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Russian President Vladimir Putin with Chinese President Xi Jinping during the APEC Summit. Beijing, 10 November 2014 (<http://thebricspost.com/>)

A Russian Pivot to Asia? Russian Trade with Asia from 2006 to 2016

By Michael Corbin

On August 22, 2012, the Russian Federation officially joined the World Trade Organization (WTO) after almost 18 years of negotiations. A mere month later Russian leadership was declaring that trade with the Asia-Pacific countries would surpass trade with Europe by 2017 or 2022.¹ Russian First Deputy Prime Minister Igor Shuvalov said, at the opening of the Asia-Pacific Economic Cooperation (APEC) CEO Summit in September 2012, that “we would like to make this direction strong enough in the coming five to ten years to expand trade with this region even more than with Europe.”²

Given Russia’s high level of trade turnover with Europe over the last 25 years, this proclamation was not given much serious consideration. Rather, it was met by high levels of skepticism, particularly in the West. Russian economic overtures to the East were viewed as propaganda or geopolitical rhetoric. For example, *The Economist* claimed in a November 2016 article discussing Russia’s proclamations of an economic turn to the East that Russia “Stoit zadon k Azii—it stands with its back to Asia.”³

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–Russian First Deputy Prime Minister Igor Shuvalov at the opening of the APEC CEO Summit, September 2012.

Despite attempts at greater engagement with Asia, which have been accompanied by the rhetoric of improved trade relations, has there truly been an increase of trade between Russia and Asia? The answer is that not only is Russia in the midst of a decade’s long redirection in trade flows and economic relations with Asian countries, but that in many ways Asian countries are actively seeking improved economic ties with Russia in the form of trade and greater investment. Moreover, the current movement eastward is part of decade and a half long turn that precedes the economic crisis, Russia’s entry into the WTO, and geopolitical tensions with the West.

Preference for European Trade

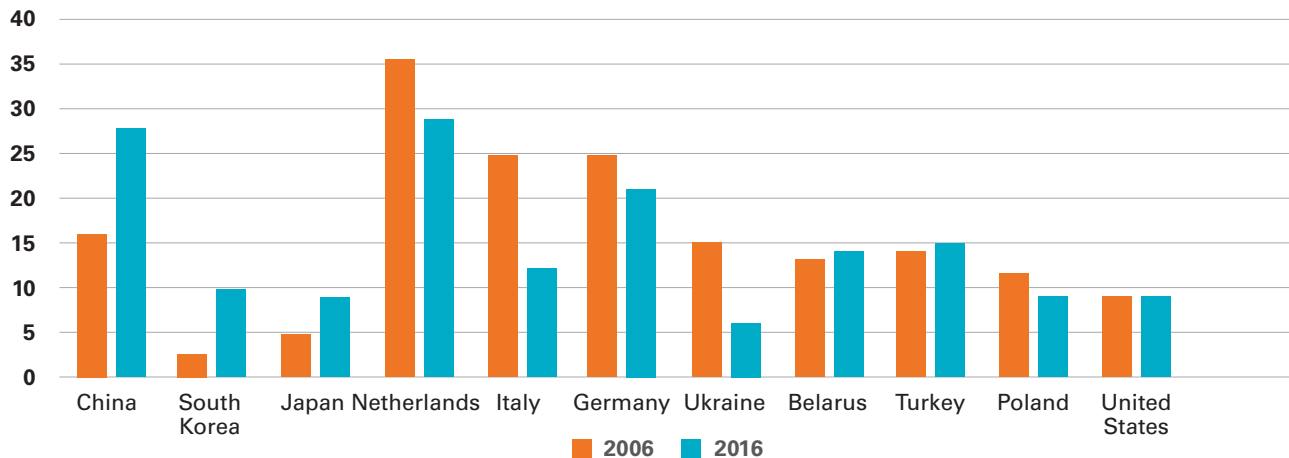
Russia’s trade with Asia in 2006 was not impressive. Differences in development paths and concentration on different global markets help explain why trade with China, and Asia in general, remained constrained despite double-digit growth in China and strong growth in Russia after China’s entry to the WTO in 2001. However, According to Silvana Malle in the *Journal of Eurasian Studies*, Russia’s interest in China increased after the economic recession caused by the global financial crisis and the subsequent collapse of commodity and energy prices.⁴

