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Lovas Hanga Gabriella

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Internal adviser: Dr. Koudela Pál

By Lovas Hanga Gabriella

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2. ABSTRACT

This thesis assesses the different aspects of the China-Russia economic relationship, considering the war in Ukraine and the effect of the following sanctions. It conducts the analysis of their shared history, China's financial support to Russia, where the effect of financial sanctions is discussed, according to which Russia is banned from the use of SWIFT, thus it had to search for alternatives. The solution to this problem was the use of their own SPFS system and China's CIPS. This way Chinese banks invested in Russia, providing and alternative to the western payment systems. The following section shares the tools used by the two countries in order to achieve a new multipolar world order via the de-dollarization process. The allies heavily promote the use of their own currencies, conducting trade in mostly yuan. Russia's foreign exchange reserve mix has also been redirected away from the dollar, and towards the yuan. Additionally, they use their membership of the BRICS in a way to achieve dethroning the dollar. In the consumer goods and trade section the two countries' export portfolios are analysed as China's consumer goods and electronics export to Russia have significantly grown due to western sanctions. On the other side, Russia's export to China remains stable on the minerals, with a significant growth since the war broke out. China helps Russia by purchasing their gas and oil surplus which the western markets have left behind. The significance of the Chinese military support is observed in the last section. China exports high priority products to Russia, since it has no capacity to produce it themselves and the western markets have banned the trade of dual-use goods with Russia. China fears no threats from the west, it continues to support Russia even if their relationship is quite asymmetric. China is trying to avoid secondary sanctions from the west, while simultaneously supporting Russia, which is a challenging strategy to begin with. In the end, China gained the most leverage from the war and the sanctions as it could form the consequences to its benefit.

3. INTRODUCTION

Nowadays, the China-Russia relationship is one of the most defining topics of modern geopolitics. It is also an important topic because their developing relationship, directly or indirectly, affects the balance of power in the world. The relationship between the two countries dates back decades, marked by cooperation and tensions. Until the last few years, they did not achieve significant results; however, this has accelerated, became more successful, and more stable, especially since Russia's attack on Ukraine in 2022. Due to the sanctions imposed on Russia, the country is in a crisis situation, in which China is providing support. However, this relationship is not simply based on goodwill, but rather on mutual interests. Namely, Russia is currently in a forced situation, from which China and the East are the only way out. China is taking advantage of this situation and steering it in a way to ensure conditions that are favourable to itself. Analysing their economic and geopolitical relationship, several questions arose, and I have selected a few of them to seek answers during my research:

- How are the sanctions imposed due to the war in Ukraine affecting the economic relations between the two countries?
- What tools are the two countries using to achieve a new multipolar world order?
- Did China or Russia gain more advantages during their cooperation, who benefited more from the agreements made? How asymmetric is their partnership?

The aim of this study is to gain a more complex understanding about the China-Russia partnership by researching not just their economic relations but their geopolitical interests too. By examining the strengths and the weaknesses of the cooperation, we can get an answer to the question of how asymmetrical their partnership is and what their selfish motives could be. This thesis is an important topic to discuss in order to obtain knowledge about these two major powers' operations, goals and how they might potentially create a new multipolar world order.

1.2. Methodology and data

The research methodology applied for this thesis – The China-Russia relationship – is based on secondary research. The approach includes the review and analysis of existing literature, research and databases to examine the China-Russia relationship. The decision of conducting secondary research is based on the wide variety of historical trade data, academic and institutional studies, and geopolitical analyses that offer a comprehensive understanding of the complex relationship between the two countries. With the adoption of these sources, the research focuses on obtaining conclusions, insights, and patterns from authentic and verifiable sources instead of performing primary research. The following sources combined provided data for the study: Research papers and literature, giving perspectives on historical context and theories including international relations, power dynamics, economic partnerships and geopolitics. The case studies and literature also helped to examine specific financial agreements, energy deals, and ongoing developments. Statistical data on financial, trade and energy agreements and volume over the years between China and Russia was extracted from institutions such as the World Bank, The Bank of Russia, Atlantic Council, KSE Institute as well as from data visualization and analytics platforms such as OEC and Statista. Furthermore, numerous research publications and other platforms provided additional data. To cover the most current developments of the topic, international news agencies provided information, such as BBC, CNN, The Wall Street Journal, The Financial Times, Reuters, The Moscow Times and so on. Government reports and official statements gave insights to some of the decision making and goals - for example the 2024 BRICS Kazan Summit website- to further understand the cooperation's operation.

During the research both qualitative and quantitative methods are used. The qualitative analysis was applied to the literature and research paper as well as the news outlets and online journals. These sources provided information that was interpreted and used in the research about political, geopolitical and economic aspects of their relationship. The quantitative analysis was used to examine and analyse the numerical data of trade flow and portfolio besides the currency swaps and overall financial situation. For this method the aforementioned databases and economic reports were used.

The following aspects of China-Russia cooperation are the primary focus of this research; China’s financial support to Russia: In this section Russia's deteriorating financial situation is explored after the two rounds of financial sanctions (2014 and 2022) and how China has aided the country to ease the situation and strengthen their partnership. The outcome of this section was based on bank reports and research on bilateral swap agreements. The second part is processing the de-dollarization actions of the Sino-Russian partnership included analysis of currency swaps, exchange reserves and their mutual membership of BRICS. Bilateral trade was analysed based on self-edited figures depicted from OEC data, where sector-specific trade and import-export volumes are discussed.

There are potential limitations to this research as it is based on secondary research and this way reliant on the available data provided by existing data and literature. A risk could be that the government and media reports could reflect certain biases based on national interests. Additionally, the research cannot be fully up to date since this thesis topic is a very current topic which is changing and updating rapidly. This way there are limitations to the amount of available data and existing research from the last two-three years.

To ensure quality research, this study conducts systematic analysis of qualitative data by applying categories – such as "Financial support from China" or "Energy collaborations" – for the different segments of their partnership. Identifying recurring themes and trends helps to understand the two countries' different priorities in the energy trade and financial agreements, this way getting a better idea of the relationship dynamics and strategic goals. Using comparative analysis on different aspects of their relationships enabled to understand where the two nations aligned and differed, for example in the latter three chapters, comparing their political systems and beliefs, the demographic differences and their diverse geographic interests.

By combining these methods, this thesis aims to provide a collective understanding of the developing partnership between Russia and China, discussing the strengths and weaknesses of their relationship exploring different aspects of the cooperation to later identify the answers to the following questions that arose.

2. HISTORY

In order to understand the Sino-Russian relationship, it is fundamental to dive into their shared history. Some describe it as a rocky road to friendship with lots of challenges but not without benefits. The two countries have shared mutual beliefs throughout history with common goals and opponents which helped form their relationship and alliance of today.

Their interactions have begun back in the 17th century when the Russian settlers were somewhat equal with the Chinese Quing empire. Russia having the upper hand started in the 19th century when they were continuously exploited and benefited on China, detaching significant amount of territories, such as the 1858 Treaty of Aigun. This agreement significantly increased Russian territory in Siberia and acknowledged the Amur as the border between China and Russia. The treaty established the Amur River as the demarcation line between Russia and China, significantly enlarging Russian territory in Siberia. (Radchenko, 2023)

Later as a result of the 1860 Treaty of Peking, Russia gained an extensive spread of Pacific coastline south of the Amur River's mouth. With China's acceptance of Russian authority over the territories on the left bank of the Amur and between the Ussuri River and the Pacific Ocean, Russia started the construction of the naval base at Vladivostok, solidifying its status as a major actor in the northern Pacific region. (britannica.com, 2024c)

The Boxer rebellion of 1900-1901 has only furthered China's weak state facing Russia. This rebellion was initiated by the Chinese peasants but was later supported by the government. The name boxer came from the Chinese secret society that launched the biggest attacks. The aim was to expel all foreigners from the country, especially the Christians. Russia took a big part in capturing Beijing and helping the foreigners escape. Eventually China was forced to step down and to begin negotiations, eventually to sign the Boxer Protocol in 1901. (britannica.com, 2024a)

An important milestone in the two countries' relationship was sharing the same ideologies in the 20th century, especially in the 1950s. Both countries were wishing for an ideal communist society following the principles of Marxism and Leninism. Chinese leader Mao Zedong decided to face away from the west and to strengthen the alliance with its fellow communists which led to the 1950 Sino-Soviet alliance treaty. One would think that sharing the same ideologies would benefit the relationship but in reality, it left space for potential conflicts about the interpretation of communism. This led to China trying to get in the dominant position after Stalin's death in 1953. Mao was not satisfied by the slow five-year plans of the Russian industrialization and started the Great Leap Forward campaign to fast forward the industrialization process and the development of farming and agriculture. Mao's interpretation of communism differed from the Soviet model. The Soviets focused on the industrial proletariat, while China emphasized peasantry and self-reliance which was the opposite of wat Russia was doing as they were highly centralized and bureaucratic. Mao despised this approach and tried to do it his own way, and that caused lot of tension and eventually led to the 1961 Sino-Soviet split. (magazine.tcu.edu, 2018)

Numerous factors have contributed to the split, such as military obligations since the Sino-Soviet treaty was a military alliance. A good example for that is when the Chinese were compelled to intervene in the 1950 Korean War because Stalin asked them to. This happened the other way around too when Mao alone decided to launch the Second Taiwan Strait Crisis in 1958, putting Khruschev in a very difficult position as he had to support China's decision to showcase their strong alliance. This event has furthered the tensions between the two communist powers, it being very discomforting for the Soviets to have to provide for China's reckless decisions. Surprisingly in 1959, when clashes broke out on the Sino-Indian border, Khruschev preferred for the Soviets to stay neutral in order to not ruin their relationship with India. Their action made China question their loyalty and accused them of betraying their ally. (Radchenko, 2023)

The Cultural Revolution between 1966 and 1976 was initiated by Mao Zedong, who's goal was to regain ideological control and to not follow the Soviet Union's footsteps and to not make the same mistakes. He also aimed to designate leaders more faithful to his beliefs, as his successors, encouraging revolutionary passion in China's youth and to reduce the elitism in healthcare, culture and education. He also organised youth groups called the Red Guards and made them attack the "bourgeois" impacts which has created tensions within the officials and the intellectuals. As Mao's successor, Lin Biao strengthened military rule over the Party Central Committee and society. Military officers controlled the redesigned Communist Party, and Sino-Soviet border conflicts led to the declaration of martial law in 1969. This demonstrated the military's power over the Party Central Committee and the redesigned the Communist Party, since it resulted in the deaths of many leaders and great suffering for many more. This culminated in Lin's death in a supposed escape attempt to the Soviet Union, following an alleged plotting against Mao. Lin's downfall disillusioned many supporters and exposed the Cultural Revolution’s internal power struggles. (britannica.com, 2024b)

In the meantime, China and the Soviet Union fought a brief, unofficial war in March 1969 as border disputes resulted in violent confrontations. Moscow hinted a preventive nuclear strike in response to the Chinese threat, although it is unsure if the Kremlin ever seriously considered this option. Soon enough, the Sino-Soviet relationship began to get back on track in the 1980s. The main reason for it was that the Soviets felt isolated from the West, after the invasion of Afghanistan (1979) and the Polish crisis (1980-81). Although the Soviet leader Brezhnev tried to get on one side with the United States against China back then, it was a failed attempt. Therefore, it was no surprise that President Ronald Reagan issued a public condemnation of Soviet aggression and implemented severe economic sanctions targeting the USSR. The deteriorating condition of Soviet relations with the West required a reassessment of the relationship with China, particularly after Mao's death in 1976, which resulted in the Soviets losing their primary adversary in Beijing. Since Mao's death, a new era unfolded by the new Chinese leader, Deng Xiaoping, who understood the importance of China's relationship with the USSR despite being very much anti-Soviet, set balanced diplomacy with a steadfast creed of independence for China’s path to modernization. (Radchenko, 2023)

As mentioned, an important factor between the two countries were the border disputes, which had to be resolved over time for them to be able to work together. The Sino-Soviet border conflict lasted until bout 1982, when limited trade resumed but significant militarization continued. Negotiations to reduce tensions caused by the Afghan war started in 1986. The agreement addressed the eastern and western sectors in 1991 and 1994, accordingly. The remaining points of dispute were settled in Vladivostok in 2005, and a formal border agreement was concluded in Beijing in 2008, bringing the war to a conclusion and lowering the possibility of future interstate confrontation. (Zinberg, 1996)

Continuing the success of these settlements, the 2001 Treaty of Good-Neighbourliness and Friendly Cooperation was founded and built on the 1991 Sino-Soviet Border Agreement (Barrios and S. Bowen, 2023), solidifying mutual satisfaction on border issues and establishing areas of collaboration in trade, economics, and counterterrorism. The renewal of this treaty in 2021 indicates the improvement of bilateral ties, which may be attributed in part to Presidents Xi Jinping and Vladimir Putin's strong personal relationship. Since 2013, they have met repeatedly, creating conversation channels, and in 2019, they declared a Comprehensive Strategic Partnership of Coordination based on political trust and broad collaboration. (J. Bolt and N. Cross, 2018)

3. CHINA'S FINANCIAL SUPPORT TO RUSSIA

Since Russia has attacked Ukraine in February 2022, there have been multiple sanctions imposed on Russia by the United States and the European Union. The most significant and possibly suffocating sanctions are the financial ones. In March 2022, Russia was banned from using of the SWIFT – The Society for Worldwide Interbank Financial Telecommunication – system to facilitate trade, including seven banks: Bank Otkritie, Novikombank, Sovcombank, Promsvyazbank, Bank Rossiya, Vnesheconombank (VEB) and VTB Bank. Later on, the European Commission has excluded three more banks. The aim of this sanction was to enable Russian banks to use the instant transactions and other benefits provided by SWIFT as well as cutting the country off the world trade and crushing its economy. This way, banks would have to trade between each other directly, making it more expensive and longer to complete payments. (Hotten, 2022)

This is not the first time Russia experiences such actions, as in 2014 due to western sanctions that has been placed on Russia for the invasion of the Crimean Peninsula, Russia has established SPFS, the Financial Message Transfer System of the Bank of Russia, which is a financial transfer system, a regional alternative to SWIFT. The difference between the 2014 and the 2022 ban is that this time they also included the Russian central bank which makes it even more difficult for Russia to stand on their feet. According to the Bank of Russia, foreign investors continued to have a strong demand for the SPFS. More than 159 international institutions from 20 different countries were using SPFS at year's end (2023), making up more than a quarter of the total customers. In their annual report of 2023, the Bank of Russia stated that for domestic correspondent banking, the SPFS system emerged as the primary financial message method. It was also estimated that the number of messages sent in SPFS have nearly doubled from 2022 to 2023. Furthermore, by October 2023 it was mandatory that all Russian banks use the SPFS system for more practical data and information exchange as well as for risk management. (Bank of Russia, 2023)

Additionally in 2014, Russia has launched another form of payment system called “Mir”, which is a substitute for Mastercard and Visa. It was launched in 2015 in order to gain financial sovereignty within the country and also a response to the sanctions. The system has been gaining international recognition with partner countries such as: Iran, who is in the same boat as Russia, Turkey, Vietnam, Kazakhstan, Armenia and others. By the current year, Russia has been really successful in minimizing the damage that the sanctions caused, as it is now used for 50 % of card payments in Russia. (Rodeheffer, 2024) This incentive also helps the Eastern countries to move away from the West and the US dollar. That seems to be the universal goal for both China and Russia.

