade.

Chinese customs statistics data for the first three quarters of 2014 indicate that Russia, together with China, was able to stop the negative trend to stabilize the situation in bilateral trade and ensure sustainable growth rates of turnover (Todorov and Orlov, 2014).

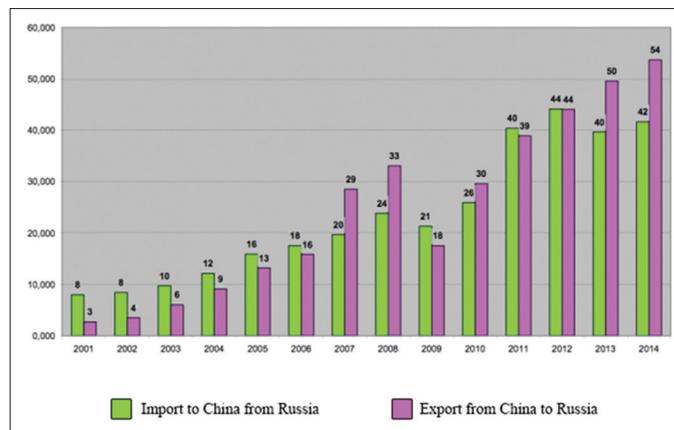
However, despite the rather high turnover between the two countries, the structure cannot be considered favorable for Russia, because it does not match the setting for the modernization of the Russian economy (Kolesnikov, 2014).

Active growth in trade with China (Figure 1) occurred before 2011. Now the volume of trade increased slightly - by only 1-2% per year. This is due to a slight slowdown in China's economic development and inhibition of co-operation in oil and gas sphere.

Over 70% of Russian exports to China accounted for hydrocarbons - oil, gas and refined products and 8.8% are deliveries of wood and products of its processing. In 2014, the supply of these goods increased by 6.6% and 11.6%, respectively, compared with 2013 a year, and that has affected the Russian export growth rates. By the end of 2014, Russia was able to increase its share of the oil market of China and to press Saudi Arabia and other Middle Eastern countries. As a result, Russia's share increased from 9% to 11%.

The Chinese exports to Russia is dominated by manufactured goods. At the same time there is a constant increase in the

Figure 1: Import and export of China and Russia



proportion of high-tech products. The main items of Chinese steel exports to Russia by the end of 2014: Machine-technical products (36.12%), chemical products (8.37%), textile clothing (6.70%), clothing knitted (5.95%), footwear (5.96%) (Byrkova, 2015).

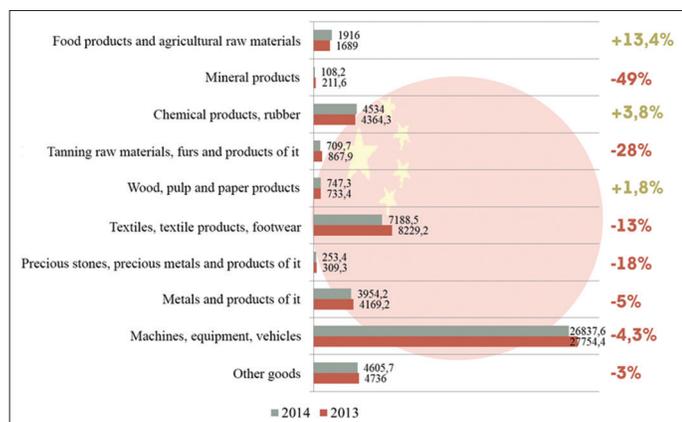
At first glance, such a situation may seem natural: Is rich in natural resources, Russia is beneficial to specialize in the supply of raw materials to China. In fact, however, this situation is not only unnatural, it is irrational, because in the sectoral structure of the Russian economy, in addition to the primary sector, is also widely represented other industrial and service sectors, while Russian goods and services can compete with the Chinese. So, in 2014 the share of services in GDP amounted to 59.8% ("Services, etc., Value Added (% of GDP)," 2016), the share of production of high-tech and knowledge-intensive industries in the GDP reached 23.6% ("The Efficiency of the Russian Economy," 2016).

Also presented a competitive energy sector in the Russian economy, the aerospace sector, aviation and shipbuilding and others (Shkurkin et al., 2015).

