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Faculty of Economics and Management

Economics and Management



Bachelor Thesis

Foreign trade between China and Russia

Mariia Ziuleva

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Mariia Ziuleva

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Foreign trade between China and Russia

Objectives of thesis

The goal of the study determines the need for solutions the following tasks: give a general description of economic relations between Russia and China; and to identify the contractual basis of bilateral economic relationship.

Methodology

As the methodological base of the thesis were used general scientific principles of cognition of economic phenomena – method historical and logical knowledge, the method of economic and statistical analysis and analysis of economic information, induction method, method comparisons.

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The Bachelor Thesis Supervisor

prof. Ing. Mansoor Maitah, Ph.D. et Ph.D.

Supervising department

Department of Economics

Electronic approval: 13. 3. 2020

prof. Ing. Miroslav Svatoš, CSc.

Head of department

Electronic approval: 17. 3. 2020

Ing. Martin Pelikán, Ph.D.

Dean

Prague on 22. 03. 2020

Declaration

I declare that I have worked on my bachelor thesis titled "Foreign trade between China and Russia" by myself and I have used only the sources mentioned at the end of the thesis. As the author of the bachelor thesis, I declare that the thesis does not break copyrights of any their person.

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Foreign trade between China and Russia

Abstract

The relevance of the topic of the thesis is associated with high value economic cooperation between Russia and China in the global economic system. There is a need to study the highest priority aspects of economic relations between the Russian Federation and People's Republic of China. Relations between Russia and China concern almost all spheres of economic activity, affecting not only traditional direct trade and production ties, but also large-scale investment projects, projects affecting the development of regional and cross-border trade, cultural, science and education.

In this work, we will look at international relations between two countries, such as Russia and China. The theoretical part of the paper considers bilateral economic relations and cooperation between the two countries. In the practical part, we will look at the development of relations between the two countries over 23 years and conduct a comparative analysis of the economies of Russia and China.

Keywords: Trade, Economics, Trade turnover, Cooperation, China, Russia.

Zahraniční obchod mezi Čínou a Ruskem

Abstrakt

Relevance tématu bakalářské práce je spojena s vysokou hodnotnou ekonomické spoluprací mezi Ruskem a Čínou v globálním ekonomickém systému. Důležité studovat aspekty hospodářských vztahů mezi Ruskou federací a Čínskou lidovou republikou s nejvyšší prioritou. Vztahy mezi Ruskem a Čínou se týkají téměř všech oblastí hospodářské činnosti, které ovlivňují nejen tradiční přímé obchodní a výrobní vazby, ale také rozsáhlé investiční projekty, ovlivňující rozvoj regionálního a přeshraničního obchodu, kultury, vědy a vzdělávání.

V této práci se podíváme na mezinárodní vztahy mezi dvěma zeměmi, jako je Rusko a Čína. Teoretická část bakalářské práce se zabývá bilaterálními ekonomickými vztahy a spoluprací mezi oběma zeměmi. V praktické části se podíváme na vývoj vztahů mezi oběma zeměmi během 23 let a provedeme srovnávací analýzu ekonomik Ruska a Číny.

Klíčová slova: Obchod, Ekonomika, Obrat obchodu, Čína, Rusko.

Table of content

<u>1 Introduction</u>	<u>12</u>
<u>2 Objectives and Methodology.....</u>	<u>13</u>
<u>2.1 Objectives.....</u>	<u>13</u>
<u>2.2 Methodology.....</u>	<u>13</u>
<u>3 Literature review.....</u>	<u>14</u>
<u>3.1.Economics relations between China and Russia.....</u>	<u>14</u>
<u>3.1.1 Bilateral relation on strategic issues</u>	<u>15</u>
<u>3.1.2 The cooperation between Russia and China.....</u>	<u>17</u>
<u>3.1.3 The custom cooperation.....</u>	<u>18</u>
<u>3.1.4 Effective cooperation mechanisms.....</u>	<u>19</u>
<u>3.2. Interaction between Russia and China in the trade and economic sphere.....</u>	<u>20</u>
<u>3.2.1 Development of the economic cooperation.....</u>	<u>20</u>
<u>3.2.2 Features of the investment policy both partners.....</u>	<u>21</u>
<u>3.2.3 Problems faced between Russia and China in this area.....</u>	<u>22</u>
<u>3.2.4 Principles and contractual framework of cooperation.....</u>	<u>22</u>
<u>4. Practical part.....</u>	<u>26</u>
<u>4.1 The evolution of Russian-Chinese relations.....</u>	<u>26</u>
<u>4.1.1 Stages of Russian-Chinese economics and trade cooperation.....</u>	<u>26</u>
<u>4.1.1.1 First stage 1992-1999.....</u>	<u>27</u>
<u>4.1.1.2 Second stage 2000-2009.....</u>	<u>30</u>
<u>4.1.1.3 Third stage 2010-2015.....</u>	<u>33</u>