However, on its own the SPFS could fail to provide an adequate replacement for SWIFT. For that reason, Russia has been trying to rely on The People’s Bank of China’s Cross-Border Interbank Payment System (CIPS), launched in 2015. Together these two could improve Russia’s situation but it is not fully a preferable arrangement for China, since as of now, SWIFT and CIPS are collaborating on several initiatives. In 2019, SWIFT launched a subsidiary in China and created a joint venture with CIPS. (P.S. Srinivas, 2022) China may carefully review any actions it makes to deliberately risk this expanding collaboration. Therefore, Chinese banks and companies have refused the complete cooperation with Russia as the possibility of the sanctions being applied to them a well, concerns them. Nevertheless, it is still a vital help for Russia as numerous banks have joined CIPS and are now enabling the two countries to trade in Chinese yuan (CNY). This way, Russia has 13% of its foreign exchange reserves in CNY as the country has reduced its dollar reserves and expanded to gold, euro and yuan (P.S. Srinivas, 2022). Russia has been forced to depend significantly on the yuan for trading and foreign exchange reserves, making it dependent on China's monetary policies and fluctuations in currency rates.

Table 1: Chinese banks in Russia and their assets (bn rub)

	% from total bank assets 2022 in RF	Net profit Av. Quarterly based 2021	Net profit Av. Quarterly based 2022	Net profit Av. Quarterly based 2023	Net profit 3_Quarter 2023	Net profit 4_Quarter 2023	Net profit 1_Quarter 2024	Net profit 2_Quarter 2024
Bank of China	0,33%	0,25	2,67	3,99	5,64	7,23	4,53	3,09
ICBC Bank	0,30%	0,2	3,32	5,3	5,5	5,76	5,76	5,85
China Construction	0,04%	0,01	0,21	0,25	0,4	0,62	0,62	0,57
Agricultural Bank of China	0,02%	-0,01	0,1	0,25	0,22	0,38	0,38	0,3

Source: KSE Institute (2024); self edited

There are numerous CIPS member Chinese banks operating in Russia, presented on Table 1: Industrial and Commercial Bank of RMB, Bank of China, China Construction Bank, and the Agricultural Bank of China. Observing the pre-sanctioned era – meaning 2021 to this year – their net profits have grown rapidly since then, especially the Bank of China's and the ICBC Bank’s. The latter bank's average net profit quarterly in 2021 was 0.20 billion rubles, which grew rapidly to 5.30 bn rubles by 2023. According to the most current data, in the second quarter of 2024, the profits worthed 5.85 bn rubles. Furthermore, the first column includes the percentages that represent the portion of each bank's total global assets located in the Russian Federation (RF). The data from this table supports the idea of China stepping in as an alternative to the deficit generated by Western banks leaving and aiding Russia financially. Since the two countries are in a partnership, it is only beneficial for both survive this period while also benefiting from it. By the growing profits of the Chinese banks, it is clear that China is better off with this arrangement. It also proves Russia’s reliance on the CIPS, as these banks provide services through the CIPS system, promoting it throughout Russia as well as the use of yuan.

Although Russia's dependence on China is significant, the opposite is not necessarily true. Chinese financial institutions and infrastructure would probably have less motivation to facilitate operations for Russian financial institutions, especially at this point, by assuming the risks of ruining their more significant and bigger partners, such as the United States, EU and Japan. The risk of possible secondary sanctions on entities helping Russian institutions seems scarier than the will to help.

To avoid the consequences of secondary sanctions, PRC (People's Republic of China) President Xi-Jinping is introducing a kind of dual strategy, where he needs to support Russia to create their new world order, but he still needs to deepen the economic ties with the US and the West to keep the Chinese economy growing. He cannot be seen helping Russia directly to keep his country's position with the West, so China and Russia have come up with a solution: The idea was that the businesses that were previously managed by Chinese banks, were transferred to multiple smaller banks located along their border. These are the so called "burner banks" that engage in high-risk transactions with Russia to avoid the sanctions. The "illegal" actions of these burner banks relate to allowing transactions that might assist Russia in avoiding Western sanctions. They specifically facilitate payment processing for products and services that are subject to restrictions, particularly dual-use commodities, such as electronics, which have both civilian and military purposes. By enabling transactions in non-dollar currencies, such as yuan, and employing non-SWIFT communication systems, these banks let Russian organizations keep trading and procuring items that are otherwise prohibited, possibly giving indirect assistance to sanctioned industry sectors. These banks may also establish direct payment channels with Russian alternatives, avoiding conventional financial systems and complicating the efforts of the US and other G7 nations to monitor and regulate sanctioned trade activity. The indirect assistance to sanctioned sectors, such as Russia's military industry, attracts US notice and heightens the danger of additional sanctions against these financial institutions. For such actions on behalf of China, the US has threatened to apply secondary sanction for those who help Russia. The US Office of Foreign Assets Control has issued instructions about secondary sanctions for foreign financial institutions, indicating that they need to increase their awareness, saying that action must be taken or there would be consequences (Zhang, 2024).

4. TOWARDS A NEW WORLD ORDER

It is no secret that one of the main goals of the Sino-Russian relationship is to create a new world order where the US has a less significant role than the two countries in this alliance. To achieve this goal, Beijing and Moscow resort to various tools such as their long-standing bilateral swap agreements, their currency reserves, the collaboration in essential industries, the substantial transport projects or the support of the BRICS. (Aksenov et.al,2023) As mentioned, Russia's first financial sanctions were imposed in 2014 after the attack of the Criema. One of the most damaging financial sanctions of the 2022 sanction package is their currency reserves being frozen in the western countries. As of 30 June 2021, around fifty percent of the Russian central bank's reserves were invested in euro and US dollar, with approximately 50% located in countries that implemented sanctions on Russia. Some of which are: France, Japan, Germany, U, UK, Austria and Canada, so to say the G7 countries. About 20% of Russian reserves are comprised of gold physically stored in Russia, and any transactions involving this part of its assets are likely to be affected by the sanctions. Furthermore, Russia has about 14% of its reserves located in China, and that will be accessible at least. (Barrios and S. Bowen, 2023)

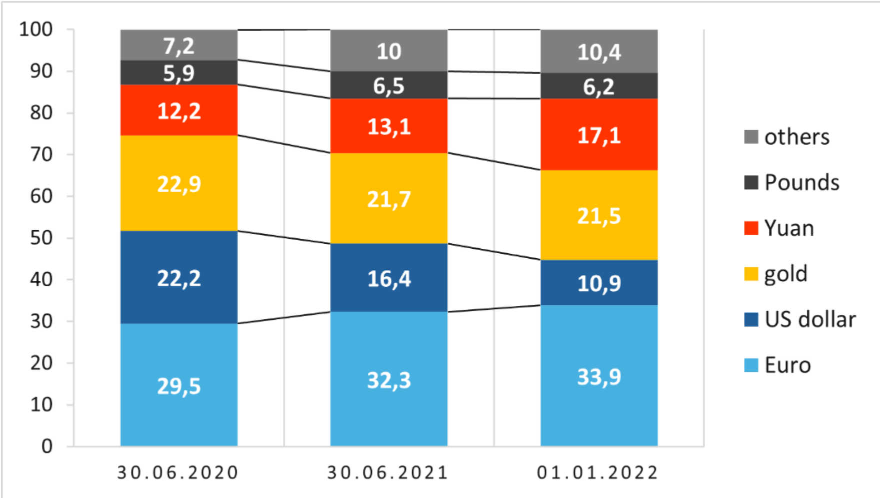
Russia's restricted access to half of their about $630 billion foreign exchange reserves, as a result of sanctions on its central bank, will certainly suffer significant immediate economic costs and can result in severe long-term repercussions for the Russian economy and financial system.

These events were key factors in the realization for Moscow that they cannot rely on the western countries any longer as it is putting Russia in a vulnerable position. Since China also understands that the US dollar's dominance is a risk factor for their economy, they have found yet another paramount common ground. They must push the use of their own currencies, leaving the dollar behind in order for the de-dollarization process to be successful. For the past years China has been working on strengthening the yuan, expanding internationally by using CYN during trade transactions with other countries, along the Belt and Road Initiative (BRI) as well. The primary step for Russia and China dates back to 2014, when their bilateral swap deal was founded. The central banks of the two countries agreed to swap a sum of about 150 billion yuan, ensuring the liquidity on both sides of the border (Aksenov et.al,2023) This arrangement further includes a daily limit of yuan access of 10 billion yuan and a monthly starter of 20 billion that is also allowed on the last day of the month, replacing the dollar with the yuan as the most swapped currency of Russia (Atlantic Council, 2024).

4.1. Foreign exchange and gold reserves

Another action taken was the promotion of gold reserves over the US dollar, helping Russia further in getting less reliant on the West. Russia's gold reserves grew from 1,035 tonnes in 2013 to 2,333 tonnes in 10 years, therefore Russia has the number one fastest expansion in gold today. China also expanded its gold supply from 1,054 tonnes to 2,235. Despite their effort, the US is still the leading country with an 8,133 tonnes reserve (Venditti, 2024).

Figure 1: Bank of Russia foreign exchange and gold reserves (% of market value)



Source: Russian Central Bank (2023), Atlantic Council (2024); self edited

Sanctions have pushed Russia's Central Bank and Ministry of Finance to make the yuan and gold their primary reserve assets. By May 2024, up to 80% of Russia's National Welfare Fund reserves are expected to be in yuan (Kluge, 2024). Figure 1 shows the Bank of Russia's foreign exchange and gold reserves from 2020 to 2022. Russia's dollar reserve declined outstandingly by roughly 51%. It seems as though the de-dollarization has been successful so far. Russia's foreign currency reserves are also in the process of being reallocated and distributed to other more friendly countries than the west. From 2021 to 2022, said reserves located in China grew by 3% (Shagina, 2022).

Their euro reserves grew by 15% and the yuan by 40%. The gold assets have been rather steadily around 22%, which could mean that the Bank of Russia reached their desired savings stock for now. Clearly, besides the yuan, there had to be a substitute for the dollar. The euro seems like a logical – as it is a major currency like the USD – but rather a calculated investment risk, since the eurozone countries are imposing the sanctions too. It is simply because while there is fear of additional sanctions, Moscow likely views the US more aggressive than the eurozone when it comes to enforcing sanctions. Despite the risks, it is crucial for Russia to have diverse currency reserve with multiple major and powerful ones. Furthermore, some business and trade relations with European countries continued even after sanctions imposed, usually via intermediaries or with special exceptions. Having euro on hand makes importing and exporting goods much easier. Regarding the dollar, there seems to be no going back. The Sino-Russian alliance have forsaken the dollar for good and are concentrating on their own currencies' acknowledgement as a popular trading tool.

