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# Russia's reinsertion in the Asia-Pacific: economic dimension

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# Russia's pivot to Asia

## **Objectives:**

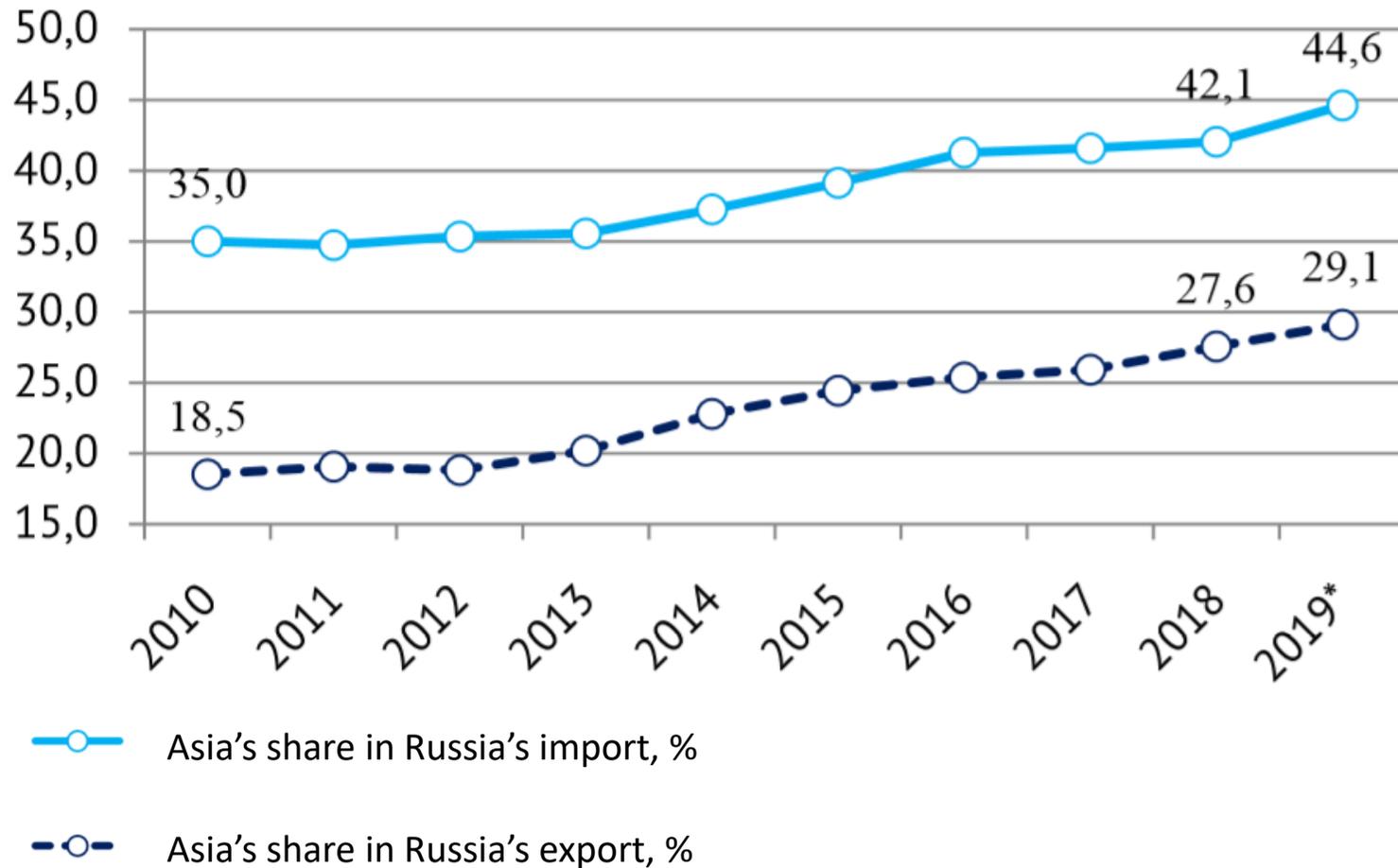
- harness Asia's economic prowess for the development of Siberia and the Far East
- exports of hydrocarbons to the energy-poor Asia-Pacific
- arms sales to the region