Figures collected from the World Bank’s trade database (Chart 1) clearly demonstrate that exports from Russia’s main European trading partners were significant in 2006. This fact has been true since the emergence of the Russian Federation from the former Soviet Union. Europe has consistently depended on Russian fuel imports, particularly gas, for between 30 and 40 percent of its energy needs. This was clearly the case in 2006. Among the top 10 partners in 2006, the Netherlands, Italy, and Germany alone accounted for 28.3 percent of Russian exports. In comparison, China received 5.2 percent of Russian exports and no other Asian country made the top 10. At this time, there was a clear dominance of Russian exports to the European Union (EU) (see Chart 2).

As concerns the EU, one can see the trade relationship is important but complicated, not just for the two trading partners but also for future flows. Europe continues to maintain a strong presence in the Russian trade landscape as Russia’s largest trading partner overall. Additionally, the EU will still be an important source of services trade for Russia because, unlike the incredible growth of imports and exports of goods with Asia, there is no similar occurrence in services. China is the only Asian country in the top 10 for imports and exports of services⁵ and it accounts for only 3.7 percent and 3.2 percent, respectively.

Geopolitical tensions between the EU and Russia only add doubt to the future of the trading relationship and continue to put pressures on certain Russian economic initiatives in Asia. For example, New Zealand suspended plans to pursue a free-trade deal with Russia after the Skripal poisoning incident in the UK in March of this year.

**Chart 1. Russian Exports (\$billions) Top Ten Destinations
2006 and 2016**



Source: WITS (World Integrated Trade Solution) (website), Russian Federation Exports by Country and Region
<https://wits.worldbank.org/>

The Pivot to the East

During the last 10 years, Asia has made important inroads to becoming an important and valued trading partner for Russia. Exports from Russia to the EU have decreased during the 2006 to 2016 period due to geopolitical tensions and sanctions resulting from the Ukraine conflict. The current trade flow of important exports and imports is clearly trending to the East.

Russia's pivot to Asia began long before President Barack Obama's announcement of an American pivot to Asia. Some of Russia's first real overtures to Asia preceded the global recession in 2007–2008, Russia's acceptance into the WTO in 2012, and the beginning of geopolitical conflict with Ukraine and tensions with the West in 2014.

For example, in December 2005, the Association of Southeast Asian Nations (ASEAN) and Russia concluded an agreement between governments of member countries and the Russian Federation on economic and development cooperation. The agreement signaled Russia's intent to begin outreach to Asia. The first actual consultation was held in Vietnam in 2010. The Third Russian Business Mission to ASEAN was held in April 2016 in Brunei Darussalam, Indonesia, and Vietnam. At this gathering, Russian President Vladimir Putin promoted collaboration between the Eurasian Economic Union (EEU) and Asia.

Russia's engagement with China was extensive and in May of 2014, Putin signed a number of investment deals with China. Among them was a massive 30-year natural gas contract worth \$400

billion. China's investment since has been vigorous as CNC, its state-owned energy company, bought a stake in a liquefied natural gas plant in the Arctic. In addition, Sinopec bought a stake in Russia's largest energy company, Sibur.⁶

More recently, Russia hosted the ASEAN-Russia Summit and Business Forum on May 2016. While addressing representatives of nearly all of ASEAN's member countries, President Putin declared that "57 joint projects in innovation and technology had been offered."⁷ He directed attention to mining projects in Indonesia and Myanmar, nuclear power projects in Vietnam, and joint high-tech projects in Malaysia. He also noted that Russia was ready to start working on a free-trade zone between the EEU with ASEAN member states Vietnam, Singapore, and Cambodia. In December 2016, President Putin visited Japan at the invitation of Prime Minister Shinzo Abe, underscoring Asia's importance to Russia.