4.2. Comparative analysis of the current state of the economies of Russia and China.....36

4.2.1 Description and analysis the economic situation in the Russia.....36
4.2.2 Analyse of the economic of the China.....38
4.2.3 Compare of the economics Russia and China.....40
4.2.4 Analysis of the effectiveness of economic cooperation.....41
4.2.5 Conclusion of comparative analysis.....43

6 Conclusion..... 44

7 References 45

List of pictures

Figure 1 (fig.1)-Russia and China territories in world map.....	14
Figure 2 (fig. 2) -Trade turnover between Russia and China in 1992-1999.....	28
Figure 3 (fig.3) -Trade turnover between Russia and China in 2000–2009.....	31
Figure 4 (fig.4)-Trade turnover between Russia and China in 2010–2015.....	33
Figure 5 (fig.5)-Mutual trade between Russia and China from 2007 to 2015.....	41

List of tables

Table 1 (tab.1) -Indicators of the state of the economy of the PRC and the Russian Federation for 2016	40
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List of abbreviations

MIC-Military-industrial complex

IPC-International Patent Classification

PRC- People's Republic of China (Communist China)

etc- ET Cetera

USSR - Union of Soviet Socialist Republic

JVs- Joint ventures

MTC- Military-technical cooperation

PLA- People's Liberation Army of China

SCO- Shanghai Cooperation Organization

WTO- World Trade Organization

GDP- Gross Domestic Product

NTG- Network Technology Group

PPP-Purchasing Power Parity

Introduction

Economic relations between Russia and China have a long history and have a marked development in recent years. Growing volumemutual trade, deepening economic interaction,target contacts are growing.

Chinese investors show interestto Russia, a marked increase in capital investment in the Russian economy.Joint ventures in suchareas like energy, construction, engineering, medicalindustry, in the oil and gas field, in the field of peaceful atom.

Today, the relations between China and Russia in the field ofeconomies have received new qualitative characteristics.

The relevance of the topic of the thesis is associated with high valueeconomic cooperation between Russia and China in the global economicsystem. There is a need to study the highest priorityaspects of economic relations between the Russian Federation andPeople's Republic of China.

Relations between Russia and China concernalmost all spheres of economic activity, affecting not onlytraditional direct trade and production ties, but also large-scaleinvestment projects, projects affecting the development of regional andcross-border trade, cultural, science andeducation.

Actually, the partnership between the Russian Federation and China every year,gaining momentum, enter a higher level, concluding more and moresignificant projects for both states.

The analysis withinthis thesis will help to understand the existing prospectsdevelopment of bilateral cooperation and mutually beneficial interests of the partiesin various areas of the economy.

2 Objectives and Methodology

2.1 Objectives

The goal of the study determines the need for solutions the following tasks: give a general description of economic relations between Russia and China; and to identify the contractual basis of bilateral economic relationship.

2.2 Methodology

As the methodological base of the thesis were used general scientific principles of cognition of economic phenomena - method historical and logical knowledge, the method of economic and statistical analysis and analysis of economic information, induction method, method comparisons.

3 Literature review.

3.1 General characteristics of economics relations between China and Russia.

The two largest world powers, Russia and China, neighboring each other, have almost four centuries of history of mutual contacts and ties. The interaction of the two powers was objectively predetermined by their geographical proximity. It is impossible to ignore such a situation, just as it is impossible to change it.

Historically, Russia was entrusted with the function of serving as a bridge between the East and the West, and rallying the whole huge Eurasian continent into one. Despite their close proximity, Russia and China historically represent completely different civilizations: Slavic Orthodox and Confucian-Chinese. Such an indisputable difference between the two states and civilizations is expressed in different national and ethnic composition, dissimilarity of national character and mentality, complete divergence of cultural and historical development.