// Change in perception: from a threat to an opportunity/necessity

// The global financial crisis & the Ukraine crisis as turning points

// Asia as a counterbalance to Europe

# Russia's trade balance with Asia-Pacific

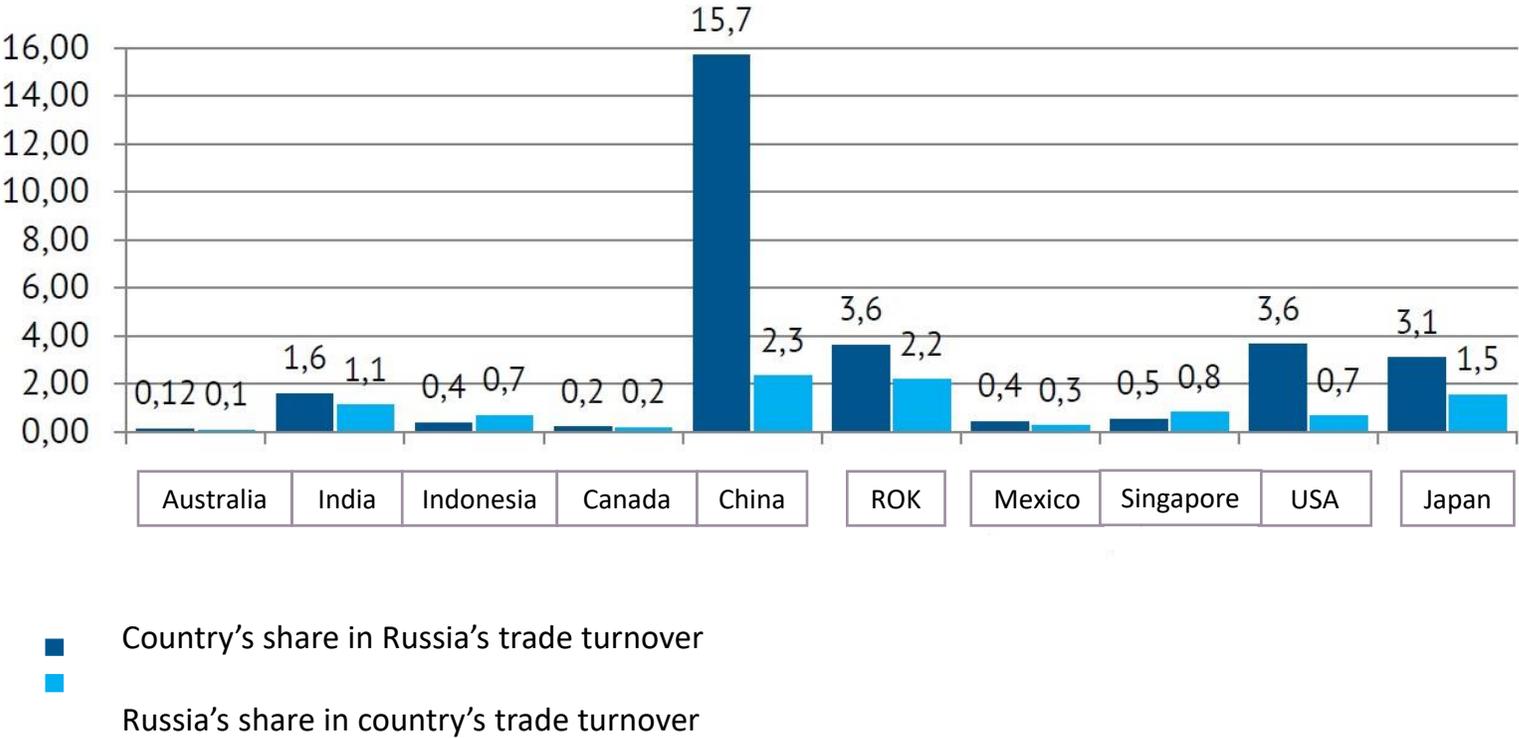


// **Asymmetrical trade balance:** Asia's share in Russian imports is 44,6% vs. 29,1% in Russian exports

// **Heavy reliance on hydrocarbons (65.6%)**

// **Trade structure pattern:** energy and raw materials from Russia in exchange for high value-added products from Asia; non-energy trade is modest