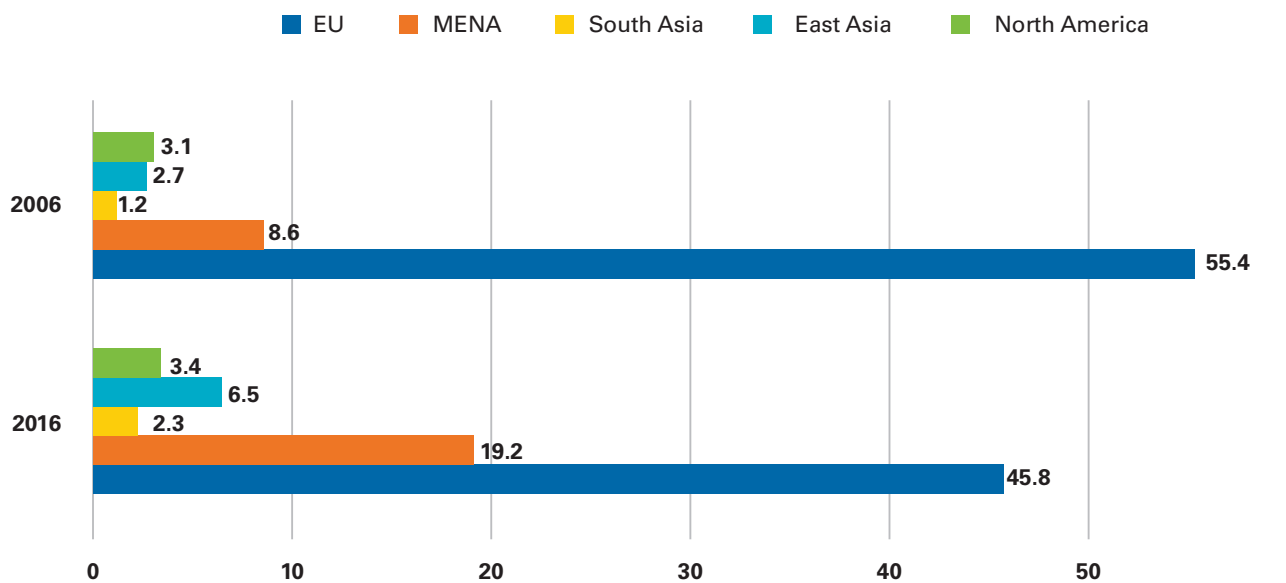
President Putin with Japanese Prime Minister Shinzo Abe in 2016. (Photo courtesy of: <http://en.kremlin.ru>)

By 2016, imports from China and other Asian partners had grown significantly. Among the top 10 in market share, the top three Asian countries were almost level with the top three European countries. The Netherlands, Germany, and Italy accounted for 21.8 percent, while China, Japan, and South Korea accounted for 16.6 percent. In comparison, exports to China had increased 77.2 percent; South Korea, 285 percent; and Japan, 50.7 percent.

World Bank trade data shown in Chart 2, which gives exports by region, also depicts a noticeable swing in Russian exports to Asia and a clear decrease in exports to Europe. These figures indicate that "supposed" Russian rhetoric about increasing exports to Asia and increased negotiations with Asian trading partners has indeed yielded results. Exports to East Asia and South Asia grew from a combined 9.8 percent share in 2006 to a 21.5 percent share in 2016. The EU decreased from a 55.4 percent share in 2006 to a 45.8 percent share in 2016. Overall, exports to the EU declined by 27.5 percent from 2006 to 2016.

From a regional perspective, in terms of growth, it is not clear whether the changes are indicative of a short-term trend or a long-term structural focus, but Russian exports are making a steady shift to Asia. Exports to East Asia grew 110.8 percent from 2006 to 2016, even with a decrease from 2011 to 2016. Goods exports to South Asia increased 81.2 percent.

Chart 2. Russian Exports by Regions (% of total) 2006 and 2016



Note: MENA – Middle East /North Africa

Source: WITS (World Integrated Trade Solution) (website), Russian Federation Exports by Country and Region <https://wits.worldbank.org/>