Today, China is the fourth-largest trading partner of Russia, and the first place among the partners in the Asia-Pacific region. In turn, Russia in the ranking of 20 major trading partners of China took the 9th place in 2014. At the same time, if Russia's main exports to China are mineral fuel, oil, petroleum products, timber, ore raw materials, non-ferrous metals and chemical products, China exports to Russia mainly machinery and technical products, textiles, footwear, precious metals, chemical products. There remains negative trend and increase the passive trade balance. The negative balance of trade for 2014 increased by 12.66% of total turnover against 11.19% in 2013 (Figure 2).

Thus, the existing potential of the Russian economy is not realized in the Chinese direction. And it can be implemented in the Chinese market - a strategic partner and a country with a very capacious internal market. Especially because the Chinese side is strong interest in such cooperation in the sectors of in the non-raw sector.

At present, China is one of potential superpowers, the largest by population country in the world (more than 1.3 billion people), ranked third in the world in terms of area, after Russia and

Figure 2: The turnover of goods between Russia and China

Canada. China is the second economy in the world. This country is inherent desire to take a leading role not only in economics but also in politics. China is currently conducting a foreign policy that promotes the strengthening of China's role in world politics, at the same time adhere to a relatively neutral position. China is committed to the political leadership not to impose a communist world administrative-distributive social model. His goal is to become equal to the country that plays a key role in creating a new world order, and to show the world their willingness to take responsibility for planetary evolution.

The poor state of affairs in the "economic track" of the Russian-Chinese cooperation in 2015 is clearly contrasted violently with the ongoing process of political rapprochement between the two countries. The turnover decreased by 28.6% for the year. Instead of the planned \$100 billion previously, he has not held even up to \$70 billion offer to \$68.06 billion in the list of countries. China's major trading partners Russia fell from the 9th to the unfamiliar place for itself 16. Its share in China's foreign trade has decreased from 2.21% to 1.67%. Russian exports to China fell by 20%. The fall in prices for raw materials and manufactured goods has left Russian exporters no choice but to move up the physical volumes of deliveries under the headings where it was possible to do (oil, iron ore, copper, nickel), or to try to discover new niches (agricultural products, high-tech products). The latter proved to be very difficult, because in many cases had to start virtually from scratch. However, the physical volumes on basic goods managed to maintain, so that Russia's share in the total Chinese imports, "dipped" is not so much reduced in comparison with the year 2014 from 2.12% to 1.98%.

Chinese companies are faced with unprecedented sharp decline in demand in the Russian market (exports from China fell by 35.2% year on year), they suffered losses, but were trying to survive, seeking save previously occupied positions. They succeeded for the most part. China continues to be the largest trading partner of Russia, and its share in the Russian foreign trade increased from 11.2% to 12% from October 2014 to October 2015.

In general, the crisis turned out to be, if not deeper, but in any case, longer than the previous downturn in 2009. Then it was, one might say the rapid decline and then rapid recovery growth. By the end of 2010 the trade actually went to the pre-crisis level.

Now sources are not visible to the rapid recovery growth, so we cannot expect a repetition of such a scenario in 2016.

Most likely, because of the acute phase of the crisis goes into stagnation. Startling figures falling turnover, as was the case last year, we do not see. It is possible that the cost parameters even come into positive territory. In such a scenario are calculated in the Ministry of Commerce of China, from the point of view of the leaders whose main task in the Russian direction in 2016 will be "stop the recession and return to growth." However, this growth if it will remain slow and uncertain, and it will be calculated from the low base of last year.

3. STRATEGIC OBJECTIVES

Currently, the intensification of Russia and China's political and economic relations contribute to conflict potential minimum relations with the West.

Expanding cooperation with Northeast Asian countries and in particular with China, the Russian leadership, in addition to the natural desire to diversify the raw material markets, expects to address a number of strategic objectives.

Firstly, is the development of infrastructure in Russia's eastern regions, including through co-financing of major projects ("Gazprom" cooperation with China National Petroleum Corporation, "RusHydro" cooperation with "PowerChina" and "Sanxia", cooperation in the supply of electricity to Japan and etc.).