Figure 1 (fig.1) Russia and China territories in world map



Source: <https://www.chinasage.info>

The basis of Russian-Chinese relations is the course of both states towards an independent and multi-vector foreign policy. The second decade of the 21st century was marked by a comprehensive rise and expansion of Russian-Chinese cooperation in the political, economic, military-technical and cultural spheres. This gave grounds for the leaders of the two countries to declare that Russian-Chinese relations have risen to the level of comprehensive strategic cooperation and interaction.

3.1.1 Bilateral relations on strategic issues

On the whole, today in bilateral relations on strategic issues there are no serious differences, this is in favor of close and effective interaction between the two states. Most of the interests of Russia and China in mutual cooperation are well known. Some of these interests:

1. China for Russia is a huge potential energy market, which can break the monopoly of European consumers. Progress in this area is quite obvious: despite the need for a huge amount of financing for project infrastructure, mechanisms for implementing such projects are being worked out, agreements are being concluded.

2. China is the world's largest consumer of products of Russian defense industry complex (MIC). There are also a number of difficulties and contradictions in this area. China marks its urgent need for the simultaneous purchase of finished products and technologies for its internal further production on its territory. This significantly reduces the potential for future deliveries, but at the same time gives a constant incentive to the Russian defense industry to continuously move forward in terms of next-generation developments.

3. Already today, lending to Russian banks and large companies is partially carried out by Chinese banks, and this process is only growing, reducing ties with the West in this direction.

4. Of great interest to Russia is the various consumer goods and manufacturing equipment of its closest neighbor. Such interest is caused by the active development of China over the past decade in all these areas: the country has extensive in-house production, including the production of advanced technological equipment.

5. Russia for China is a full-fledged way of resolving all key logistics problems in a western direction. China needs Russia precisely in the role of a voluntary partner, which could be completely satisfied with the results of cooperation. After all, in fact, it is precisely on this route that Russia will exercise control over the path of goods between China and Europe. In addition, Russia with its own resources is able to completely eliminate the need for China's oil from the Middle East.

As part of the partnership, Russia and China are pursuing a specific policy designed for the long term. The parties invariably set themselves the goals of increasing the level and expanding the areas of Russian-Chinese economic cooperation. Namely, the following steps can be noted:

- Strengthening ties in the financial sector, including an increase in direct payments in the national currencies of Russia and China in trade, investment and lending;
- improving the structure of mutual trade, stimulating a substantial increase in mutual investments, and as a result, increasing the volume of bilateral trade to \$ 200 billion by 2020;¹
- Strengthening the comprehensive Russian-Chinese energy partnership, contributing to the further deepening of integrated cooperation in the oil and coal sectors;
- increasing the effectiveness of cooperation in science and technology, primarily through joint promising developments that could make an equal financial and scientific contribution;

¹ Received from <http://china.ved.gov.ru>

- expansion of cooperation in the field of agriculture by improving the conditions for trade in agricultural products and investments in the field of agriculture.

3.1.2 The cooperation between Russia and China

The cooperation between Russia and China is aimed at harmoniously integrating the two economies into world economic relations, creating conditions for diversifying exports and developing investment activities, and helping to modernize and strengthen the competitive position of Russian-Chinese companies in the world market. The most important role in the bilateral cooperation of countries is played by mechanisms for the implementation and deepening of interstate partnership.

The governments of Russia and China are creating durable mechanisms to carry out various economic tasks that are set, which, in addition to everything else, form the basis of strong and stable relations. The Russian-Chinese Commission for the Preparation of Regular Meetings of Heads of Government (IPC) is one of the main mechanisms of interstate cooperation. The purpose of this event is to coordinate cooperation between the two states in trade, economic, military, scientific, technical, energy, transport, nuclear energy and other areas, including major projects and long-term programs of strategic importance.

An interdepartmental working group was created in 2009 under the leadership of the Ministry of Economic Development of Russia, its goal was the organization of such regional projects that Chinese investment companies would be interested in. The two meetings of the group, held in December 2009 and January 2010, resulted in the transfer to the Chinese side in February 2010 of the 16 most promising investment projects from 8 constituent entities of the Russian Federation. ²

In June 2010, a special investment seminar was held in Moscow under the chairmanship of the Deputy Minister of Economic Development of the Russian Federation

² Received from <http://www.ved.gov.ru>

and Deputy Minister of Commerce of the PRC, in which representatives of regional administrations and companies attended.³

At the seminar, Russian investment projects were presented, and the possibilities of regional administrations to provide incentives to Chinese investors were discussed. This investment seminar also assessed the trends in Russian and Chinese foreign economic activity, their impact on the investment and business climate; there was an exchange of views on the state and prospects of development of investment and trade and economic relations; strengthened business ties between China and Russia as strategic partners.