# Russia's trade balance with Asia-Pacific

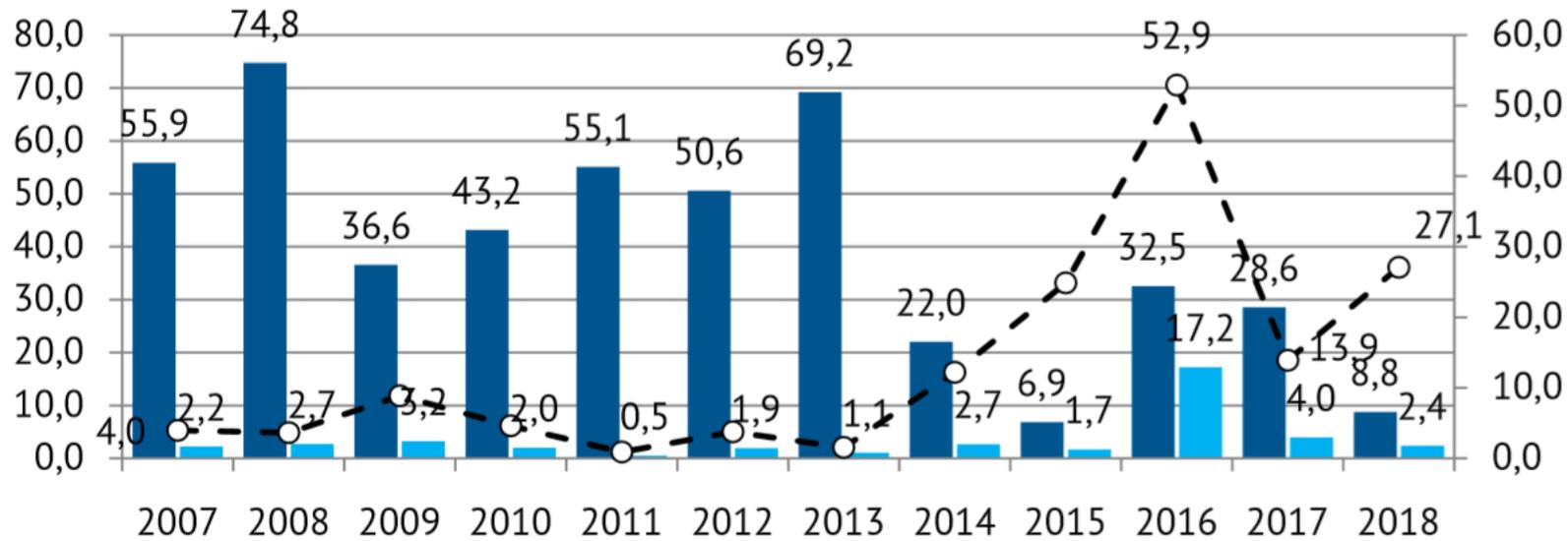


// **China is the main driver:** China's share in Russia's trade turnover - 17.3% in Q1 2020 (vs. Japan – 3.1%, ROK – 3.6%, India – 1.6%)

// **Russia's weight in Asia's trade turnover is below 1%,** with the exception of China and ROK