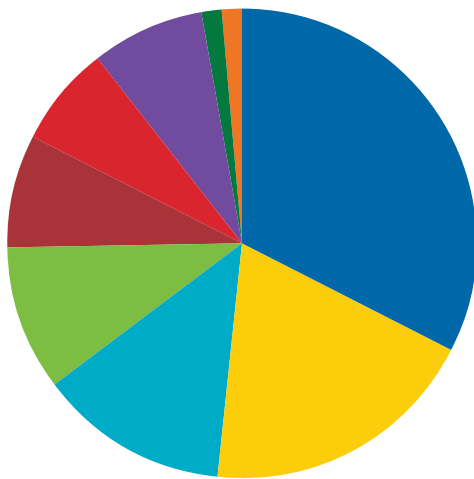
Although China is the main driver behind Russia’s eastern turn, South Korea has risen to become Russia’s seventh largest trade partner. South Korean trade and investment help mitigate the possibility of economic dependence on a single foreign partner like China. Speaking at the 2017 Eastern Economic Forum, President Moon Jae-in declared he wants to double trade with Russia by 2020 from the current \$15 billion. He described the potential areas of Russia-South Korea economic cooperation “as constituting ‘nine bridges,’ which range from gas infrastructure to seaports to Arctic shipping routes.”⁸

Fuel Trade is the Main Driver

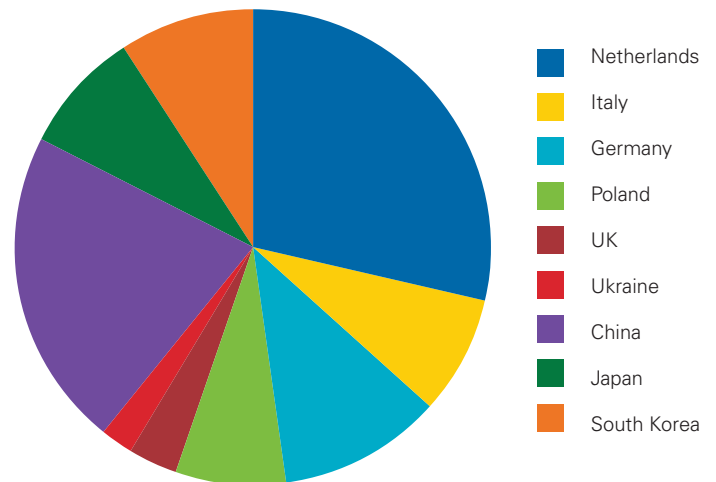
As would be expected, the shift in the flow of fuel exports explains much of the changing flow of exports from Russia. Exports of fuel to China, Japan, and Korea increased from \$8.9 billion in 2006 to \$32.2 billion in 2016. This marks a 260 percent increase. In comparison, traditionally large importers of Russian fuels in Europe (the Netherlands, Germany, Italy, Poland, and UK) decreased from \$71.1 billion to \$48.5 billion, a drop of 32 percent.⁹

Chart 3

Fuel Exports from Russia by Country 2006 (%)



Fuel Exports from Russia by Country 2016 (%)