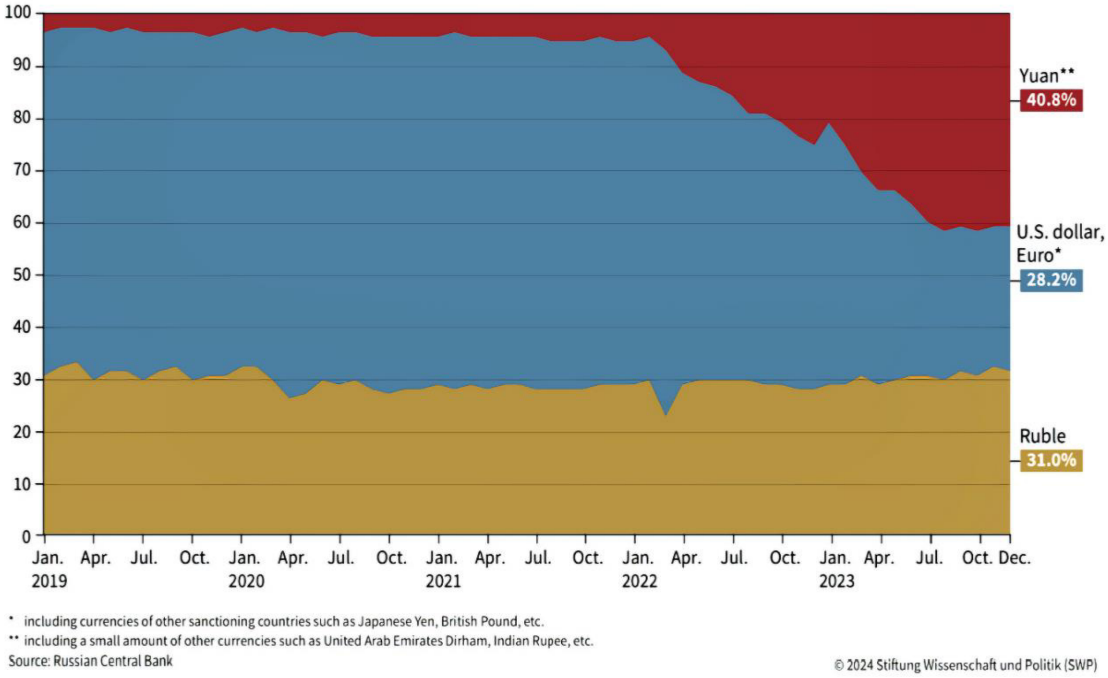
Over the latest years, Chinese yuan has become the Moscow Exchange's most popular currency, exceeding the dollar as of 2023. So much so, that the Russian households are increasingly accounting the yuan as a store of value and investment, and by February 2023, over 50 Russian banks were offering yuan savings accounts. The yuan is also eligible for protection against the high inflation, which is an ongoing problem in Russia, and on top of that it shields the economy from the western sanctions. Despite this, yuan accounts for only a small share of total foreign currency holdings in Russia. In February 2023, Russian households held $6 billion in yuan, out of a total of $53 billion in foreign currency assets. Russian banks have also started issuing yuan-denominated loans to Russian companies, and several major exporters, including RUSAL (aluminium), Rosneft (oil), Polyus (gold), Metalloinvest, and Norilsk Nickel, have issued RMB bonds traded on the Moscow Exchange. This shift allows companies to finance projects and manage exchange rate risks in the same currency as their export revenues. RUSAL issued the first yuan bond in August 2022 (Kluge, 2024).

Despite these developments, some Russian companies are still unable to access Chinese finance markets due to China's capital regulations, which reduces the flexibility of yuan financing. Additionally, Western investors have not yet been replaced by Chinese investors in Russian government bonds, which were previously largely owned by foreigners from the West. Because of these limitations, it is currently uncertain that Western finance will be replaced by yuan bond offerings in China. Russia's dependence on the yuan introduces economic and political risks. The yuan's exchange rate is controlled by Beijing, and if China decided to devalue the CYN, Russia's deposits and reserves in that currency would lose value. The liquidity of the yuan market in Russia remains low, limiting its stability and flexibility compared to Western currencies. While the CYN now dominates Russia's currency reserves, it doesn't align with the currency mix of Russia's imports, which still rely heavily on US dollar (Alekseevskikh, 2022).

Not just political risks can be involved with the reliance on yuan, but it is also risky to investors – for example the yuan bonds that are getting more popular by the day – that the Chinese banks released. It may seem practical for Russians to invest in yuan in today's inflating state, but there have many dangers to it. One of them is that they don't have a fully developed system yet, meaning there could be inconveniences where you cannot withdraw money in yuan or there could be some delays dollar (Alekseevskikh, 2022). Some Chinese banks even go as far as delaying Russian payments and then reject then in the end. Being unable to complete transactions is letting Russian businesses to lose money on commission fees as the best step for them is involving a third party for the transfers to make them more secure (Ostiller, 2024). Additionally, the yuan is still dependent on the other currencies such as the dollar, and it will take some time for them to become a more independent power. In a potential currency crisis, Russia's yuan reserves would cover only a portion of its imports, and any sale of yuan reserves would require Chinese approval, giving China leverage. In a scenario where Sino-Russian relations deteriorate, Russia's reliance on the yuan could become a significant vulnerability.

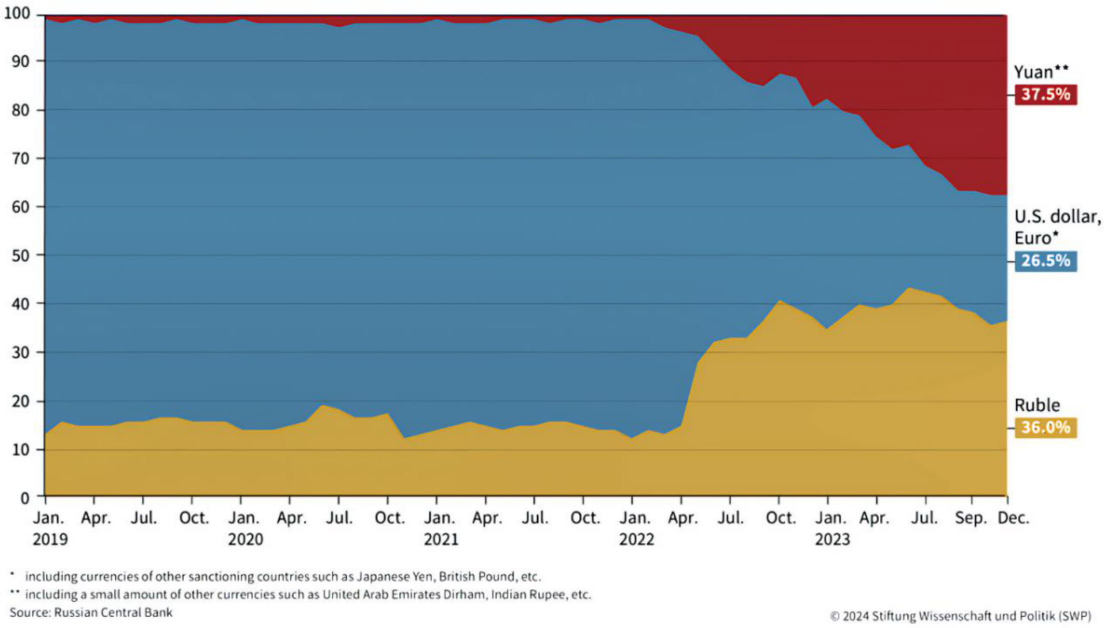
4.2. Currency mix of Russian export and import

Figure 2: Currency mix of Russian imports



Source: Kluge (2024), p. 29

Figure 3: Currency mix of Russian exports



Source: Kluge (2024), p. 28

Table 2: Inflation in China and Russia

	Jan 2020	Jul 2020	Jan 2021	Jul 2021	Jan 2022	Jul 2022	Jan 2023	Jul 2023	Jan 2024	Jul 2024
China	5,4	2,7	-0,3	1	0,9	2,7	2,1	-0,3	-0,8	0,5
Russia	2,43	3,37	5,19	6,5	8,73	15,1	11,8	4,3	7,4	9,1

Source: tradingeconomics.com (2024); self edited

Table 2 shows that Russia's inflation rate increased from 2.43% in January 2020 to 8.73% in January 2022. However, the Russian economy could not stop the rising inflation, and it continued to increase to 15.1% in the following half-year. The most influential cause of this was the outbreak of the war and its consequences.

Figures 2 and 3 are showcasing the currency mix of Russian imports and exports. The exports from 2019 to early 2022 remained in almost the same range in ruble, approximately between 15-20% of all exports. Eventually, due to the international sanction’s responses to the war, it rose to around 40%. From January 2023, the share of the yuan in exports has increased, while the share of USD has decreased. The reason for this is that Russia has switched from USD settlements to yuan and ruble settlements, as a result of war sanctions, mentioned above, when Russia was banned from the international banking system, and the foreign exchange reserves of the Russian Central Bank were frozen.

With these measures, the ban and restriction on Russia's mineral exports to the European market, Russia has been forced down the path of accepting the remaining export value exclusively in ruble or yuan. These two means of payment were well managed by the banking system that remained in use. At the same time, it is important to point out that the yuan exchange rate is much more stable on the international money market than the Rouble. In January 2023, Russian inflation was 11.8%, while Chinese inflation was 2.1%.

In 2020, the dollar had an 85% share of the Russian export market, falling to 26.5% by December 2023. China's already strengthened currency is particularly well placed to benefit from this, as its role as the world's currency is being reinforced. China's share of the yuan was just 5% in January 2020, rising to 37.5% in December 2023. This transformation of the Russian export currency portfolio demonstrates accordingly how Russia faces away from the dollar and more or less the euro after the 2022 invasion of Ukraine and prefers trading in yuan and ruble instead.

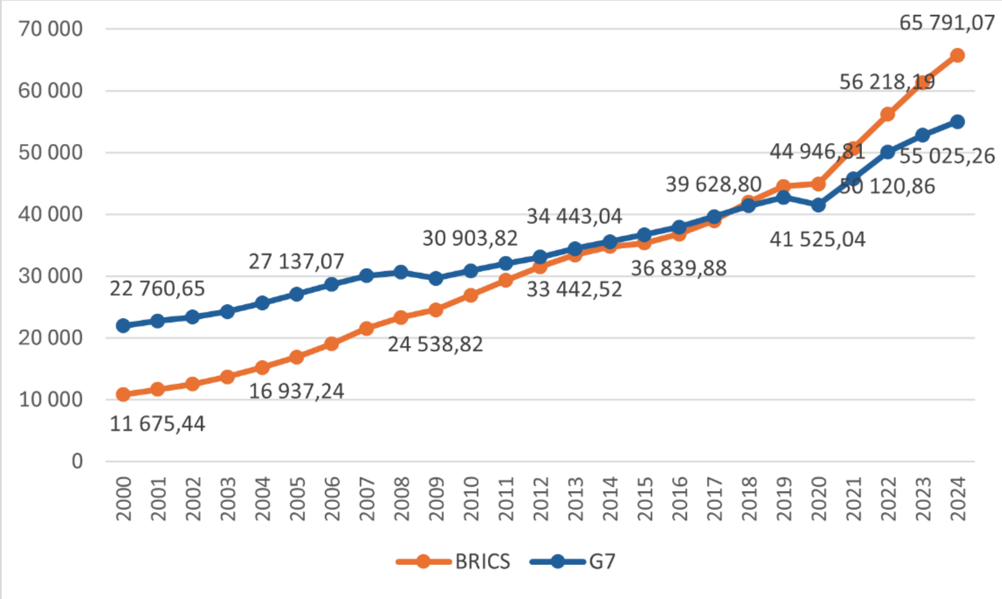
Russia's ruble imports were around 31% from 2019 to 2023. Russia has not been able to have such a large impact on the extent of this at the level of the rouble, as it cannot exclusively influence currencies through import constraints. The chart shows a fall in April 2022, which almost reached -10%. In April 2022, Russia recorded inflation of 17.8%, which significantly reduced imports in that month, and then returned to around 30%. In January 2019, the value of imports recorded in USD was close to 70%. This declined steadily from February 2022 until it fell to 28.2% in December 2023. Here again, the trigger was the change in the USD accounting due to sanctions and the more favourable introduction of the yuan-based import system. Of course, another reason for keeping the yuan high is that Russia has had a period of high inflation but has not yet managed to get back to 2020s numbers.

4.3. BRICS

When discussing the Sino-Russian cooperation and their de-dollarization campaign, BRICS is a key factor as these countries united represent that there can be major power other than the US and the west. BRICS is an informal group of countries that was founded in 2006, originally initiated by Russia and was called BRIC. The member countries are Brazil, Russia, India, China and recently South Africa joined, making them BRICS. The group was established to unite the most significant developing countries, aiming to contest the political and economic dominance of the wealthy nations in North America and Western Europe. Their fundamental goals explain why this group counts as an additional counteract of the US's power and this way a part of the de-dollarization process. Their power lies within the member countries' influence as they are all major world powers also their vast population and size. The extended version of the group is called BRICS+ which will be completed by the end of 2024 if all goes by plan. Additional countries would join, such as Argentina, Egypt, Ethiopia, Iran, Saudi Arabia, United Arab Emirates. (Loftus, 2023) If this growth came in place, BRICS would have a population of 3.5 billion combined, meaning it would take up about half of the world. The member countries' economies would add up to $28.5 trillion, which is approximately 28% of the world's economy. (bbc.com, 2024)

So, what does BRICS do for the member countries? In 2014 they have set up the New Development Bank to loan money to improve infrastructure, resulting in new roads, bridges, railways and other projects. China could be using BRICS to gain more influence over other countries especially in Africa. It would not be a unique case, since there have been some suspicions about China doing the same thing with the Belt and Road Initiative (BRI) member countries, where China issues loans for strategic control. Besides, the Moscow-Beijing collaboration sees this as an opportunity to on one hand, dethrone the US and on the other hand to help Russia fight against the sanctions. As part of their operations, there have been talks about creating a new currency for the group so that the members could trade between each other more safely and effectively, shutting down the dollar but it seems as if this initiative is postponed for now. However, it does not stop there as they are still enhancing the use of their own currencies within each other, especially the CYN. (Groitl, 2023) President Vladimir Putin expressed his plan for the BRICS in the 2024 Kazan summit in October: He wants to improve cooperation between their banks and promote the use of their national currencies. Their opposition to unlawful sanctions being implemented and the distortion of their traditional values was stated at the summit as well. (brics-russia2024.ru, 2024)

Figure 3: GDP in purchasing power parity (PPP) of the BRICS and G7 countries



Source: Statista Research Department (2024); self edited

To visualize just how successful BRICS is today compared to the West, Figure Above showcases the GDP of BRICS in contrast to the G7 which includes all the bigger western powers including: Canada, France, Germany, Italy, Japan, the UK and the US. The graph illustrates the change of GDP from the year 2000 to 2024 in Purchasing Power Parity (PPP) dollar, allowing a more accurate comparison of economic power.

The G7 was formed in 1976, since then, the group considers it their duty to solve global challenges. The introduction of new sanctions against Russia and the limiting cooperation with China became a popular topic at the G7 seven summit lately. Figure 3 shows the GDP produced by both parties over a period of 24 years, broken down by year. In terms of composition, the production value of the BRICS countries did not reach that of the G7 until the years 2000-2013. The diagram shows that in the year 2000, BRICS achieved GDP figures that were only half as high as those of the G7, with a value of 10.857 billion dollar. In just over 10 years, it nearly tripled this value, reaching 30 trillion dollars, producing a 76% increase, whereas the G7 countries only managed a 43% increase.