Source: Russian Foreign Trade Academy, 2019

# Asia-Pacific's investments in Russia



- Total FDI in Russia
- FDI from Asia-Pacific
- Asia's share of FDI

// **Adverse business climate and sanctions** as the main deterrents

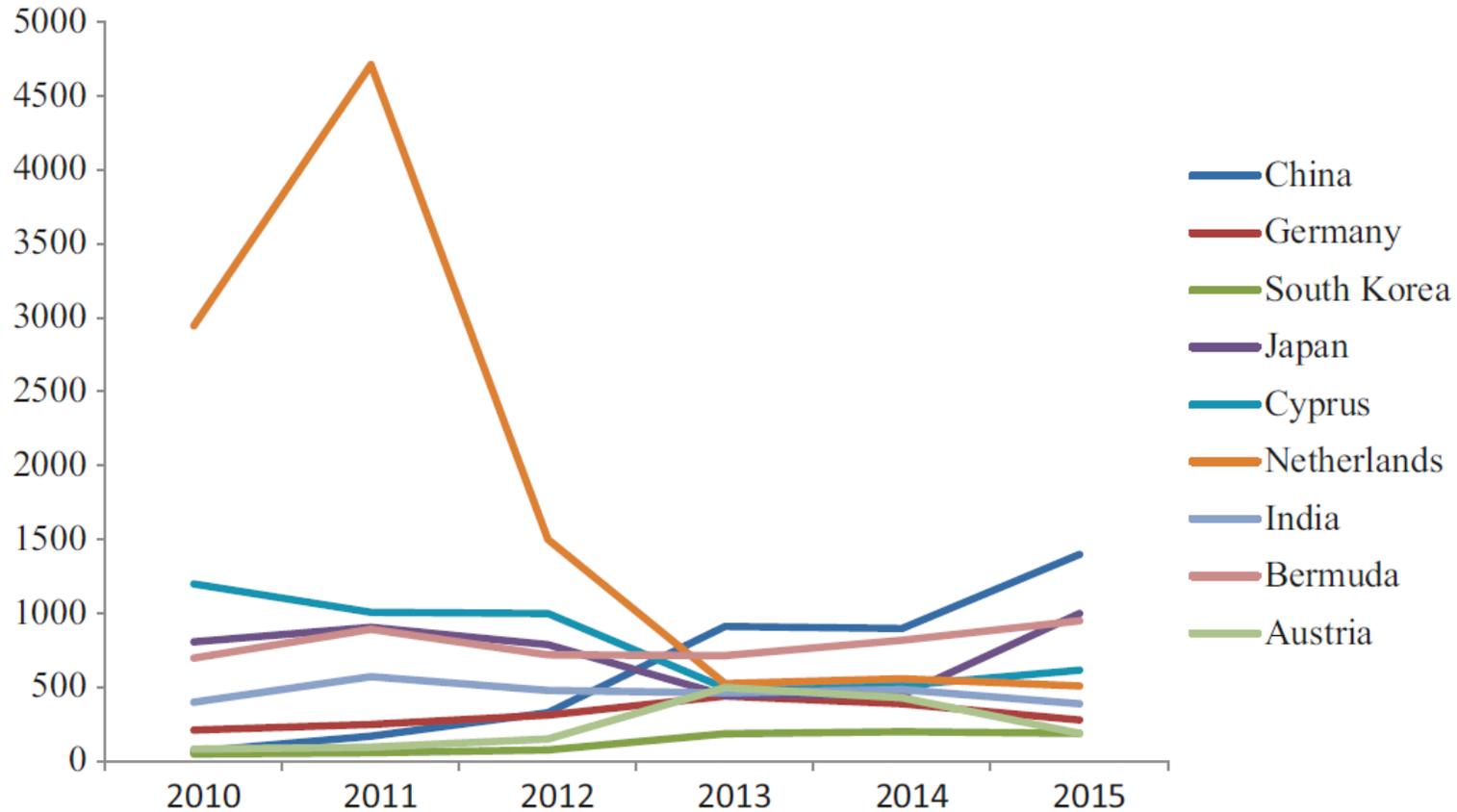
// **China is Asia's major investor** (less than 1%)

// **High-level political involvement** is necessary

// The private sector's investments are **marginal**

// **Investments via mutual funds** (\$40 bn, incl. CIC, JBIC, KIC)

# Asia-Pacific's investments in the RFE



**Fig. 8.3** FDI in the Russian Far East by main Asian and non-Asian partners (million USD) (Federal State Statistics Service 2016)

// 90% of investments are of **domestic origin** (Bermuda and Cyprus)