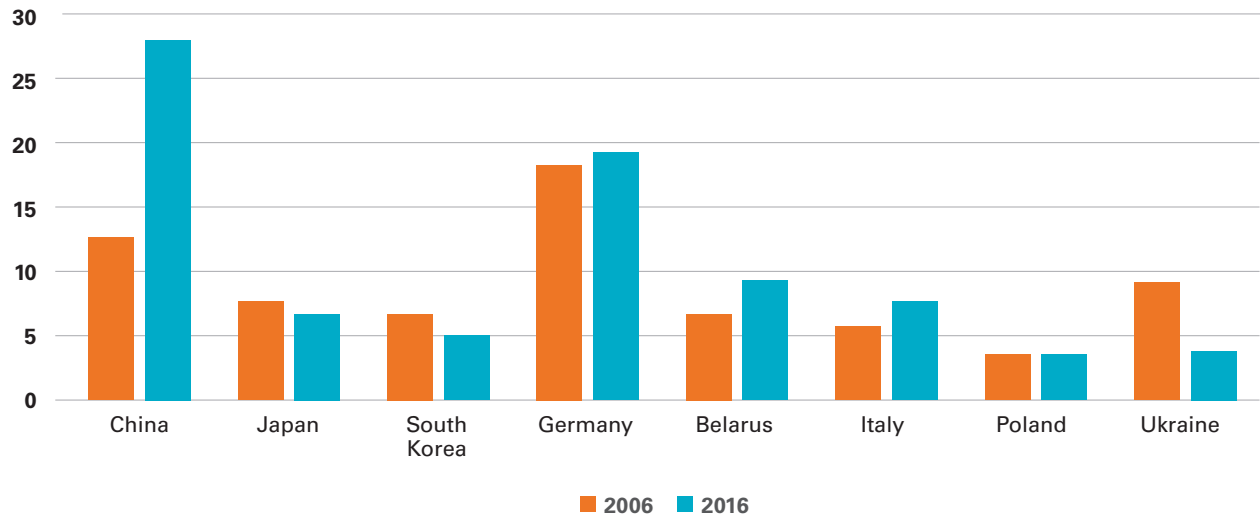


Source: WITS (World Integrated Trade Solution) (website), "Russian Federation Fuels exports and imports By Country and Region) <https://wits.worldbank.org>

Fuel trade to Japan has greatly increased in importance and trade between Moscow and Tokyo has quadrupled since 2006. According to Motoo Hayashi, Japan's Minister of Economy, Trade and Industry, "in 2013 trade between our countries reached a record-high [\$34.8 billion]. In 2015 the volume dropped by almost 40 percent, but that was due to falling oil prices."¹⁰ He added that economic relations between the two countries could and should expand more. The minister talked about joint Russia-Japan energy projects Sakhalin-1 and Sakhalin-2, which originated in the 1970s, and Russia's crude oil supplies to the country.

Prospects for continued cooperation in the energy sphere are good. In 2015, Russia and China signed a gas deal worth \$400 billion. Under the terms, China was promised the supply of as much as 38 billion cubic meters of gas annually from the development of deposits in eastern Siberia near Kovytka over 30 years starting this year. Chinese authorities expect gas will provide greater than 10 percent of energy by 2020, up from 6 percent in 2014. Another fall in oil prices could result in China trying to renegotiate the deal, but the project is moving forward. In March 2016, China provided a \$2.2 billion loan to Gazprom to help jump-start the project. There is speculation that Russia could involve Japan and South Korea in an extra pipeline that would transport gas to the coast.

**Chart 4. Russian Federation Imports (\$ billions) by Country
2006 and 2016**



Source: WITS (World Integrated Trade Solution) (website), “Russian Federation Imports by Region” <https://wits.worldbank.org>

Mixed Results for Imports from Asia

Imports from East Asia increased from 22.5 percent to 32.1 percent from 2006 to 2016. The strong growth was led by imports from China, with 106.4 percent growth. In contrast, imports from Japan decreased from 2006 to 2016 and its share of imports decreased from 5.7 percent to 3.7 percent. Imports from South Korea slumped 12.8 percent from 2006 and its share of imports dropped from 4.9 percent to 2.8 percent.

A key factor in the significant rise in imports from Asia in particular, and China specifically, is the increase in various types of machinery imported into Russia from China. Imports from East Asia surged to equal, and even slightly surpass, those

from Europe. From 2006 to 2016, machinery imports from Europe remained at approximately \$34 billion per year. In contrast, according to the World Bank data, East Asian imports grew from \$20.4 billion in 2006 to \$34.2 billion in 2016. The strong growth was driven by China, which saw machinery imports to Russia skyrocket from \$6.6 billion to \$21.0 billion.

Japanese imports of machinery to Russia decreased from \$6.9 billion to \$5.1 billion, and South Korea’s dropped from \$5.3 billion to \$3.3 billion. Imports of Japanese cars and industrial machinery have significantly declined as Western sanctions against Russia have reduced Russian firms’ access to international credit. According to the Russian trade mission in Japan, Japanese