The impact of the 2008 global crisis affected the G7 countries more significantly, with GDP values showing a decline in 2008-2009, while BRICS maintained its upward trend. Between 2013 and 2018, the GDP results achieved by BRICS and G7 were almost identical. However, in 2018, BRICS surged, and its growth rate surpassed that of G7. They have been able to maintain this advantage ever since.

In 2020, both parties' results showed a decline, the obvious reason being the COVID pandemic, which suppressed production values worldwide. However, starting from 2021, China rose in medical equipment exports, contributing to the growth of BRICS GDP.

After 2022, the sanctions caused by the Ukrainian war brought unexpected results for BRICS. The GDP value increased significantly more than expected. The growth is indeed due to the achievements of China and India (70% of the total GDP comes from China). However, this rise also gives a somewhat power-demonstrating character to the group, as Russia, together with China, sees the BRICS countries as an institution that can help them consolidate the coalition of non-Western states, thereby counterbalancing the "hostile West" and confronting if necessary. True, the other member countries are cautious about this issue, as each of them maintain some form of economic relationship with the USA, hence it is clearly not in their interest to stand behind the main power.

By 2024, BRICS was able to demonstrate six times the initial value, while the G7 GDP significantly lagged behind. It seems that, considering the numbers, the BRICS members are succeeding in achieving their set goal. For now, they may not yet dominate the global economy, they already wield significant influence.

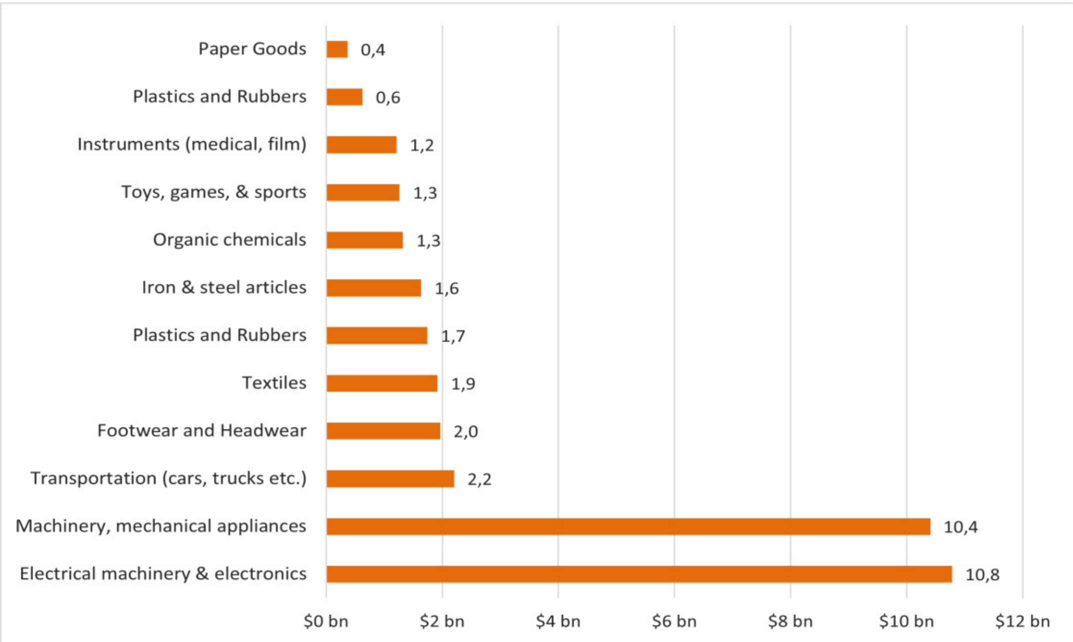
However, the interests of China and Russia are strongly visible: China wants to show that more countries stand behind them in trade, or even seem like a partnership. Russia wants to create the impression that although the world currently condemns them due to the war in Ukraine, it can still be economically strong enough with China and the other countries that are part of BRICS membership. Although it should be noted that BRICS does not bring, for example, the regulation or advantages of the EU's operations in its formalities and cooperation, it has still become attractive to other countries for whom this grouping could mean an exit from their oppressed, unnoticed role in the world. Thus, the African countries that are hoping for support from the BRICS membership, like Turkey (who has also expressed its intention to join), are hoping to take part in the multipolar world order, could be considered. However, there is one certainty for Russia and China: The more members joining, the greater their strength against the West can be.

5. CONSUMER GOODS AND TRADE

5.1. Trade portfolio

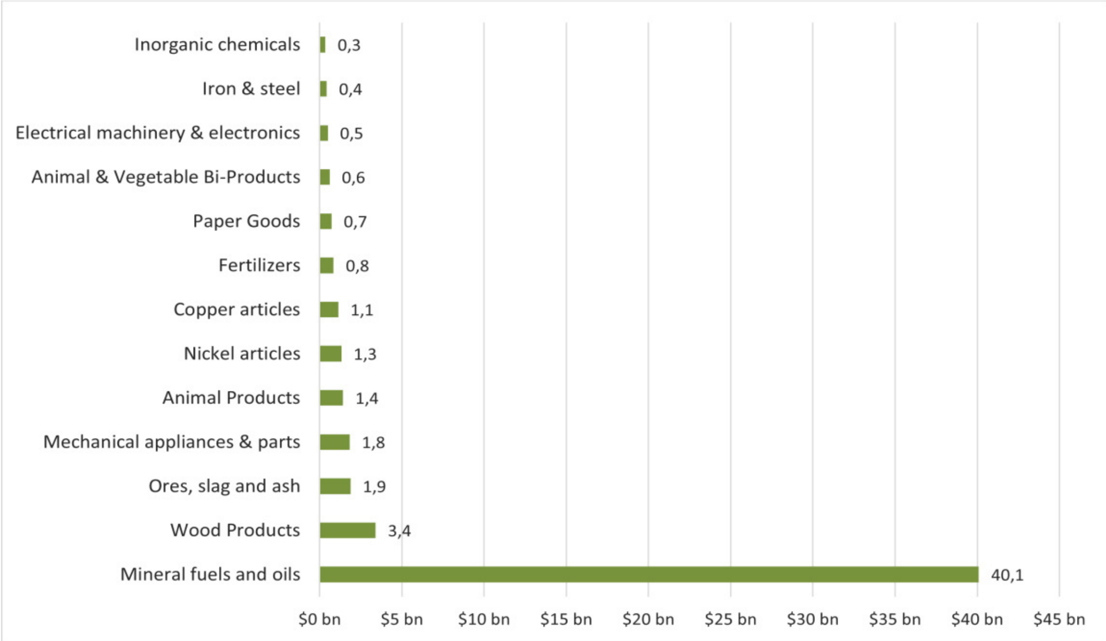
As much as the financial aspects of the Sino-Russian cooperation developed, so has did trade. Over the past few decades, China and Russia have established a strong and strategically significant trade connection. This partnership has grown considerably since the early 2000s, driven by complementary resources, common economic interests, and shared geopolitical goals. China is Russia's biggest trading partner, and Russia is an essential source of natural resources and energy for China. Energy, agriculture, technology, and consumer goods are all included in this trade cooperation, creating an extensive and growing economic link.

Figure 4: Exports from China to Russia in 2019



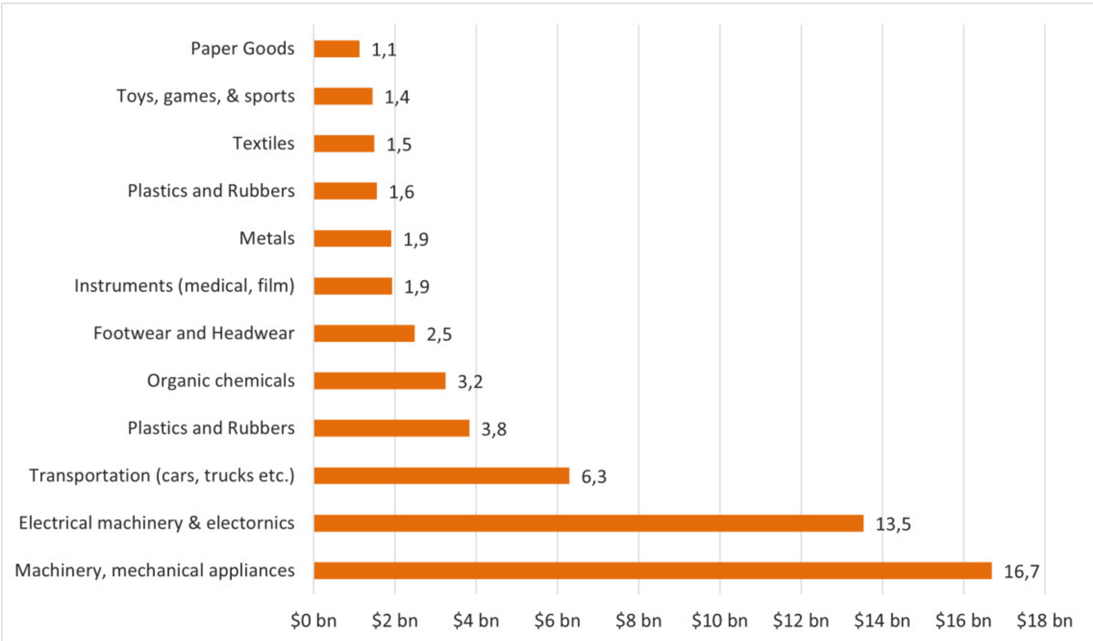
Source: The Observatory of Economic Complexity (2024); self edited

Figure 5: Exports from Russia to China in 2019



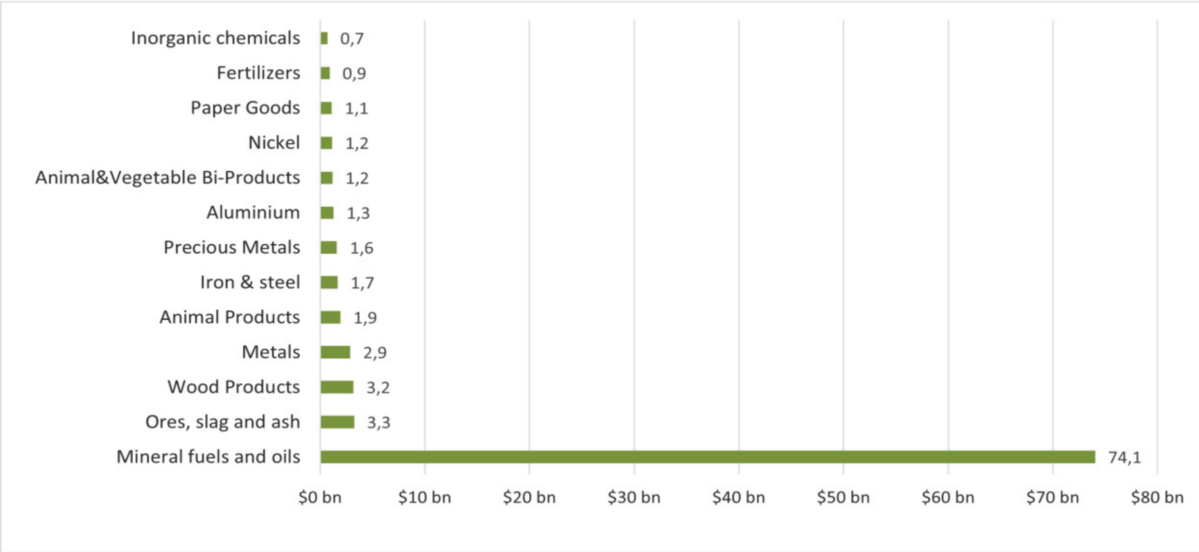
Source: The Observatory of Economic Complexity (2024); self edited

Figure 6: Exports from China to Russia in 2022



Source: The Observatory of Economic Complexity (2024); self edited

Figure 7: Exports from Russia to China in 2022



Source: The Observatory of Economic Complexity (2024); self edited

In 2019 China's export was worth $48.8 bn to Russia, in contrast to the 2022 value that has increased to $75.4 bn, which is an about 55% growth in 3 years. The Sino-Russian trade expansion can be explained by numerous events that have occurred during the 2019-2022 period. As Figure 4 depicts, China's 2019 main exports to Russia were electrical machinery, such as consumer electronics, motors, generators, telecommunications equipment and electronic components like semiconductors, circuit boards etc. This segment was worth $10.8 bn, taking up 22% of the total exports and 58% of Russia's total electrical machinery imports. According to Figure 5, by 2022, the same category produced $13.5 bn in trade and while from China's perspective their exports dropped to 18% towards Russia, from Russia's perspective, the Chinese now provide 77% of their electronics import. This data shows the growing reliance between the two allies, where the Beijing's role grows massively in Moscow's trade, but it is not reciprocated in this field. The increase in China's machinery and electronics exports might indicate strengthening industrial cooperation or Russia's increasing demand for Chinese technology. (OEC, 2024)

However, it is important to investigate other segments of their commerce, such as mechanical appliances and machinery – the second largest export subject – which could include industrial, construction, agricultural as well as household machinery. In 2019 it valued $10.4 bn, and in 2022 surpassed the first place and was estimated at $16.7 bn. In 2019 China transported 25% of the total import machinery, it almost doubled by 2022, standing at 48%. Since Western suppliers reduced or stopped exports to Russia, Chinese machinery would serve as a replacement, maintaining Russia’s industrial operations. This could cover a broad range of equipment, explaining the growth in this category. (OEC, 2024)

Both in 2019 and 2022, the transportation section like cars, trucks, tractors and parts comes in the third place, as it grew roughly by $4 billion. In 2019, European countries, especially Germany was Russia's biggest supplier of these products ($13.2 bn), however since the western sanctions took place in 2022, China and other Asian countries have taken over. China dominated only 8.5% of the Russian import, which now escalated to 43%. Looking at all the other sections from 2019 to 2022, we can see a smaller scale growth, which unquestionably adds to the 55% overall increase in Chinese export to Russia. (OEC, 2024)

Exports from Russia to China have almost doubled from a total of $58 bn in 2019 to $101 bn in 2022, accounting for a growth of 74%. As it is visible on Figure 6 and Figure 7, Russia exports mineral fuels and oils in the biggest volume in both years. The oil and fuel export has been gaining significance from the Russian side of course, since the early 2000s. The escalation of minerals transport started with the ESPO pipeline between China and Siberia in 2009, although the numbers wouldn't confirm that as the country was going through a regression phase at that time. Both years show significant minerals export to China, in 2019 $40 bn and 3 years later the trade value grew to $74 bn, by 85%. China's total mineral imports in 2019 reached $310 bn, and unsurprisingly Russia was their biggest supplier with 12.9% share ($40 bn) of the total Chinese mineral import. This rate grew to 17.5% by 2022 ($74 bn). If we look at it from Russia's perspective, their total mineral exports are worth $486 bn, and China takes 23.7% of it, however this number was much lower back in 2019 with a rate of 13.9%. (OEC, 2024)

From 2019 to 2022, mineral exports to China nearly doubled, due to China's vast demand for raw materials. The Russian partner can meet this demand for China in the long term at a price favourable to them. Russia is forced to accept this price pressured by China, as Russia has a surplus capacity due to the constrained European market. A slight increase is observed in the other products, but this can be attributed to their collaboration and the growth of their economy. We can draw the conclusion that for China, Russia is the main mineral exporter, however not with an absolute supremacy. While Russia's main customer is the PRC right before India. We can see a total change in the purchasers of Russian minerals, from Europe being the biggest one to now Asian countries taking the West's place.