// **China accounts for 2/3 of FDI**

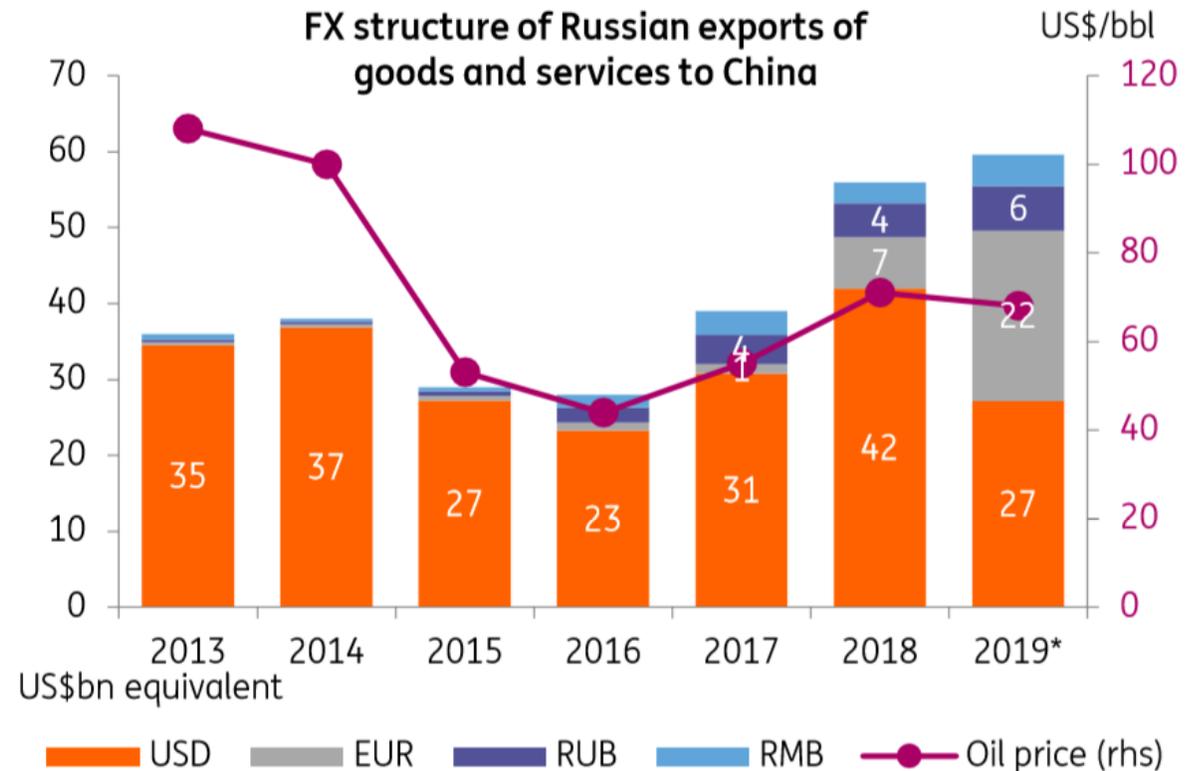
// Despite the creation of special econ zones, Asian investors **prefer to invest in the Western part of Russia**

//Lack of infrastructure, low population density

# Russia's de-dollarization efforts

- **The euro is the main beneficiary** of Russia's de-dollarization efforts
- **The use of national currencies is small** but growing: 14 % of payments are already conducted in yuan and 7% in roubles
- Yuan is used for China's exports
- **Russia is the largest holder of yuan reserves** (15% vs. 2% globally)