3.1.3 The custom cooperation.

The customs departments of the two countries launched a pilot electronic exchange of information on mutual trade. A number of interdepartmental documents were signed, including the Memorandum on methodological and information cooperation in the field of customs statistics on foreign trade, the Memorandum on cooperation between the Russian and Shanghai customs academies, the Memorandum on cooperation to improve customs clearance and customs control, the Plan of cooperation in the fight against customs offenses. The draft interdepartmental Protocol on cooperation in the field of combating counterfeit products in bilateral trade is under approval.

In 2007, the Russian-Chinese Chamber was established to promote trade in engineering, technical and innovative products with the goal of diversifying the structure of Russian exports. The structure of the Chamber consists of industry sectors that are promising for expanding bilateral trade and economic cooperation - these are aircraft and cosmonautics, power engineering, shipbuilding, telecommunications, automotive, electronics, high and new technologies, and the construction industry.⁴

The main task of the Chamber is to provide information to Russian and Chinese companies for their greater awareness of each other's production and export opportunities and to provide a platform for discussing specific projects. In June 2009, as part of the

³ Received from <http://economy.gov.ru>

⁴ Received from <http://www.customs.ru>

Chamber's activities, a visit of a Chinese procurement delegation to Russia took place, where they examined issues of possible imports, including machinery and equipment. During the visit, the Chinese side was provided with a list of Russian engineering products for possible deliveries to China.

In 2009, the Chinese side created a fund to support the import of Russian machinery and equipment in the amount of 100 million yuan, which in a certain way became an assistant in increasing purchases of machinery and equipment in Russia. In addition to the foregoing, one can also consider complex duty-free zones as a characteristic of in-depth Russian-Chinese cooperation. Such zones contribute to the liberalization of Russian-Chinese trade and the development of an investment climate.⁵

A unique experience for both countries is a complex duty-free zone, a zone of cross-border technical and economic cooperation, a Russian-Chinese zone of cross-border cooperation and other areas of cooperation on the border of Russia and China. The creation of complex duty-free zones in five important Chinese ports (Suifenhe, Dingning, Fuyuan, Heihe, Manchuria) would contribute to the development of trade and investment policies, which in turn would lead to an improvement in the conditions of cross-border trade and investment environment.

3.1.4 Effective cooperation mechanisms.

The governments of the Russian Federation and the People's Republic of China assist in the implementation of projects included in the cooperation program, within the framework of the legislation in force in each of the states. This program includes two institutions, which can also be attributed to effective mechanisms of cooperation, this is the Russian-Chinese Permanent Working Group and the Russian-Chinese Coordination Council. Thus, it is important to note that as the development of interstate cooperation between Russia and China, new mechanisms are being created to deepen such cooperation. The existing instruments of economic relations in these countries represent a serious basis for a favorable collaboration.

⁵ Received from <http://www.customs.ru>

The Russian Federation and the People's Republic of China have established such interstate relations of a new type that open up a vast prospect for further dynamic economic development. Both states have similar interests and positions on a wide range of international problems, namely they adhere to the principles of multipolarity and polycentricity of the world, and a cautious attitude to humanitarian interventions. Raising the level of comprehensive equal trusting partnership and strategic interaction can become the most important factor in ensuring the vital interests of the two countries in the 21st century. This will have an impact on the success of large-scale economic transformations being carried out in Russia and China, the growth of the well-being of the peoples of the two countries, the strengthening of the positions and influence of the Russian Federation and China on the international scene.

3.2 Interaction between China and Russia in the trade and economics sphere.

3.2.1 Development of economics cooperation.

Cooperation in the field of economics is the broadest direction and basis of strategic partnership. In 1992, its directions were identified: agriculture, energy, peaceful uses of nuclear energy, transport, infrastructure, communications, space, the conversion of military production, etc. Direct connections were allowed to regions, enterprises, and entrepreneurs.

