May 24, 2022

China's Economic and Trade Ties with Russia

Two developments in February 2022—the announcement by leaders of the People's Republic of China (PRC or China) and the Russian Federation (Russia) of a strategic partnership that "knows no limits" and Russia's renewed invasion of Ukraine with tacit PRC support—may raise new considerations for Congress about the deepening China-Russia ties. China's trade, financial, and technology ties with Russia may affect the strength of U.S.-led efforts to constrain Russia, including through sanctions and export controls. China's alignment with Russia also appears to be part of broader efforts to create alternative global systems in trade, finance, and technology that could intensify and challenge the liberal global economic order. Also see CRS In Focus IF12100, *China-Russia Relations*.

China's Economic Ties to Russia

An easing of trade tensions and mutual assurances on border disputes has deepened Russia-China ties and allowed both sides to focus on other geopolitical priorities. Since 2014, China and Russia have reached agreements in trade, energy, finance, technology, and aerospace, while increasing diplomatic and defense cooperation. Bilateral trade has expanded since 2014, but flows are asymmetric. In 2021, China accounted for 18% of Russia's trade while Russia represented a 2% share of China's trade. China's share of Russia's trade has steadily grown from 11% in 2013, largely at the expense of the European Union (EU). **(Figure 1)**.

Russia provides China strategic exports, including energy, fertilizer, and metals (e.g., gold, nickel, titanium, and platinum). China has been increasingly turning to Russia for crude oil, natural gas, and coal (**Figure 2),** and Russia could become a more important supplier of wheat and fertilizer as China faces shortfalls. After Russia's 2022 invasion of Ukraine, China lifted import restrictions on Russian wheat. China exports to Russia machinery and electronics ($28.8 billion), followed by base metals ($5.7 billion), textiles and apparel ($5.4 billion), and vehicles, ships, and aircraft ($5.0 billion). The war could deepen bilateral ties if Russia's access to global markets further deteriorates, and if China looks to Russia to address global shortages. Disruptions in Ukraine likely affect China's access to agricultural products (e.g., corn, sunflower oil, and pork). China had turned to Ukraine to diversify away from U.S. exports and is now seeking alternative suppliers. Given its outsized role as a buyer, China could crowd out countries seeking scarce food and energy.

U.S. and EU Sanctions

China's leaders have not condemned Russia's invasion of Ukraine—instead largely blaming the United States and NATO—and have criticized and refused to join U.S.-led sanctions on Russia. China's critique of U.S.-led sanctions appears to disregard how it has used economic coercion, import bans, and *de facto* trade embargoes against countries for economic and political aims. The PRC government has positioned itself to engage in counter-sanctions by enacting new anti-sanctions laws and blocking measures to counter foreign sanctions with which it disagrees. These laws and measures contain provisions to punish PRC and foreign firms that comply with such sanctions. China's leaders may assess that China will not face consequences for its support of Russia and unwillingness to impose sanctions on Russia. They may judge that China can wait out or work around any sanctions on Russia, which they may assess as not long-standing or comprehensive enough to constrain China, while some restrictions might advantage China. They also may assess that China could leverage EU-U.S. rifts, although such PRC efforts seem to have fallen flat for now.

Figure 1. Share of Russia's Trade with Select Partners

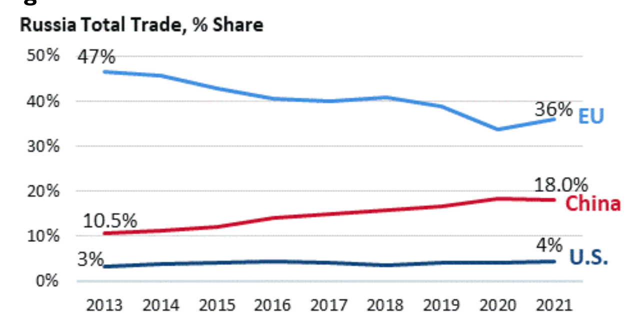
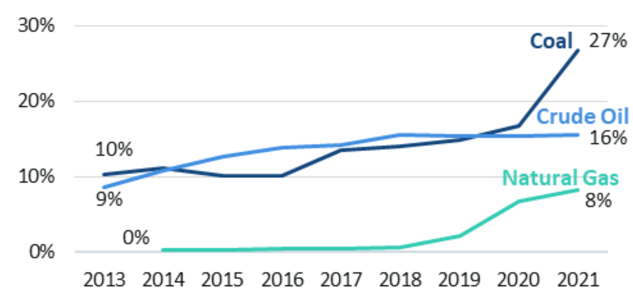


Figure 2.Russia as Share of China's Imports



Source: CRS with data from the Trade Data Monitor.

Note: Percentage based on value (Figure I) and volume (Figure 2).