Fig 5 ...and for Russia-China trade too



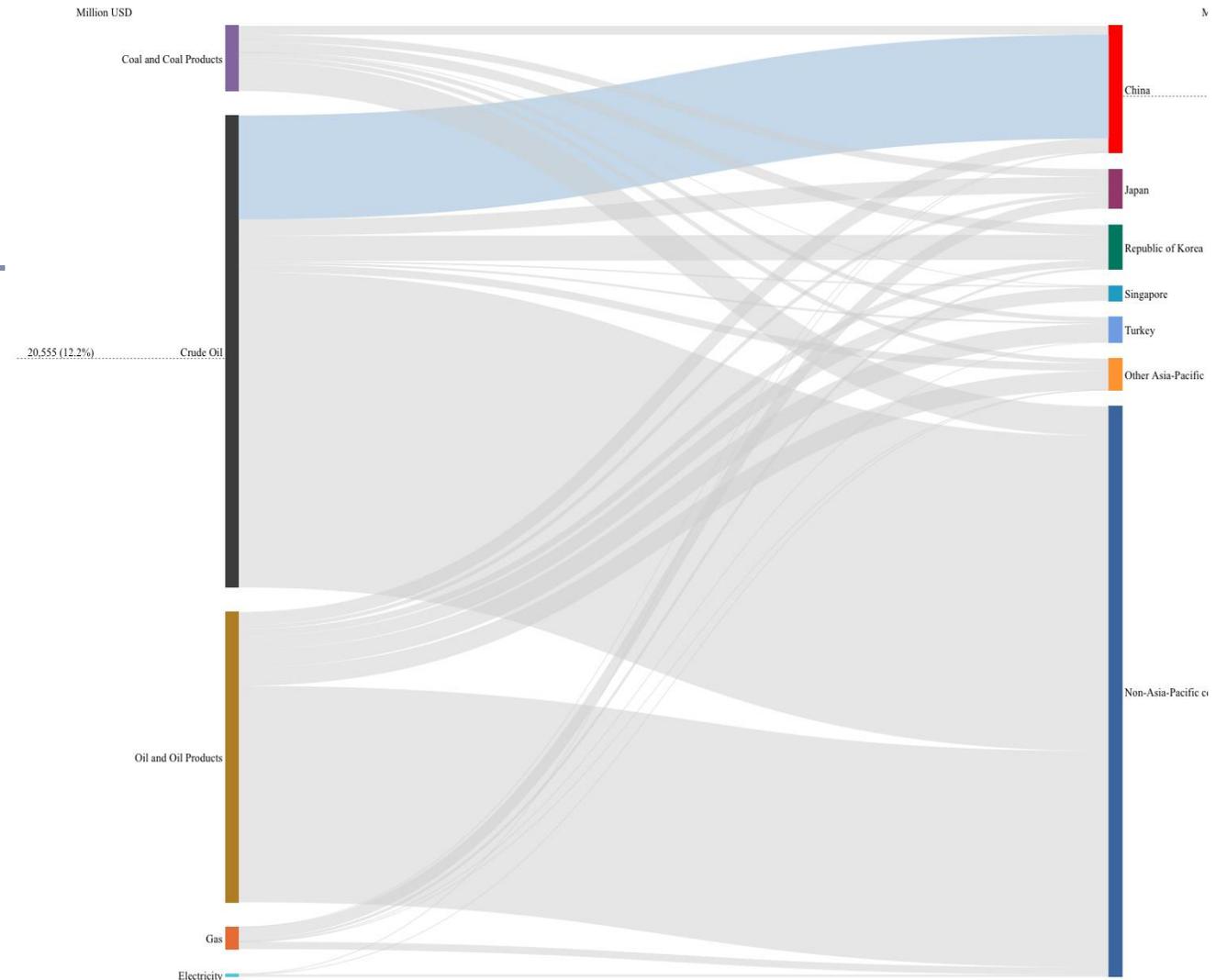
\*ING estimates based on 1Q19 data

Source: Bank of Russia, Federal Customs, CEIC, ING

# Energy cooperation

- **2015-17:** 25% of oil and 7% of gas exports to Asia; **by 2025:** 40% of oil and 20% of gas exports to Asia; Novatek is to ship 80% of its LNG to Asia
- Russia became the largest oil supplier to China/launch of Power of Siberia
- **Moderate exports** to Japan and ROK