Secondly, it is the attraction of advanced technologies to the development of the Russian economy. As a result of the deterioration of relations with the US and the EU and the subsequent war of sanctions Russia (Kobersy et al., 2016), is in a certain dependence on Western technology, it has been forced to freeze a number of promising projects. One of the ways the substitution of Western technology in Russia considering cooperation with Asian countries.

Thirdly, it is the attraction of investments into the Russian economy. We must admit that at this stage of the potential areas of cooperation is not implemented in full.

Russia and China are acutely aware of the need for closer cooperation in the fields of military, political and economic cooperation. However, a pillar of Russian-Chinese cooperation is an objective need for the national economies of both countries, in close cooperation, especially in energy issues. After the introduction of the West restrictions on the sale of high-tech products in Russia, some Russian companies, until recently, actively buys products Western manufacturers were on the verge of closing. The solution was found thanks to the expansion of cooperation with Asian countries, especially China, which has achieved significant progress in the development of technology. That is the cooperation with Asian countries in high-tech sectors to soften the effects of Russian attempts of its isolation from the West (Barmuta et al., 2015). Accordingly, therefore, it can be partially prevented by the threat of deepening the technological gap.

Fourthly, the specific factor, while the mechanism of expansion of Russian-Chinese cooperation is actively developing alliance BRICS. So, as a result of the last summit in July 2014 in Fortaleza Brazil, BRICS countries agreed to institutionalize cooperation in the framework of a new international financial organization called BRICS New Development Bank and the creation of a joint pool of foreign exchange reserves in case of crisis. According to official statements, the objective of the new development Bank is to mobilize resources for infrastructure projects and projects of “sustainable development” in BRICS countries and other emerging markets. And on the site of the G20 summit, which was held in November in Australia, the BRICS leaders unanimously agreed on the opinion that sanctions against Russia are illegal.

The fact that Russia under international pressure has got such a strong partner and ally, China, indicates that the country’s leadership failed to accurately assess the evolving situation and take timely measures. It is important to note that in addition to the pragmatic economic interests of Russia and China to bring together similar positions on major issues of international and regional agenda.

However, despite the progress in Russian-Chinese trade and economic relations, there remain serious imbalances, the main of which are, firstly, a small proportion of Russia in foreign trade of China and, secondly, the raw nature of the Russian exports to China. In general, the relationship between the two countries in the economic field is very small, for example, compared with the scale of US-Chinese cooperation in this area. Russian-Chinese trade and economic relations is lagging far behind the pace, level and scope of the development of Russian-Chinese political and strategic dialogue. Given the general trend of world development, and the nature of Russia’s relations with the West against the background of the unfolding crisis, Ukrainian, it seems that the future of Russian-Chinese relations will maintain their present logic of development and will continue to combine the components of the strategic and tactical partnerships and competition. In this situation, the most important task for Russia is to extend the partnership with China.

4. THE RUSSIAN-CHINESE PARTNERSHIP

The basis of qualitatively new relations may be the Russian-Chinese “partnership for modernization.”

Obviously, for the alignment of trade relations with China, Russia needs to prepare the ground for a gradual transition to investment and innovative model of bilateral trade. Such a model will increasingly meet the common long-term goal, declared leaders of the two countries is an increase of bilateral trade volume to \$200 billion by 2020.

As is known, Russia and China are now solved similar problems is “the transition to an innovative model of development” (Russia) and the “creation of the state of innovative type” (China). The modernization of the Russian economy requires a major upgrade production facilities and the development of transport infrastructure, largely due to large-scale foreign investment and the import of modern technologies.

Part of the problem can be solved with the help of China, which is the world leader in terms of gold reserves and constantly increases the volume of its foreign investments.

With Russia’s ratification in 2009 of a bilateral agreement with China on encouragement and mutual protection of investments formal barriers to the inflow of Chinese capital into Russia eliminated. In addition, the technical and economic characteristics of the produced machines and equipment China in many areas close to the level of developed countries, which allowed him to enter the large-scale export of engineering products, including in Russia. On the other hand, Russia is making serious efforts to maintain its leading position in the world in areas such as space exploration, aeronautics, the use of nuclear energy and nuclear engineering. For all these positions Russia intends to defend its interests on the world market. Naturally, Moscow is interested in increasing its innovative and high-tech presence in the Chinese market - one of the largest and fastest growing in the world. Given the continuing restrictions in the leading countries of the world on technology transfer to China, Russia has a competitive advantage that can be realized through the creation of joint ventures, in particular in Russia.