In summary, from 2019 to 2022, China’s exports to Russia saw notable growth and diversification, especially in high-value sectors like machinery, electronics, and transportation. In contrast, Russia's exports to China remained dominated by mineral fuels and oils, highlighting an unbalanced trade relationship focused on Russia’s role as a major energy supplier to China.

Taking into account all four Figures, a vast range of products, including electronics, machinery, transportation, chemicals, textiles, and footwear, are exported by China to Russia. A balanced trade portfolio that consists of both consumer items (textiles, toys) and high-tech goods (electronics, machinery) is indicated by this diversification. This variety also implies that China is becoming a vital supplier to Russia in numerous areas, meeting both consumer and industrial demands. Mineral fuels and oils, which account for the great bulk of the export value, are the main exports from Russia to China. Other categories such as Metals and Ores are substantially smaller, but still suggesting a significant reliance on energy exports. With fewer high-tech or manufactured items entering the Chinese market, and the lack of diversity suggests Russia's contribution to this economic relationship is primarily as an energy provider.

5.2. Consumer goods

In reaction to Russia's invasion of Ukraine, hundreds of international businesses have left the country in 2022. As a result, Russians are now forced to find substitutes for everything from vehicles to cell phones. Hence, Russia is becoming more dependent on China for consumer goods. According to the China Association of Automobile Manufacturers, Russia was the largest foreign purchaser of China's automobile exports by value during the first half of 2023.

The obvious choice for the replacements was Russia's trusty ally, China. The smartphone companies Xiaomi, Honor and Realme have replaced the popular brands such as Apple and Samsung. Before Ukraine's invasion Samsung and Apple held 53% of the smartphone market and Chinese manufacturers had about 40%. Now these Chinese brands are taking care of 95% of the market demand for smartphones in Russia, therefore Samsung and Apple have now only 3%. The Russian demand for these brands is so significant now that Xiaomi has raised their shipments to Russia by 190%, making Xiaomi the main heir to their phone market. The car markets have changed as well, making Chinese brands, such as Chery, Geely and Great Wall Motor in the top 10 best-selling cars in Russia. With about 6% market share each. Moving out of the Russian market most likely weakened the western companies. On the other hand, Chinese markets are glowing now, and Russia didn't stay without consumer goods supply, making it an absolute win-win situation. (Toh, 2023)

6. ENERGY COLLABORATIONS

6.1. Gas

The Sino-Russian partnership, in contrast to China's energy relationships with the Middle East, has not been primarily founded on energy. Instead, it has developed progressively, particularly in response to external pressures. The complicated energy relationship between them has been influenced over the years by shifting geopolitical interests, commercial priorities, and mistrust between the two countries. During the 1990s, Russia aimed to increase its energy exports to China; however, Beijing showed hesitance in committing to the expensive development of cross-border pipeline infrastructure. Moscow was cautious in strengthening their relationship with China, being concerned about Beijing's expanding influence and its initiatives to establish alternative energy routes throughout Central Asia. The combination of these factors delayed developments in energy collaboration, despite China's escalating energy needs. (Meidan 2023)

The global financial crisis of 2008 generated decreasing oil prices brought an excellent chance for better cooperation. (Achcar, 2023) China provided $25 billion in loans to Russian energy companies to encourage the development of the Eastern Siberia–Pacific Ocean (ESPO) oil pipeline, which launched oil deliveries to China in 2011 (Reuters, 2009). Following the annexation of Crimea in 2014, Western sanctions imposed on Russia caused an adjustment in Moscow's foreign policy, leading to an expansion of energy partnerships with China.

The 2022 invasion of Ukraine resulted in a greater isolation from Western markets, intensifying Russia's dependence on China as a key buyer of energy resources. This transition has provided Beijing with a major role in energy discussions, especially as it is able to re-export excess gas and retain flexibility with other suppliers. A decline in gas demand for China compared to forecasts could boost China's bargaining power, leading to more favourable conditions. Nonetheless, certain risks are present. Should the relationship between the two countries decline, China's increasing reliance on Russian energy – particularly with the potential activation of the Power of Siberia 2 pipeline – may bring a significant vulnerability. The historical use of energy supplies by Russia for political leverage calls for significant concerns regarding the long-term energy security of Beijing. (Yermakov and Meidan, 2022)

China and Russia signed a 30-year gas agreement, valued $400 million on 12 May 2014 (Koch-Weser and Murray, 2014). As a result, it is anticipated to reach its full capacity of 38 billion cubic metres per year by 2025 (Lee, 2024). This agreement was preceded by several years of unsuccessful negotiations and agreements on both sides. To better understand the aims and reasons for this contract we have to delve deeper into the background and their separate interests.

Starting with China's gas import in the past: China has previously signed a gas supply agreement with Qatar. Although prices eventually reached a level that was favourable to China, no long-term agreement was reached. It has tried to meet its energy needs on the international market through the spot market for LNG. This has, however, produced variable prices and variable volumes. China has its own reserves, mainly of shale gas, but extracting it would be more of a burden on the gas economy than importing it. In addition, imports may be more beneficial to it for one more reason: they give China a greater say in the price of LNG on the spot market. (Meidan, 2023)

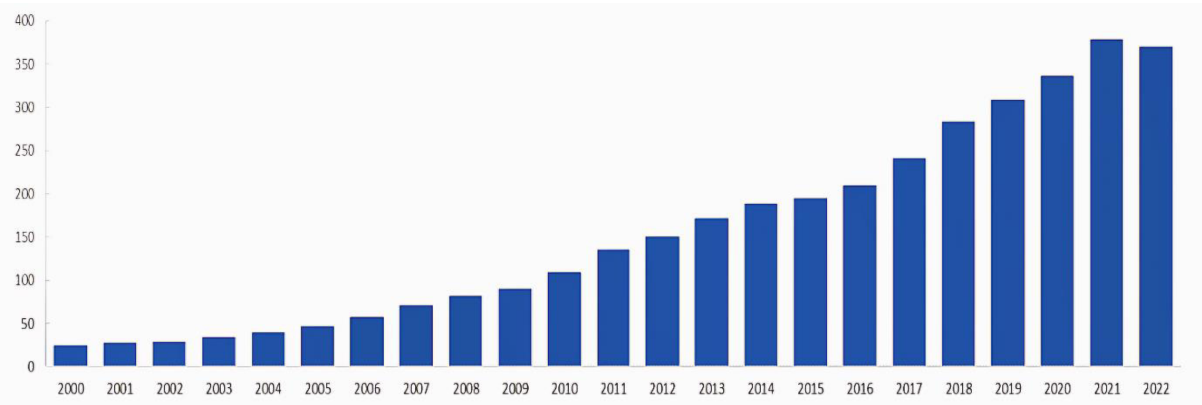
On the other side, Russia's gas exports started opening to Asian markets in 2009. Exports of oil and gas account for 52% of the country's budget revenue. With European markets shrinking, the budget is trying to make up for the deficit by taxing large companies extra. As a result, there are insufficient reserves to finance investments and the construction of new fields and pipelines. Although Russia has set itself the goal of increasing gas and oil production by 2030 through new fields in Siberia, there is a shortage of funds to finance new pipelines. Russia was also facing an oversupply of gas that was meant for EU markets (58% of gas production in 2013). The investment has a defined value of $80 billion for extraction. This was financed partly at Gazprom's own cost and partly by the Chinese partner through advance financing. This agreement is a great opportunity for Russia for several reasons. For one, eliminating the under-utilisation of Siberian gas fields by increasing the gas extraction. It also helps with replacing a shrinking, restricted EU market by providing an adequate alternative. Nevertheless, it is a long-term, predictable sales opportunity that comes with several related agreements that were concluded at the same time, creating export opportunities for Russia, while easing the sanctions brought upon by the EU. It is also a bonus that this agreement can increase Russia's market position in liquefied petroleum gas production. (Koch-Weser and Murray, 2014)

From China's perspective, there are also numerous benefits. Conducting this agreement would be a long-term solution for the country's high energy demand, with predictable, accurately calculable procurement at pre-fixed prices lowering the risks. It also increases China's share of gas in the energy sector and thus their bargaining power in the gas market. Not to mention how China got the better end of the agreement since the price is more favourable to them. The use of gas is also environmentally more ideal and less polluting than other forms of energy. And since China's gas consumption is increasing rapidly, energy planners predict gas will make up 12% of the national energy mix by 2030. The price gap between gas and coal is narrowing due to government-enforced price controls. The government aims to reduce air pollution in urban centres and diversify into cleaner energy sources such as gas, to sustain industrial output. Meaning gas can replace – although in the long term – coal use, or at least a significant part of it. (Koch-Weser and Murray, 2014)

We already know that Russia has a significant gas supply surplus since they lost big part of the European market. Now another important aspect would be China's gas consumption, to determine if they can fulfil the Russian gas importer role which is a concern as they might not even need that magnitude of gas Russia needs to export.

Gas currently accounts for 9% of China's energy mix, and since their gas consumption and import rates are higher relative to those of other nations, and this trend is probably here to stay given the immense energy demands of the nation. (Meidan, 2023)

Figure 8: China’s gas consumption in bcm



Source: Meidan (2023), p. 10

China shows a trend of growing energy needs and consumption, considering their aims for environmentally friendly alternatives. The gas deal would both help them to turn towards environmental protection and weaken the current US leadership position, which they have already successfully achieved in terms of oil.

After a decade of negotiations, the deal was finally made on May 21, 2014. According to the agreement, the gas would be delivered to China's major consumption regions close to the coast via a new pipeline that connects Siberian gas reserves. Supplies from Russia was planned to start in 2018 and increase gradually to 38 billion cubic meters annually. However, the opening was delayed, and the Siberia Power 1 gas pipeline now supplies gas to China continuously since December 2019. (Meidan, 2023)

The payment and investment conditions that China has agreed to present challenges. Initially, it seems that the Russians have taken on a significant portion of the investment risk associated with exploration and transport infrastructure. Gazprom has announced an investment of $55 billion, whereas CNPC will provide a pre-payment of only $25 billion. In previous discussions with the Russians, CNPC is said to have presented a pre-payment proposal amounting to $50 billion. China's advantage regarding pre-payment could potentially be offset by its inability to obtain an equity stake in the gas fields. (Koch-Weser and Murray, 2014)

In 2022, another 30-year agreement took place just before Russia's invasion of Ukraine. Under the terms of the agreement, which was named in euro instead of US dollar, the Russian energy giant Gazprom is obligated to provide the China National Petroleum Corporation (CNPC) with an extra 10.0 billion cubic meters of gas – additionally to the previous 2014 agreement – per year from 2026. As part of the agreement, Russia has committed to building a new 620-kilometer pipeline. This will enhance the flow of gas from the Chayandinskoye gas field to northeast China through the Power of Siberia pipeline, and from two gas fields on Sakhalin Island to Vladivostok through another pipeline in the far east. The agreement will have raised Russia's yearly gas commitment to China by 26.3%, beginning in 2026. Moscow is expected to maintain its efforts to shift its gas supplies eastward, and the gas deal in February 2022 was just the beginning. Depending on China's interest, it can raise shipments to China in the future through infrastructure development, but China's ability to entirely replace Europe as a gas buyer appears unlikely. (IISS, 2023)

The construction of the Siberia Power 2 pipeline is still in progress, with the current section being built near Mongolia. However, the project is being put on hold for now, because the Mongolian government decided to not include it in their expenditure plan for the upcoming four years. (Standish, 2024) Another obstacle could be if China's domestic gas production exceeds expectations, they will continue to pay expenses to Russia for gas that may not be necessary anymore. To avoid said scenario, China is not pushing to reach an agreement so much, as their gas consumption is projected to reach the required higher demand – with a supply gap enough for POS 2 to fill – by 2024. However, these hurdles do not seem to make China unsure in their decision. For the time being, however, gas from pipeline 1 will meet all of China's current needs, so the construction of pipeline 2 may be delayed. (Downs et al., 2024)

Other than the Power of Siberia 1 pipeline, there are other options to choose from to facilitate energy trade between Russia and China.