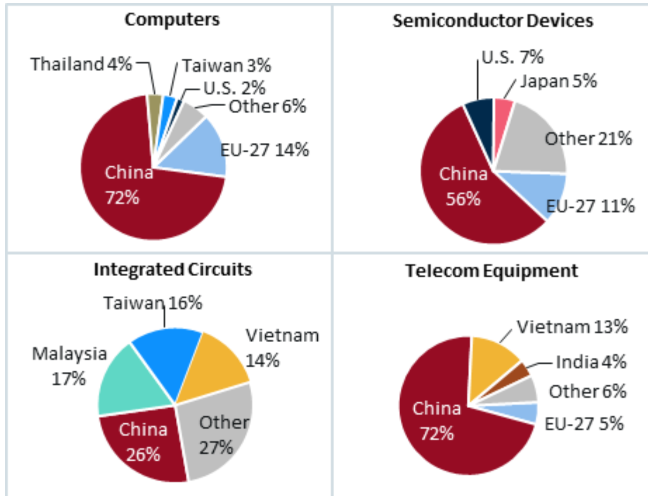
China's approach to sanctions will likely evolve with any shifts in global approaches to Russia and identification of potential new trade and financial pathways. Responses may vary depending on the type of firm and extent of global exposure, and the strategic value of certain trade and investment. So far, some PRC firms and banks with major global exposure have reportedly paused certain U.S. dollar transactions and trade with Russia. The Communist Party of China in March 2022 issued a ban on its leaders' purchase of property overseas or stakes in foreign firms possibly to insulate them from sanctions. PRC firms have previously gained market share in U.S.-sanctioned markets; the pull back of U.S. and allies' energy, financial, and technology firms from Russia provides openings for China. China's banking regulator said in March 2022 that China would not participate in U.S.-led sanctions and would maintain normal trade and financial ties with "relevant parties." Other firms, encouraged by the PRC government, have sought to buy Russian and western assets in Russia, and denominate some trade (e.g., oil and coal) in China's currency, the *renminbi* (RMB). State-tied PRC firms have violated U.S. sanctions in the past. The U.S. government sanctioned Huawei and ZTE for sales to Iran that violated U.S. sanctions. In 2009, PRC state oil firm CNPC created the Bank of Kunlun as a special purpose vehicle to skirt U.S. sanctions on Iran, and then used a shell company to conduct trade after the U.S. government sanctioned the bank.

Since Russia and China agreed in 2019 to decrease use of the U.S. dollar, about 25% of their bilateral trade has been settled in RMB or Russia's ruble. Firms might seek to leverage barter trade, a border trade system used through the 1990s, and similar methods used in Iran trade, especially for commodity and other state trade. In March 2022, China's and Russia's payment processing firms (UnionPay and Mir) announced a system in which Mir would issue cards tied to UnionPay's network; however, it reportedly suspended the launch. Several Russian banks have ties with UnionPay. Its global network could handle transactions for Russia. While the RMB is not widely used globally, it could be backed by energy or gold via Russia's ties to Shanghai's gold exchange. Trade in RMB could allow both sides to conserve U.S. dollars, insulate trade from sanctions, and expand the currency's use. Russia's central bank reported that about 14% of its reserves were in RMB as of June 2021. It holds about $140 billion of PRC RMB-denominated bonds and could draw on a $24 billion commitment with China's central bank for short-term loans.

China's Technology Trade

The Biden Administration has said it expects China not to substantially support Russia. Unlike a requirement that China commit to restrict trade, this approach could require the U.S. government to prove that PRC firms are violating sanctions in a consequential way to justify any new actions on China. Additionally, current multilateral sanctions and export controls appear to leave open areas in which PRC firms could still operate in agriculture, energy, minerals, and technology. Without secondary sanctions, the United States and Europe are limited in their ability to constrain PRC activity. China supplies about 70% of Russia's technology imports, such as semiconductors and electronics. These exports are about 2% of China's total exports of these products (**Figure 3**). China is a global production and final assembly hub for electronics and semiconductors. U.S. export controls on Russia focus restrictions on advanced technologies for certain military end users and uses and may not sufficiently restrict China's technology trade with Russia. China might support Russia's military systems, including a potential need for mature semiconductor nodes. While China's industry uses U.S. technology, software, and equipment, the U.S. government may not have sufficient visibility and access to enforce its controls on Russia through China's trade. It also has not issued requirements for U.S. technology exports to China that might restrict exports or require China to abide by U.S. controls to enforce and strengthen controls on Russia.

Figure 3. Russia's Technology Imports (2021)



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urce: CRS with data from the EIU and Trade Data Monitor.

Outlook and Issues for Congress

China has partnered with Russia to launch new global trade, finance, and technology frameworks while relying on the current trading system, the U.S. dollar, and access to G-7 export markets. These efforts include a global payment system, a *One Belt, One Road* trade network that ties supply chains to China, and global satellite positioning (e.g., BeiDou and GLONASS) and smart device operating systems (e.g., Harmony and Aurora). Congress might consider what closer China-Russia ties and competitive approaches imply for the U.S. posture vis-a-vis China, including whether and, if so, how to sustain and develop critical U.S. advantages and points of leverage over China. Among potential issues that could be considered:

- Should the United States work with other countries to thwart China-Russia efforts to create new rules, standards, and systems in trade and finance? What is the potential for global RMB-denominated trade backed by oil or gold in the current period or over time?
- Is U.S. implementation of sanctions and export controls on Russia sufficient? Should Congress examine China-Russia ties and how China might avoid these measures? Should the United States enact secondary sanctions or tighten technology trade and terms of trade with China to require China to choose between trade with Russia and with the United States and Europe?
- The United States is a top supplier of agriculture, oil, and liquefied natural gas for China. In light of China's support of Russia, the global food and energy crisis, China's trade coercion in these sectors, and Europe's shifts away from Russia, should the United States

- prioritize such exports for Europe and countries in need?

Karen M. Sutter, Specialist in Asian Trade and Finance

Michael D. Sutherland, Analyst in International Trade and Finance

IF12120

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