It is worth mentioning that the powerful flow of Chinese investment abroad largely bypasses Russia party. In Russia enter streams in the annual volume of at least a billion dollars. According to the Ministry of Commerce of the PRC, Russia is still not included in the top ten recipients of Chinese investment, lagging behind even from Kazakhstan. During the first 11 months of 2015 direct Chinese investment in non-financial assets in Russia decreased by 15.2%. At the moment they are sent mainly in the energy and raw materials industries, and are carried out almost exclusively by large public companies and “political” financial institutions, which are often hedge their risks by signing a relevant intergovernmental agreement.

In general, the results of 2015 showed that only one political factors, not being backed by sound economic strategy, is not able to provide a qualitative leap in the trade and economic relations development. Even more urgent than ever before, was the need to develop a long-term strategy of development of economic ties with China. Its goal to reflect the current trends of the world economy and trade, vectors of regional integration, changes in the industrial structure of the two countries, to identify approaches to economic exchanges with China, to identify priorities and limits closer to him, to analyze the balance of potential benefits and risks, as well as to identify the optimal forms of interaction.

To develop the strategy for the development of economic cooperation with China, it is first necessary to solve the question of the extent to which it can be considered as an important and stable partner of Russia. There is no consensus among experts on this point, but expressed the estimates and forecasts sometimes diverge, the more so that their pitch is often influenced by political preferences of the authors.

It should be borne in mind that in the modern-day stage, China has entered a difficult and complex phase “settlement” (Oleinikova

et al., 2016). To solve such internal problems as the presence of huge excess capacity, the real estate bubble, the prevention of a systemic financial crisis, environmental improvement, raising the social sphere, require more than 1 year. During this period, it increases the risk of serious risks and challenges. In fact, we can already see its manifestation in the slowdown of the Chinese economy, the turmoil in the stock market, the instability of the national currency. In addition, the situation in the world economy is less favorable than in the period after China's accession to the World Trade Organization and to the global financial crisis (2002-2007) (Neuwirth and Svetlicinii, 2016). However, this is only one side of the coin. We must see the other side of it. The slowdown in economic growth in much of the "compensated" increased volumes of the Chinese economy. Even assuming that the official statistics are strongly overestimated, and the actual growth rate is not 6.9%, but lower than, say, 6 per cent mark, they still remain in two or almost twice the rate of global economic growth in general.

The results of 2015 show that the Chinese economy still stands as the largest consumption market of hydrocarbons, metals and other industrial products. Despite a reduction of 7.6% of import value indicators, physical volumes of import in a number of major commodity items increased. Purchases of oil increased by 8.8% or \$27.1 million and amounted to 335.5 million tons of LNG - by 17.8%, copper and copper concentrate – by 12.6%, cellulose – by 10.4%. But almost all of these products are important items of Russian exports to China (Byrkova, 2015).

5. CONCLUSION

In our view, the prospects for the development of Russian-Chinese relations in the bilateral economic cooperation are, above all, in the initiation and development of major projects. Promoting major projects will play a role in the relations between the two countries: Will allow for deeper economic integration, stimulate all-round mutually beneficial relations and will contribute to the formation of the Russian Federation and China unified economic destiny. The key point of the Russian-Chinese economic relations should be the cross-border cooperation. The direction of development of the Russian Far East and Siberia, the country must make a lot of progress, adjust all sorts of attitudes and ideology, to establish appropriate political, economic and legal guarantees to implement a model of cooperation based on the needs of both countries. Russia and China should consider regional economic integration. Both countries can now consider the establishment of a free trade area and actively shape the mutually beneficial relationship model.

Investment and business climate needs to be improved. It should provide a fair number of large investors permission to work, and to reduce or completely stop their operation at the end of the project. Such measures will contribute to the inflow of investments, and may not lead to a migration threat.

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