Table 3: Russia's new pipeline gas supply to China

	POS-1 expansion	POS-2	Gas through Kazakhstan	Existing CAGP line A-C expansion
Gas Supply source	Russia- Eastern Siberia	Russia- Western Siberia	Russia- Western Siberia	Russia- Western Siberia
Size of new supply	Up to 8 Bcm/y	Up to 50 Bcm/y	-	Up to 20 Bcm/y
Timing of first gas after reaching an agreement	1-3 years	3-5 years	2-3 years	<1 year
New pipeline requirement	No, but additional compressors needed	Yes, including third-party country	Yes, including pipeline through third-party country	No, but additional compressors needed
Transmission cost to China's coastal demand centre	Medium	Low	High	High

Source: Galtsova et.al (2023); self edited

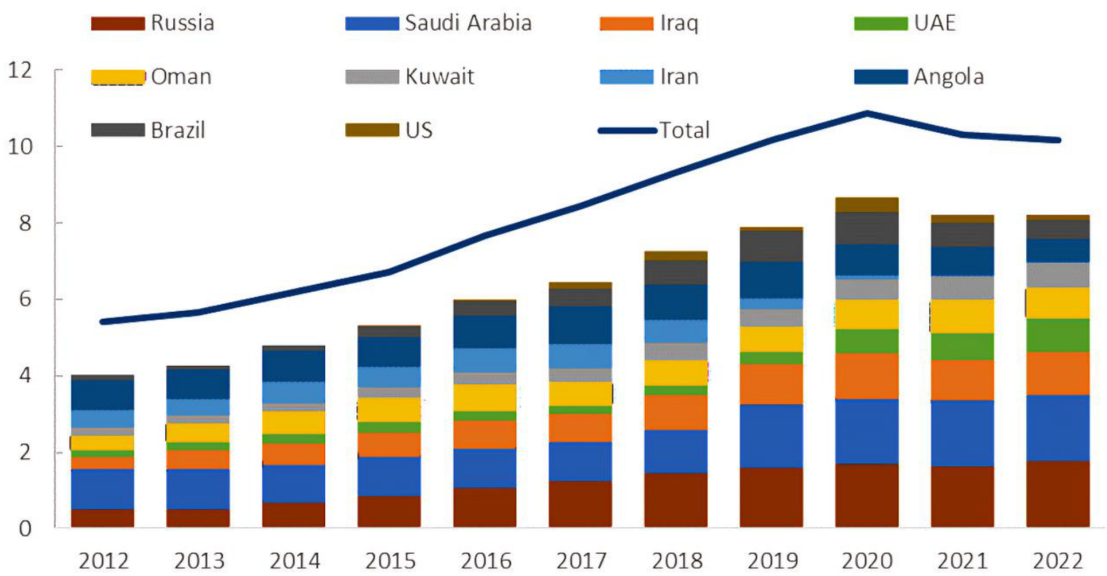
Russia brought two new pipeline routes to the table in March 2023. One would be going through the Kazakh-China border, where Russia could "drop off" some gas in Kazakhstan on the way to China. Another option is to reverse the flow in one of the Central Asia-Centre (CAC) pipeline strings to transport gas to Uzbekistan and then move some of the southward-flowing Russian volumes to the current Central Asia Gas Pipeline (CAGP). (Galtsova et.al, 2023) Table 3 shows Russia's new gas pipeline projects proposed to China, with different trade-offs in terms of supply capacity, first delivery time, construction requirements, and transmission costs. The Power of Siberia-2 is the best long-term option for its cheap transmission cost and additionally, it has the highest capacity out of all the options with 50 bcm yearly. The only downside to it is that it takes 3-5 years to build through third-party countries, therefore it faces more logistical and geopolitical challenges to negotiate with other countries. On the other hand, the POS-1 expansion and the CAGP line expansion could be faster and simpler, since they would use pre-existing pipes, and it would take under a year to start the gas flow. The CAGP would be more preferrable since it is the immediate solution, but it carries significantly less capacity than POS-2.

Ultimately, these options reflect a balance between speed and scale. The decision will depend on China's priorities for balancing short-term energy security with strategic, long-term planning, while Russia seeks to strengthen its role as a major energy supplier to China.

6.2. Oil

China is the world's biggest crude oil importer. Their 2022 oil import was worth $287 bn, which is 19.8% of the market. Meanwhile Russia is the second largest oil exporter after Saudi Arabia. In 2022 their oil export value reached $133 bn, giving Russia 9.14% of the overall oil exports of the world. (OEC, 2024) Since Russia has oil and China is a huge oil consumer, therefore needs to import significant amounts, this way the two countries have set up several collaborations and agreements regarding crude oil trade. By 2023 Russia overtook even Saudi Arabia and became China's number one oil exporter. (Aksenov, 2023) China's demand for oil has increased roughly 10-fold in the last 40 years, and it accounts for 40% of the world oil demand. Nearly 60% of this is used in transport, with a further 16-24% used by industry. As technology has developed, more and more means of transport have appeared: cars, airplanes, trucks - have also increased consumption. (Meidan, 2023)

Figure 9: China's oil imports by ten main countries, mb/d

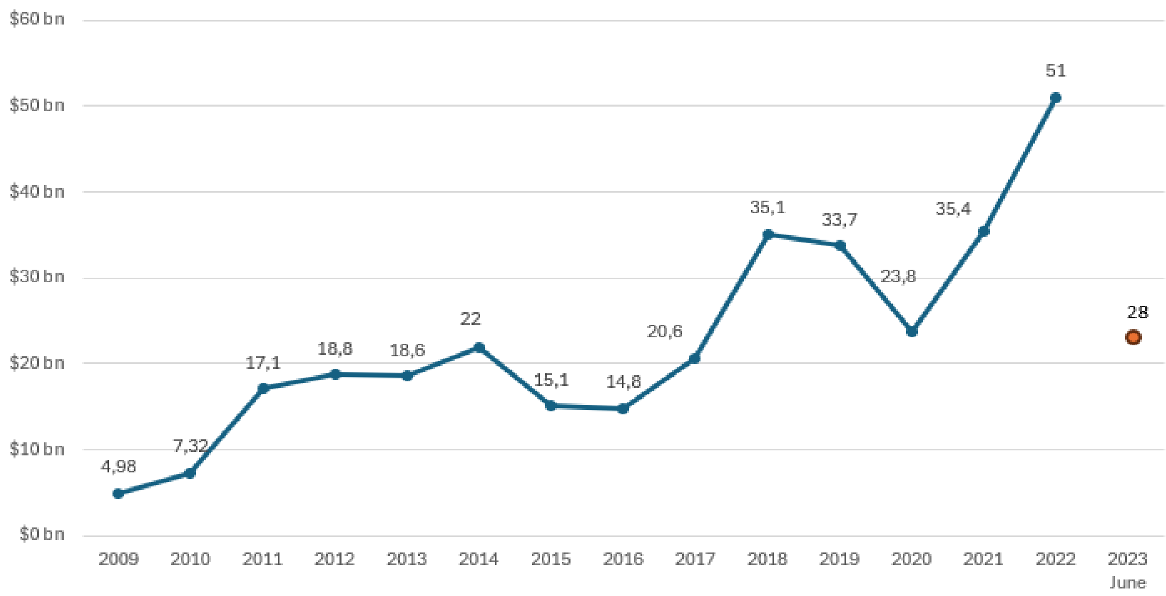


Source: Meidan (2023), p. 6

China sources oil from more than 40 countries. The largest suppliers are Russia, Saudi Arabia, Iraq, Oman and the United Arab Emirates, which account for 2/3 of imports. Sanctions-hit Russia and Iraq can continue to supply China, as their political situation allows them to continue to source oil from these countries, often at a much lower price than the market price. Oil can be transported by sea and by pipeline. Imports from Russia and Kazakhstan are delivered through pipeline. However, for Russia, sea transport is also done via the Arctic Ocean, halving the route, thus reducing transport costs. Another reason why it is useful to transport by the Arctic Ocean is that they do not have to plan tanker-only routes through risky other sea straits, such as the Red Sea. Macroeconomic factors and sectoral policies will also influence the evolution of oil demand. How far the government will support the use of electric cars and how quickly existing vehicles will be phased out. The same is true for freight transport, which can be influenced by the number of existing vehicles and the pace of the transitioning to electric transport. Even with these influences, we can see that China will certainly be a big oil consumer for another 20 years. (Meidan, 2023)

The first milestone was in 2009, when the two countries signed a 20-year agreement for long-term oil supplies. The deal included 15 million tonnes of oil per year through the ESPO pipeline. The transport agreement was preceded by decades of negotiations and failed attempts. Sometimes the Russian side showed no willingness, and sometimes the Chinese side did. But the effects pressured by the world have brought the two countries together. Russia relented because of sanctions, China became a factual partner for Russia because of the twin pressures of uncertainties over sea routes and its growing energy needs. The global financial crisis prompted China to lend Russia $25 billion to build a Siberian oil pipeline. (Meidan, 2023) Transneft and Rosneft are major Russian state-controlled companies that play critical roles in the country's energy sector. As it was planned, Transneft got $10 bn and Rosneft the remaining $15 bn of the loan. (Reuters, 2009) This enabled them to establish the 20-year oil supply agreement, which has been in place since 2011.

Figure 10: Crude oil export from Russia to China (billion $)



Source: The Observatory of Economic Complexity (2024); self edited

The graph above illustrates the crude oil export from Russia to China, from 2009 to the latest data, June 2023. In the year 2009, the export value stood at $4.98 bn. In this year the first agreement was signed but the oil was not yet transported. Then, from 2009 to 2010 there's a growing trend that reached its peak in 2011 ($17.1 bn), when the crude oil transfers began after years of constructing the Siberia pipelines. After the trade value more than tripled in 2011, there's a gradual growth until 2014, when CNPC reached additional agreements to expand oil cooperation, including increasing oil exports and exploring joint ventures in upstream oil projects. The drop until 2016 could have been caused by numerous reasons: The global oil collapse during this period affected the oil prices harshly by around 70% decrease. However, during those years (2014-2016), Figure 10 shows a constant growth in Chinese oil import from Russia as well as other partners. It leads to the conclusion that since the volume of Chinese import supply was still growing, while the yearly Russian export value was decreasing, most likely the global oil price drop caused that downturn on the graph. Still another factor could have worsened the situation, which was the 2014 annexation of the Crimea and the imposed sanction on Russia. Although the sanctions weren't placed directly on the oil trade, they likely disrupted financial and logistical aspects of Russia's energy sector. By 2018, the oil trade reached new heights with $35,1 bn peak. In 2020 there was yet another downturn, most likely affected by the COVID pandemic, when there was an overall global economic contraction, including in China, which was the first country to face lockdowns. Reduced industrial activity and transportation led to a sharp decline in energy demand, including crude oil. Additionally in early 2020, there was a so-called oil price war between Russia and Saudi Arabia, leading to oversupply in the global oil market. The export value would have decreased even if Russia maintained its current oil export volumes at that time, due to the dramatic decline in oil prices. Since then, in 2022 it reached an all-time high and is continuing to do so as according to the latest data, by the first half of 2023, export reached $28 bn and it is estimated to have reached $50-60 bn by the end of the year. (The Moscow Times, 2023)

Although the war caused an upward trend in energy prices, since the end of February 2022, the value of Russian crude oil dropped shortly after in respect to global benchmark rates like Brent. The price of Russia's oil was not an option for other buyers like EU and G7 countries anymore due to the sanctions imposed, explaining the immediate price drop. The sanctions include price caps on oil transports from Russia, prohibiting western firms to carry oil if it is above the certain price ceiling ($60/barrel), accompanied by an embargo that bans all EU members from importing from Russia. This scenario, however, is highly beneficial to China as several discounts kicked in, starting in April 2022. All this time imports of Russian oil to China stayed above $60/bbl but fell short of Brent's average price. Since then, in 2023, the price of Russian ESPO crude oil increased, exceeding the $60 per barrel price ceiling set by the G7 in December 2022. Owing it to the increased demand from refiners in China and India for the cheap oil, as well as the rise of alternative transportation and insurance alternatives to avoid the sanctions. To avoid breaking Western sanctions, Chinese refiners have started relying on trade intermediaries to manage the transportation and insurance of Russian petroleum. (Ishii et al.,2023)

7. MILITARY COOPERATION

The China-Russia military cooperation has been growing since the Cold War ended. At that time, the two countries had built up tensions regarding their long-standing border conflicts, therefore they were trying to overcome that. In 2001, the Sino-Russian Treaty has only solidified that, since it includes cooperative stances on arms control, yearly security discussions, and as of 2017, five-year plans for military cooperation. As there is no sign of future plans neither for cooperative defence planning nor reciprocal basing or joint command, their political-military cooperation is still not classified as a direct help or a full-scale alliance. In light of Russia's positions after the invasion of Ukraine, it would not be advisable for China to show military support to Russia, since it could raise the West's attention. Despite that, the military partnership has been going on stronger than ever with China exporting electronic components and naval engines to Russia. Furthermore, the Russian contribution to the (PLA) People's Liberation Army's air defence development has caused a rapid growth in arms sales. Additionally, Chinese-Russian military exercises became more frequent, enabling the PLA to have more extensive training, while learning from the experienced Russian army. (Kendall-Taylor and Lokker, 2023) (Gorenburg et.al, 2023)