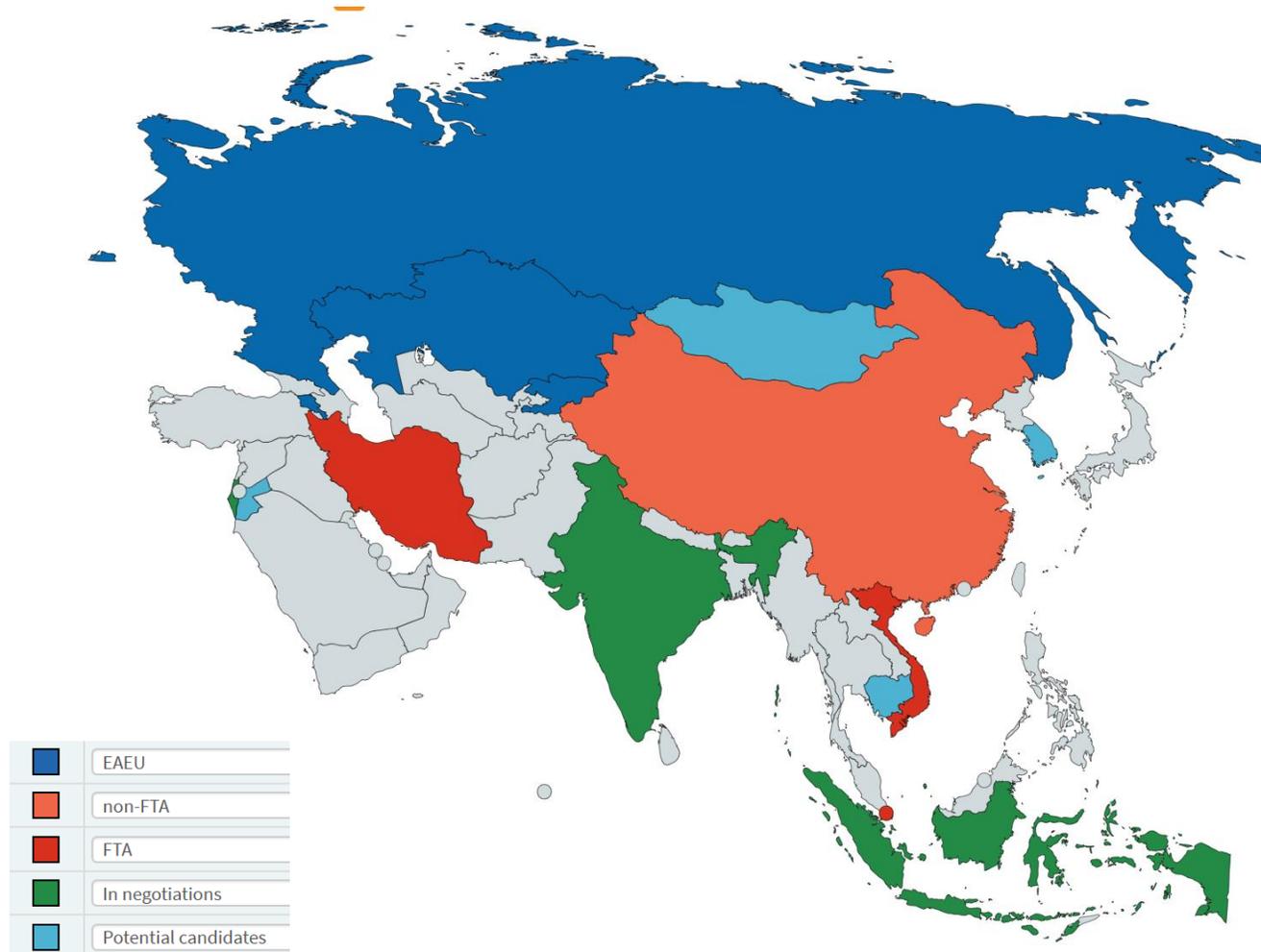
Russian Federation Energy Exports, 2017



# Energy cooperation

- **Russian upstream/downstream opened to Asian buyers**
  - ✓ Novatek - CNPC/Silk Road Fund – 29.9% in Yamal LNG (2013/2014)
  - ✓ Rosneft – Indian Oil Corp etc – 29.9% in Taas-Yukyakh Neftegazodobycha (2016)
  - ✓ Novatek – CNPC/CNOOC/Mitsui&JOGMEC – 10% each in Arctic LNG-2 (2019)
  - ✓ Sinopec – 10% in Sibur (2015)
- **Funding via government-backed institutions:**
  - ExIm Bank of China, China Development Bank, the Silk Road Fund: \$12 bn to Novatek
  - Funding to Novatek, Gazprom, Transneft and Sberbank via JBIC

# EAEU's relations with Asia



// Russia is “gate-keeping” the EAEU’s external relations = shift to Asia and Middle East