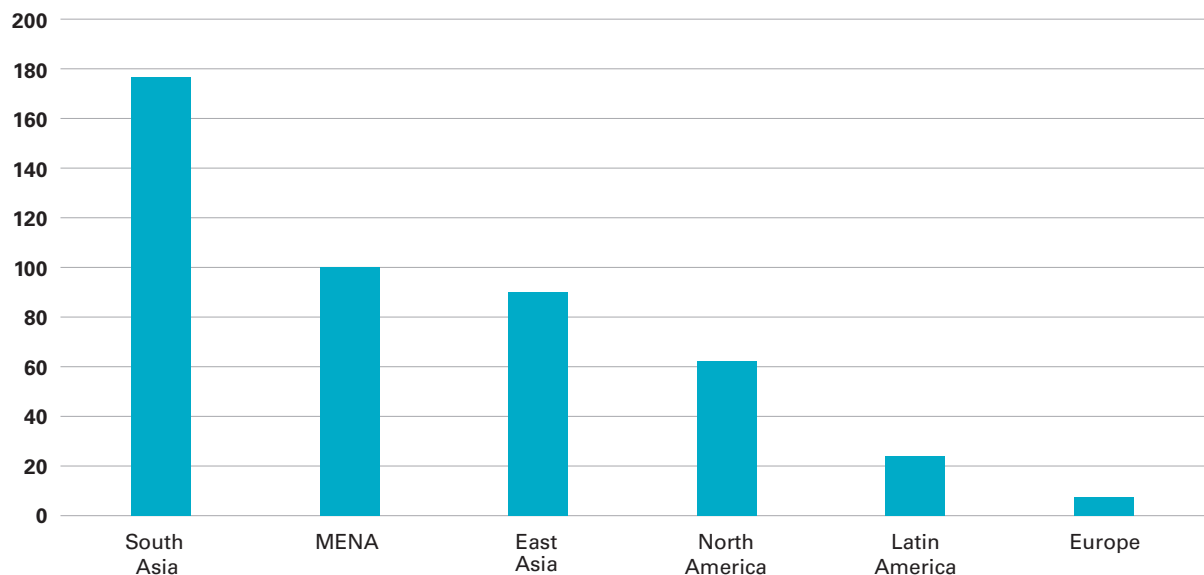
banks have problems providing export credit for equipment sold to Russia, while sanctions make it difficult to conduct business using U.S. dollar transactions. Nevertheless, Japanese firms produce 14 percent of all Russian cars in Russian factories.¹¹

Trade with some parts of Asia has remained small in volume, notwithstanding the high growth rates in some Asian countries. Despite Russia’s interactions with the ASEAN bloc to stimulate trade, largely via the EEU, Russian imports from ASEAN reached only \$4.8 billion in 2016 and exports to ASEAN reached \$7.2 billion. These figures would not even put ASEAN in Russia’s top 10 importers or exporters

in 2016. However, between 2006 and 2016, ASEAN exports to Russia have risen threefold and Russian exports to ASEAN have increased two and a half times.

Table 6 shows that strong import growth was not restricted to China. East Asia imports to Russia grew by 89.3 percent from 2006 to 2016. South Asia grew the fastest of any region, although it still only represents a small portion of imports to Russia. Exports from South Asia to Russia, primarily the ASEAN countries, grew 177 percent from 2006 to 2016.

Chart 5. Russian Imports by Region Growth from 2006 to 2016 (%)



Source: WITS (World Integrated Trade Solution) (website), Russian Federation Imports by Country and Region <https://wits.worldbank.org>

Not a Full Pivot, But Greater Balance

For Russia and Asia to become strong commercial partners will take a long time. Russia has failed to direct its internal economic development eastward, and it barely penetrates the Asian market for goods other than commodities and arms. Even though trade has increased at an impressive level between the regions from 2006 to 2016, Russia still lacks the necessary infrastructure for transport and production in the Far East.¹² Indeed, a lack of infrastructure is a the problem that could hinder continued trade with Asia as a whole. The fact that less than 10 percent of Russia's population resides in the eastern half of the country imposes significant human capital limitations on its ability to trade with Asia, unless trade is somehow managed via Moscow.

China will continue to be the true driver of Russia's trade with Asia, as Chinese exports are increasingly relevant substitutes for EU exports, although

Chinese quality still ranks lower than that of the EU. However, stagnant Russian wages make Chinese imports more affordable to average Russians.

Although First Deputy Prime Minister Shuvalov's 2012 prediction remains unrealized, Russian trade is moving in an eastward direction and Russia could quite possibly see trade with Asia on par with the EU by 2022. If so, Russia will have made impressive steps towards balancing trade relations between East and West and undergone a clear change in trade flows in under 20 years. Most importantly, the change in direction cannot be viewed solely as a knee-jerk reaction to Russia's geopolitical tensions with the West during the last five years. Rather, it is the fruition of a policy effort to improve relationships in order to significantly increase trade with Asia over the last decade and a half.

The opinions expressed in this article are those solely of the authors.





Endnotes

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