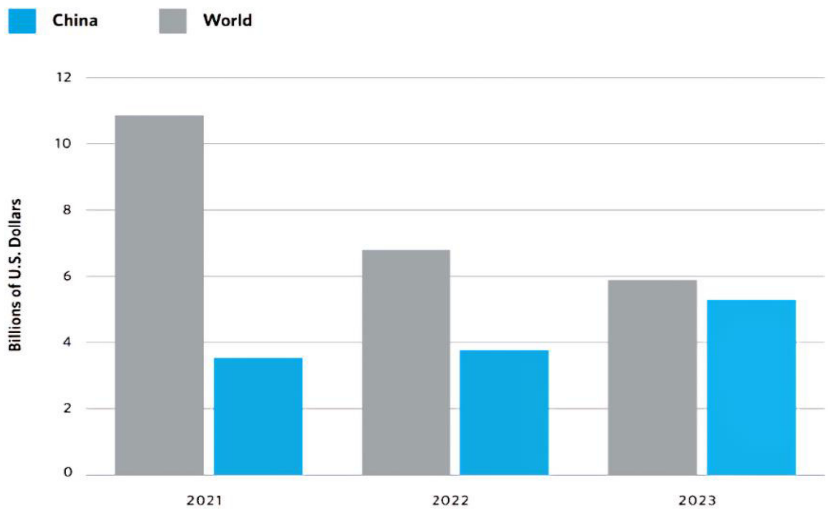
Once again, the US comes to the picture as one of the main motivations for the development of their military ties as the two countries view the US as the biggest security threat. The alliance does not solely depend on the events after February 2022, as even before that the aim to undermine the US have driven China and Russia to work together. (Kendall-Taylor and Lokker, 2023) Their de-dollarization process – the financial and trade cooperation actions against the US – and their growing military ties are coming from the same motivation, which is to create a new multipolar world order. The attack of Ukraine has only emphasized their influence of the world's power dynamics. As it is evident by now, Russia is fully dependent on China as it has no other options. Unsurprisingly, Russia is willing to go to such lengths as to deepen their military ties too with China. Although Russia is weakened now, China's desire to stay locked in with Russia shows how serious it is about this partnership. This can be explained by China's need for Russia to compete with the US as the PRC has figured out by now that it needs to extend its partnership portfolio by at least Russia, as there is no catching up to the US – and their complex alliance network – unless they do the same. Russia is also useful to China since it is a great distraction to Washington at least. Not only is the help it beneficial to Russia, but their military collaboration has developed China's technology too. Russia is more experienced with warfare; thus, China was not on the same level technologically at first, but since the Russian influence helped them to produce even more advanced systems than the Russian ones. The individualization of Xi Jinping's regime and the geopolitical circumstances indicate that there will be a growing, continuous military aid provided to Russia to counterbalance the sanctions implemented. (Kendall-Taylor and Lokker, 2023)

As mentioned above, in 2001, the two countries signed the Sino-Russian Treaty that included some important details to understand their attitude towards their military alliance and the limits that were set: It highlights Sino-Russian commitments to mutual security and non-aggression by peaceful conflict resolution and military confidence-building, emphasizing non-alignment with blocs that harm national and geopolitical sovereignty. It also promotes military-technical cooperation and global demilitarization efforts while ensuring their actions do not target or harm other parties. Later in 2022, just before Russia invaded Ukraine, President Vladimir Putin and President Xi Jinping signed the extension of the previous agreement: Including the opposition to further NATO expansion and the foundation of exclusive alliances or dividing camps in the Asia-Pacific area. They also expressed their negative views on the US's Indo-Pacific strategy and the AUKUS submarine cooperation. The two allies are also concerned about the US's bioweapon initiatives being a threat to them. At the agreement both parties stated that their partnership is a friendship that has no limits and there are no areas of cooperation excluded. (Gorenburg et.al, 2023)

As of 2005, Russia and China launched their peace mission exercises, which has carried for years. Since 2017, China and Russia have run over a hundred joint military exercises that are exclusively described as steps taken to ensure peace and are not directed towards anyone. It appears the two country's joint military exercises are a way to display their strengths to other nations. In 2016 due to China's claims to the South China Sea, joint sea exercises took place in that area of waters. In 2021, ten combat ships conducted exercises near Japanese lands. Japan reacted with an announcement about increasing defence expenses facing the threat of China they demonstrated. In 2022 the two allies got back to Japan with a message: another sea-based exercise in the East-China Sea. Furthermore, in August 2024, China and Russia signed a unified statement about launching joint shipping paths in the Arctic area. Part of the latest common military practises, they conducted anti-submarine trainings in the Pacific, in order to be able to detect and neutralize the submarines of potential opponents in warfare. A total of eight airborne missions were conducted by Russia and China in 2024 crossed into the United States' air defence identification zone, bringing them within 200 miles of the coast of Alaska. All these examples point to the same conclusion: The Sino-Russian partnership is bluntly trying to intimidate their western opponents and their allies. Although Russia has almost nothing to lose, China can bring itself to a very difficult position if they keep pushing the US's boundaries. (Kirchberger et.al, 2022) (Green, 2024)

Since the invasion of Ukraine, China's exports to Russia have grown by more than 60%. A significant part of this growth is filled with dual-use items – products that have both civilian and military applications – or so-called high priority goods. These items are essential for weapon production and manufacture such as drones, tanks and missiles. Shortly after Russia's invasion of Ukraine, the US banned the sale of certain high-tech items to Russia. These items included semiconductors, telecommunications equipment, microelectronics, machine tools, radars, sensors etc. that are utilized by the defence, aerospace and naval sectors. Some foreign products created from American software, hardware or design were also placed under the embargo. (Aksenov, 2023) As a result Russia would have to produce these products domestically, however, it is incapable to do so, or at least does not have the capacity to substitute them. According to Chinese customs data, China is exporting more than $300 million worth of high priority products (Sher, 2024), that are on the list of sanctioned dual-use items. There were 45 products on the list in 2023 and an additional five was added in February this year. (Lin and Leong, 2024)

Figure 11: China versus the world “high priority” export to Russia

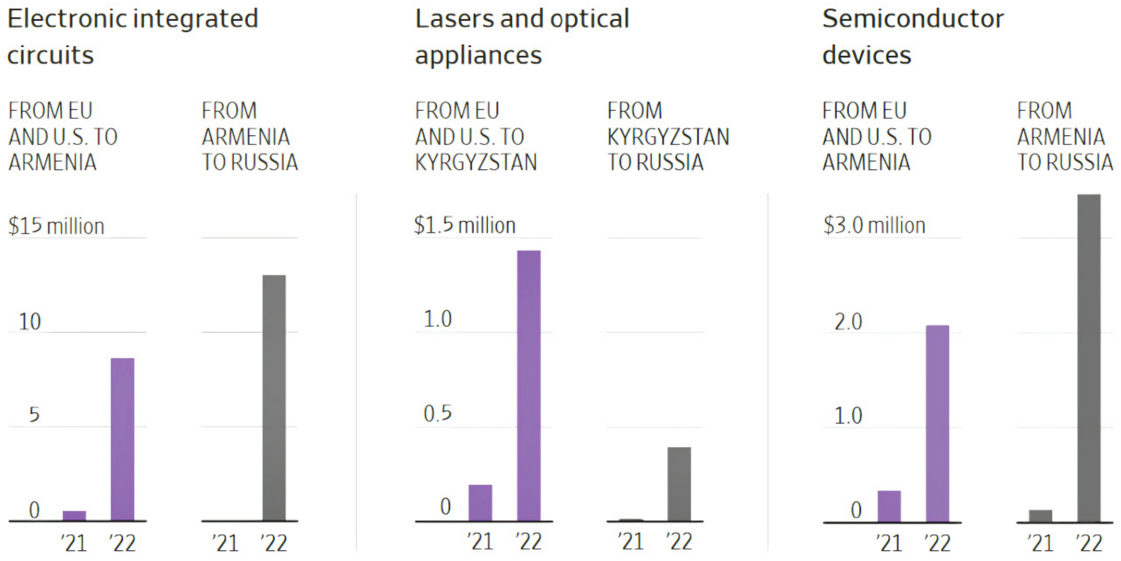


Source: Sher (2024)

Figure 11 depicts how China takes over the export’s high priority exports to Russia over the world, including EU countries, the US, Japan etc. We can see a significant drop in the world's exports of dual-use products from 2021 to 2022, while China shows minimal change in those two years. Comparing 2022 to 2023 however, China shows a significant increase, and the other countries are still reducing due to the sanctions banning high priority trade with Russia. While in 2023, China provided about 89% of Russia’s import of goods present on the G7's list of high priority exports subject to control, back in 2021 it was only 32%. (Sher, 2024) Despite China being Russia's lifeline, the controls on exports have successfully weakened Russia's ability to import dual-use products. Moreover, the overall imports of these items have declined by 45% since the Ukrainian war broke out. Nonetheless, Russia has acquired microelectronics through the purchase and subsequent disassembly of common consumer goods that do not fall within the purview of Western export regulations. (Sher, 2024)

Despite all the efforts of the west, the Sino-Russian alliance found its way around them once again. This year, drones and US produced microchips are finding their way to Russia from China through alternative centra Asian routes. This route is crucial for the transportation of microelectronics, car components, and luxury products, which are utilized in both the Ukrainian battlefield and for individual consumption. These routes include Kyrgyzstan, Armenia and Kazakhstan, thus Chinese exports to these countries have risen as well as their further exports to Russia.

Figure 12: Exports of dual-use products



Source: Kantchev et.al (2023)

Figure 12 shows how different dual-use products see their way to Russia. In terms of electronic integrated circuits, the exports from the West (EU and US) to Armenia in 2021 were almost non-existent in contrast to the growth depicted by 2022. Similarly, Armenia did not export anything in this sector to Russia, however in 2022 it almost reached $14 million. Lasers and optical appliances as well as the semiconductor devices have shown a non-significant export from the West to Kyrgyzstan and Armenia in 2021, still, in 2022 it grew greatly and on the other side, Russia imports much higher values then before. Based on these three diagrams, it is easy to draw the conclusion that neither of these countries would have traded so much with the West if not for exporting them to Russia. To add the case of Kazakhstan into the discussion, before the Ukrainian conflict China did not export any drones to Kazakhstan, however in 2023 it spent $5.9 million on aircrafts and sold $2.7 million worth of items in the same category. Kazakhstan is not a major drone producer either. (Lin and Leong, 2024)

Another example for the smart ways of China aiding Russia is when a database operated by Ukraine's Foreign Ministry displayed Vishay Intertechnology (a US based company) transistors being used by Russians as spy aircrafts and at battlefield communication stations. This happened through Kazakhstan, where the components were sold to a domestic company and then resold to a Russian electronics supplier. (Lin and Leong, 2024)

But can these acts stay unnoticed by the West? The answer would be of course not. Most of the Sino-Russian trade and military exercises have already attracted their attention. The US and EU tried to warn these countries helping about the consequences of helping Russia and to end the unauthorized trade conduction. They did not get any reaction from Kazakhstan nor Kyrgyzstan whatsoever. China on the other hand stated that Russia is their significant trade partner, and the country has no secrets about what goes on between them. (Lin and Leong, 2024) China will most likely continue to export chips, machinery and other part vital to Russia for fighting their war.

China still should not forget that even subtly violating the controls set on exports by the West is still violation and they will not let that go. China has shown no effort in limiting dual-use trade with Russia, and US officials increasingly suggest that China is eagerly pushing such transactions since they seem to be unbothered by these allegations and Chinese customs are continuously publicising trade data between them and Russia. China's provocation of the west's export ban earned the US's attentions as they have warned China multiple times that the companies conducting these transactions will be blocked as well. As a result, the US has added more than a hundred Chinese firms to the entity blocking list and there will be secondary sanctions placed on them if China continues to support Russia's defence. China most likely sees the Ukrainian war as a distraction for the West - especially to the US - from the Indo-Pacific region. China also views the US's export controls and threats as part of a broader strategy to undermine China's influence and stability to control its rise. This means that China is not afraid of the West, if anything they will continue the support of Russia as they are their primary partner and the opposing countries' threats are just not taken seriously. China may want to preserve its relationship with the EU and the US, that is why it is not completely going against their sanctions directly, instead it finds other alternative ways to support its partner. Harming the relationship between the PRC and the west, would be disadvantageous to it in the long run since China's international status could be disrupted. Now China has to use a two-sided strategy where it still ensures Russia as its closest ally while staying on good terms with the west. To achieve that, the country continues to support Russia with dual-use products and machinery but not weapons directly. This way it is not obvious help and can be denied when suspicions rise against them, but still is vital to Russia. It seems as though Russia is not bothered by the route the help is arriving through, and most likely it will not affect the Sino-Russian partnership. (Sher, 2024)

9. RESULTS AND DISCUSSION

How are the sanctions imposed due to the war in Ukraine affecting the economic relations between the two countries?

To answer this research question, multiple areas of the China-Russia trade partnership was examined: Commercial instruments of the financial sector and foreign exchange reserves, trade and energy agreements as well as military support. There are such areas where significant development is shown, as well as areas where it stagnates.

After the Ukrainian war, the EU placed sanction packages on Russia. One included Russia's ban from the use of the SWIFT financial system therefore Mastercard and Visa left the country too. As the country was left with one alternative: Their own SPFS financial communication system, which would not be an adequate substitute for SWIFT. This way China came to support Russia and let them rely on the Chinese CIPS system. Numerous Russian banks have joined the CIPS since the sanctions hit, enabling the two countries to trade in Chinese currency, the yuan. Furthermore, numerous Chinese banks have been operating in Russia. According to Figure 1, since the invasion of Ukraine, the four main banks' profits have significantly grown. By comparing the average quarterly profits of 2021 (pre-sanctions era) and the 2024 Q2 profits (after the sanctions hit), an extreme growth can be observed. The average profits of the four Chinese banks operating in Russia grew annually by approximately 292% or in rubles by 9.36 billion. The raise in these institutes' income is most likely generated by the growing client base in Russia, therefore the sanctions imposed after the invasion of Ukraine can be considered as a direct cause to expansion of the Chinese banks.