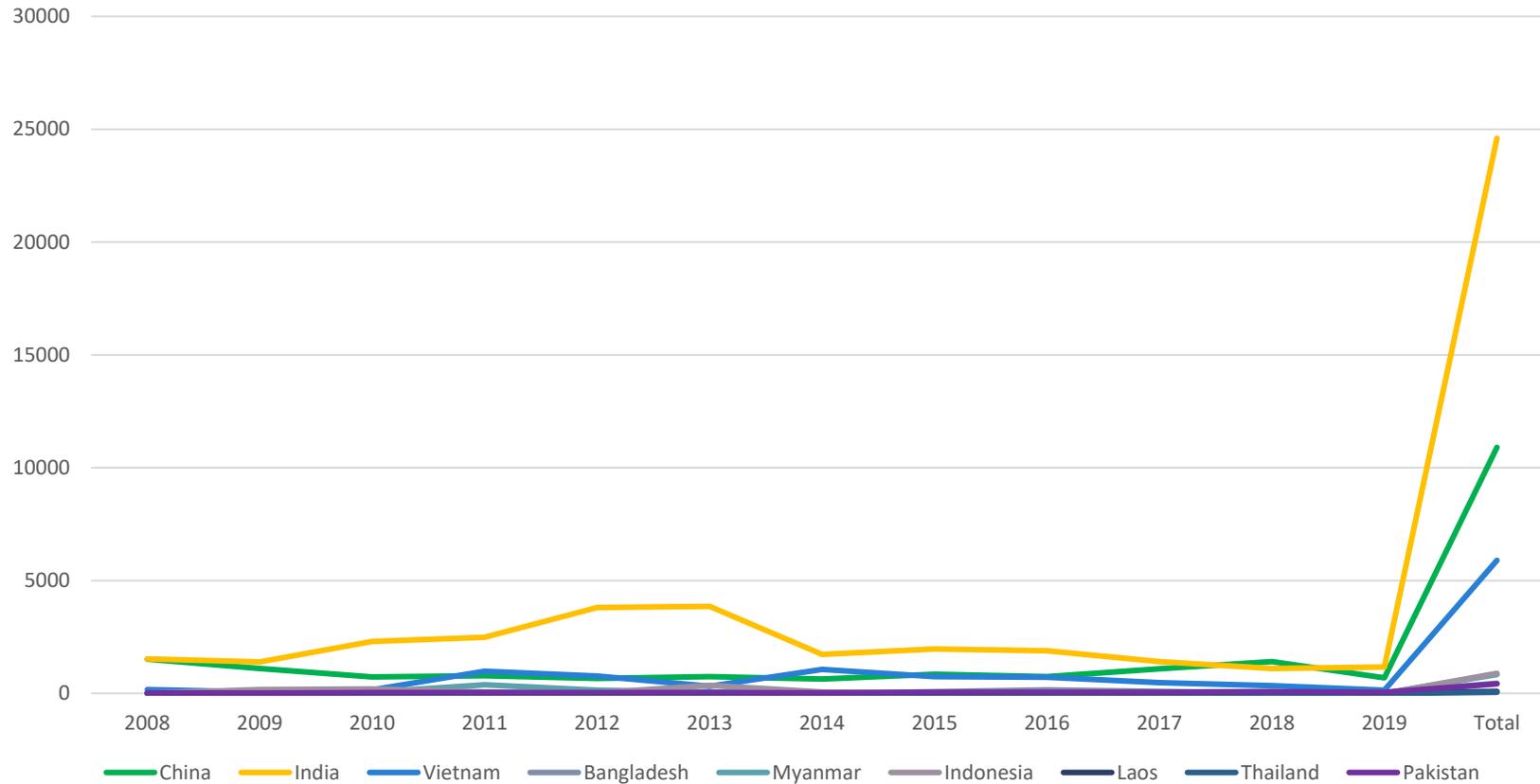
// Limited trade liberalization benefits: FTAs mainly benefit Russia; low trade turnover with other EAEU members

// Non-preferential agreement with China (2018)

// ‘Pairing’ between EAEU and SREB (2016): many projects are delayed and lack economic feasibility

# Arms sales to Asia-Pacific

Russia's arms sales to Asia-Pacific, 2008-2019, mln USD



// Stepped up military-technical cooperation with **China**: purchase of S-400; hi-tech cooperation

// **India** remains Russia's largest arms customer; \$14.5 bn in sales (2018-2019); advanced delivery of S-400.

// **Southeast Asia** as a major growth market (\$37 bn in 2016, up 30%); new markets in Thailand and the Philippines

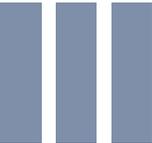
# Delivering equipment and technology

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**Leveraged prices** for Russia's sanctions-hit projects:

- **China:** marine diesel engines (anti-saboteur ships and corvettes)
- **Southeast Asia** (Indonesia, Taiwan, Malaysia): dual-use goods, electronic components
- **India:** aerospace programmes (GLONASS); frigates; manufacturing of spare parts for Russian military equipment





# Conclusions

- **Inability to harness Asia's economic growth** and continued **reliance on hydrocarbon exports**
- **Over-dependence on China's** energy demand, equipment and capital; volatility in trade
- **Limited diversification to other regional actors**; India as an emerging alternative
- **Russia's diminishing leverage in arms sales**: China is becoming Russia's competitor in high-tech military exports
- **More asymmetry in the post-pandemic**; China's slowdown will affect Russia's economic performance