The 2022 sanctions significantly influenced Russia's currency mix of both imports and exports. Observing Figure 2 and 3 helped further understand the effect of the war in Ukraine. There's a major decline in Russia's imports conducted in dollar and euro after March-April 2022, which is the time the sanctions hit Russia. The Chinese yuan became the substitute for the loss of the western currencies, while the ruble experiences a slight upturn by the second half of 2023. By the end of 2023, the yuan took up 40% of the currency mix and the ruble had 31%, meaning more than half of the imports value is conducted in yuan and ruble. Before 2022 however, the dollar and euro were the dominant parties. Regarding the exports, the same can be observed: as the yuan and ruble inclined, the dollar and euro declined significantly after February 2022. In this case however the dollar and euro owned almost 90% of the Russian exports before the sanctions. Although the export and import mixes of Russia looked diverse, we can draw a parallel between the two after the war has broken out, as both exports and imports were affected the same way by the sanctions. The outcome of the financial sanctions was the change in currency mix between the two countries, who are promoting the use of their own currencies instead of the western ones. Russian's can now rely on and invest in yuan to tame the level of inflation caused by the war too. Conducting trade in yuan and ruble instead of dollar is beneficial for both nations, therefore if anything, the sanctions drew the two countries even closer, strengthening their financial ties.

In reaction to Russia's invasion of Ukraine, hundreds of international businesses have left the country in 2022. Soon enough Chinese companies have taken over the deficit in consumer goods caused by the Western companies leaving. In this section was compared and analysed the value of exports between Russia and China both ways in the three-year period between 2019 and 2022. The year 2019 was chosen to represent their trade before the war and 2022 depicts the values after. Looking at the exports from China to Russia, there is an increase in Electrical machinery and electronics export. The approximately $3 bn growth can be attributed to multiple things: Since the biggest smartphone companies (Apple, Samsung) have pulled themselves out of the Russian market, Chinese companies (Xiaomi, Realme) are filling in the market gap now. Furthermore, China's military machine parts supply to Russia accounts for a significant part of their exports. Both of these factors attributed to the high raise in electronics exports, since these were driven by the sanctions that hit the Russian economy. Another type of export that was affected by the sanctions was the mechanical appliances and machinery. In this case similarly, the western suppliers reduced or stopped exports to Russia and the Chinese machinery serves as a replacement. This includes industrial, construction and agricultural machinery. The Chinese substitute is crucially important in order to maintain Russia's industrial operations.

Exports from Russia to China have also grown, mostly the mineral fuels and oils. The Russian exports to China have always had this one outstanding category, the other exports lagged with a significant difference. However, in 2022 the value of gas and oil exports have almost doubled from $40 bn in 2019 to $74 bn. The sanction package of gas and oil included the EU banning seaborne oil imports from Russia as well as the oil price caps initiated by the G7 and the import bans on pipeline gas in some EU member countries. With China's increasing gas consumption and Russia's isolation from the Western markets, China became the key gas purchaser of Russia. Although the two countries had previous gas deals – such as the 30-year agreement of 2014 – conducted via the Power of Siberia pipeline, there was still space for growth. Since 2019, 38 bn cubic metres of gas is delivered to China annually. Looking at China's side, the country has multiple gas suppliers other than Russia, such as Quatar, not to forget its domestic gas supply. Although the combination of these sources seems sufficient, trading with Russia gives a better deal as they give China a greater say in the price of LNG on the spot market. Russia is facing an oversupply of gas that was meant for the EU markets. In 2022, another 30-year agreement was made, just before the invasion of Ukraine. It seems as though they signed the agreement before so that Russia's gas supply will be ensured by China in case of sanctions. An extra 10 bn cubic metres will be delivered from 2026. Furthermore, they construction of the POS 2 pipeline was agreed upon. If the new pipeline will be built, China will be able to buy more significant volumes of gas to help Russia get rid of its surplus caused by the western sanctions.

Not only did the sanctions hit the gas but the oil market too. China is the biggest crude oil importer, while Russia is the second largest oil exporter, by exporting 9.14% of overall oil exports in the world. Evidently the oil embargo and price cap placed on Russian oil hit their economy hard. This way Russia had to redirect a significant portion of its oil exports to China. This enabled Russia to become China's biggest oil supplier in 2023. Caused by the western price caps, Russia supplies oil to China on a significant discount, although the price of Russian oil could stay above the price cap for the Eastern markets including China. Despite the excessive discount it is still beneficial to Russia as it at least can sell the surplus oil left by the western markets' avoidance, which China could capitalize on.

The most obvious effect the Ukrainian war generated is China's military support to Russia. Their cooperation has been developing since the end of the cold war and more frequent joint military exercises have started in 2017. Although their military partnership has been useful for power demonstration even before, now since sanctions were imposed and the world looks differently on Russia and the Sino-Russian partnership it is more vital than ever. Since Russia wants to keep up the war and has no resources to do so because the export of the needed dual-use products to Russia have been banned too by the west. Shortly after Russia's invasion of Ukraine, the US banned the sale of certain high-tech items to Russia. These so-called high priority products are essential to produce weapons, drones, tanks, telecommunications equipment and so on. As Russia does not have the capacity to manufacture them domestically, China is exporting more than $300 million worth of products. Shown by Figure 11, as much as the world's dual-use product exports are rapidly declining, the Chinese export is inclining every year. To avoid Russia's breakdown in warfare, China is trading in the grey area with other countries to ensure Russia's supply but also to not get secondary sanctions on itself. China is selling high priority products to countries like Kazakhstan, Armenia, Kyrgyzstan and they are exporting these products to Russia. Figure 12 depicts how obvious it is since neither of these countries exported dual-use products from the west, nor did they export anything of that sort in 2021. However, after the war broke out, all these exports have surged. China is now using a two-sided strategy to remain innocent it the eyes of the west, while supporting its most important ally.

What tools are the two countries using to achieve a new multipolar world order?

One of the main goals and driving forces of the China-Russia partnership is the aim to create a new multipolar world order where the US is not the biggest power but these two are. To achieve their goal, they use numerous economic tools: Their long-standing bilateral swap agreements, their currency reserves or the support of the BRICS. In 2021 approximately half of Russia's foreign currency reserves were composed of dollar and euro, that were placed in Western countries, so to say the G7 countries. In 2022 after the invasion of Ukraine, these countries froze about $300 bn as part of the financial sanctions. It would seem as though this was the point where Russia and China turned away from the dollar, but that is not the case here. Years before that, Russia and China have been working on their de-dollarization process. As part of this plan, the central banks of the two countries agreed to swap a sum of about 150 billion yuan, ensuring the liquidity on both sides of the border. This arrangement further includes a daily limit of yuan access of 10 billion yuan and a monthly starter of 20 billion that is also allowed on the last day of the month, replacing the dollar with the yuan as the most swapped currency of Russia. Russia has also been working on rearranging its foreign exchange and gold reserves. To be less reliant on the west, Russia decided to invest more in gold and so did China, although the two of them combined cannot reach the US's numbers. Figure 1 shows Russia's foreign exchange and gold reserves from 2020 to 2022. There is a significant 51% drop in the dollar reserves as well as an outstanding rise of yuan by 40%. The gold reserves seem to be stagnating around 20%, meaning that Russia most likely reached its goal for now. Russia has also substituted some of the dollar with euro as it is still efficient for turning away from the dollar since it is a major currency too. Over the latest years, Chinese yuan has become the Moscow Exchange's most popular currency, exceeding the dollar as of 2023. More and more Russian household have been investing in yuan as Chinese banks have entered the country introducing yuan denominated bonds.

Another successful tool is the support of the BRICS, which can be viewed as an informal group that was founded for the de-dollarization process. Of course, not only that, but to strengthen the member countries' economies too. With the extended BRICS+ version, member countries' economies would add up to $28.5 trillion, which is approximately 28% of the world's economy. That would be a significant factor to undermine the US Since Russia has been suffering under sanctions, the BRICS member countries have been helping with the execution of the "dollar-free" economy. The partner countries promote the use of their own currencies – mostly the yuan–, as well as aiming for creating a new shared currency to ensure their trade. BRICS seems to be doing very well in creating a multipolar world order, since according to Figure 3, their GDP has far exceeded the G7's. For now, they may not yet dominate the global economy, they already wield significant influence. Of course, Russia and China have ulterior motives beside conducting beneficial trade with the member countries. The BRICS for the is a kind of power symbol to intimidate the US by showing how much they can stand on their own feet. Combining these actions, it is safe to say that the Sino-Russian alliance is becoming more and more successful in turning away from the dollar and making themselves the major powers of the world. Part of this is China supporting Russia through thick and thin as for now it is not strong enough to act alone even though Russia is pulling them down because of the war in Ukraine. Another tool they use to intimidate the west, especially the US is their military cooperation. After seeing the step that Russia took in other to gain what it wants from Ukraine, the west sees their partnership as a threat. For that reason, China and Russia have been having their joint military exercises, "consequently" near the US and its allies to see. Trading dual-use products without caring for the consequences shows the west that their partnership is above all and that they cannot do anything to make China fear supporting Russia.

Did China or Russia gain more advantages during their cooperation, who benefited more from the agreements made? How asymmetric is their partnership?

Over the latest years Russia has been fully reliant on China in multiple terms. China's support to Russia is vital, whether it is importing Russian minerals, bilateral trade and currency swap or providing high-tech equipment. At first it seems like they both need each other equally, however, after analysing all these segments of the cooperations it seems to be imbalanced in some areas. Since Russia is in a very difficult position now because of the sanctions, China is helping them by letting Russia rely on their national currency, the yuan. Including Russia in the CIPS system by planting Chinese banks in the Russian Federation, promoting yuan-based investments, helping Russian entities financially is all beneficial for both countries. However, their bilateral currency swap agreements, which include swapping 150 bn yuan and a daily limit of 10 bn yuan access to Russian banks seem to be more beneficial to China in the long run as these agreements promote the use of CYN. It is also convenient for China that Russia is building up a substantial yuan reserve enhancing it among other foreign exchange. China is also collaborating with the US on several initiatives regarding CIPS and SWIFT. Inspecting Russia's currency mix, we can see an excessive growth in the use of yuan for both exports and imports. Now Russia uses the yuan as a main reserve currency (besides the euro) and China is conducting most of its trade in yuan. The BRICS is also facilitating the use of yuan for trade between the member countries, gaining China even more leverage. It is still beneficial for other members as China is "pulling" the BRICS GDP to heights never seen before. In conclusion, China's role as financial aid and supporter is highly beneficial to Russia for now but in the long run – assessing all aspects of the promotion of yuan –, China benefits more as it will be the major power among its partners.

Russia becomes more and more dependent on China as a result of the deficit caused by the western markets leaving. In term of consumer goods, dual-use products or energy, Russia has only one way out which is China. Trade data show how divergent the Chinese export to Russia is to substitute the western exporters. From the other side however the only outstanding trade segment is the minerals export to China. It has been of a great volume for years now but now it is more vital than ever. Gas and crude oil are supplied in the biggest volume, making Russia China's biggest energy partner. Since the war in Ukraine, China needs to substitute the western loss, but it is unable to fully o so. China may be the biggest oil importer in the world, but it still does not need that much oil nor gas. This gives China a leverage and a places it in a powerful bargaining position. For example, negotiations around the Power of Siberia 2 pipeline have been experiencing delays, with China leveraging its position to potentially secure more favourable pricing and term. China is not pushing the construction of the POS2 so much as they do not need as much gas for now and since the agreement was made, they would still have to buy the gas. What creates asymmetry too is that China has other options. Since Russia has the infrastructure to supply Europe, it takes a lot of construction to rearrange themselves to the west. This way China will not be fully reliant on Russia, but Russia will be on China.

It seems as China has many nations as supporters, with diverse partnerships and if it plays the cards right, it can stay on normal terms with both the west and the east while maintaining its relationship with Russia, who has no other options left, thus it will not protest to China's two-sided actions as long as they have their no-limits partnership. Despite China helping Russia going against the West's will it does not balance the scale. The country has its ulterior motives to intimidate the west and to get other countries behind. Russia is important to them, but the asymmetry shows in the degree of how much one needs the other. China objectively does not need Russia as it is self-sufficient without, but still prefers to have them as a partner for their own long-term benefits. In a position when one is fully dependent on the other with no other options, the other even unintentionally gains leverage.

11. CONCLUSION

In the period following the outbreak of the war, the world expected the outcome of the first sanctions packages to have a significantly negative impact on Russia, that was the anticipated outcome. On the contrary, based on the issues presented in this thesis, we can conclude that the sanctions have resulted in the economic supremacy of China at most. It has also been able to gain influence in areas where China's role has not been dominant in European terms, such as the military industry. This has led to closer relations between China and Russia, in which they are mutually supportive. Without China, Russia would not be able to sustain its economy, much less the war. The purchasing power of the Russian ruble would be devalued, and its trade would be unable to supply the country. Furthermore, Russia would not be able to participate in world trade without CIPS as the sanctions excluded it from the SWIFT system. A significant amount of unexploited mineral wealth would accumulate. And without the dual-use products and weapon parts, it would lose the war.

The tools used for the de-dollarisation process seem to be efficient. China's partner countries quickly adapted to the use of yuan, including Russia, who did not have any other choice anyways. China regularly exercises its leverage over its partner countries, as its own currency has become the most widely used trading currency in the BRICS. Between China and Russia, China has the most stable position in the eyes of the West and is exploiting its potential by pushing the boundaries of the EU and the US.

China has the advantage of financial stability, as it is not burdened by the pressures and costs of war. It also allows it to influence the economic decisions of the borrowing countries through loans, a situation that Russia may find itself in in the future. China is likely to give Russia time to finish the war period, after which it can recover the substantial loans, it has given out or even influence the country's decisions by pressing it to do so. The relationship is by no means symmetrical, with China's superior position manifesting itself either in the gas and oil agreements or in the investments it has undertaken in Russia. Its freedom of decision is stronger than that of the Russian side. If we take a comprehensive view of their cooperation, the relationship between the two cannot be symmetrical as long as Russia needs China more than vice versa. The development of a multipolar world order now appears to be a common goal, but in the long term it is more likely that China will use this apparent common goal as a means to pursue its own interests and to establish itself as a great power.

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