In the early 1990s. China gained almost unlimited access to the Russian market, especially in the border regions. The introduction of barter as a predominant form of ties was dictated, inter alia, by the state of Russian industrial enterprises. In exchange for raw materials, energy, vehicles, aircraft and missiles, low-grade Chinese consumer goods were delivered to Russia.

The issue of the quality of goods was repeatedly raised at meetings of the Permanent Working Group on Interregional and Cross-Border Trade and Economic Cooperation of the Intergovernmental Commission on Trade, Economic, Scientific and Technical Cooperation, the policy of «unreasonably overpricing export prices», «treating Russia as a second-rate foreign trade partner. »

Cooperation in one of the most promising areas - the participation of Russian enterprises in the reconstruction of Chinese industrial facilities built under the technical assistance of the USSR - was transferred from the interstate level to the level of enterprises at the initiative of the Chinese side, Russian partners were invited to participate in mandatory tenders, and refusals were frequent.

Russian-Chinese economic cooperation from 1992 to the mid-1990s. did not fully comply with the principles proclaimed by the leaders of both countries. Since the second half of the 1990s, cooperation in the energy sector and in the procurement by China of other types of raw materials, mainly wood, mainly roundwood, has come to the fore; interregional cooperation between the subjects of the Russian Federation and the provinces

of the PRC developed, the main content of which was the same extraction and sale of raw materials in the PRC. As successful and meeting the declared principles, we note cooperation in the field of peaceful atom.⁶

3.2.2 Features of the investment policy of both partners.

The result of the first decade was the creation of a mechanism for regular meetings of the heads of government of Russia and China and the development of the legislative framework. In the second decade of cooperation, promotion of large-scale projects on the construction of gas and oil pipelines in the PRC, the supply of aircraft, the construction of roads and new border crossings, and the «streamlining of unorganized trade» began.

Based on its national interests, Russia had to defend the optimal routes for laying an oil pipeline in China, financing the construction of its parts, which was perceived inadequately in the PRC, especially in the media. With regard to trade, Russia was losing ground in the supply of high-tech products to the PRC and increased its export of raw materials.

The increase in imports of machinery and equipment from the PRC was also facilitated by the transfer to China by Russian entrepreneurs of their own and joint ventures with Western companies processing raw materials and assembling products. Among the reasons explaining this phenomenon, in addition to cheap labor in the PRC, are the adverse business climate in the Russian Federation, corruption, etc.

In 1992, the first 57 Russian-Chinese joint ventures (JVs) in the field of investment cooperation were registered in Russia. But they did not last long. In 2000, 890 joint ventures and 2205 enterprises with 100% Chinese capital were registered in the fields of trade, construction, sewing clothes, communications, assembly of devices and electronics. By the end of 2000, more than 1,100 Russian enterprises in the fields of nuclear energy, automotive engineering, agricultural machinery, the chemical industry, and the building

⁶ Received from <http://economy.gov.ru>

materials industry were created in China. In 2002, an agreement was reached on the creation of an intergovernmental Russian-Chinese permanent investment group, and in 2004 a series of investment forums began.⁷

3.2.3 Problems faced by Russia and China in this area.

In 2009, a Cooperation Program was signed between the regions of the Far East and Eastern Siberia of the Russian Federation and the Northeast of the PRC for 2009–2018. It did not contain a provision on the participation of Russian enterprises in the modernization of Chinese industries, but contained a list of projects designed for Chinese workers to develop more than two hundred Russian deposits, exporting extracted raw materials along roads built with Chinese funds to the Chinese border provinces, where it was planned to create more than a hundred enterprises using high technologies for the processing of Russian resources and industrial production⁸.

The signing of the Program was accompanied by harsh criticism in Russia; measures were taken to amend the Russian part of the document. Projects within the framework of interregional cooperation between the Russian Federation and the PRC are mainly aimed at providing China with access to the raw materials base of the Far East and Siberia. Such cooperation is based on the principle of «complementarity», in practice, these projects authorize Chinese citizens to conduct economic activities on Russian territory, export raw materials to the PRC for processing, which ensures employment of the Chinese population, and further it is planned to sell Chinese goods to residents of Russian territories, including from the extracted Russian raw materials. Such "complementarity" does not contribute to the development of Russian territories.

3.2.4 Principles and contractual framework of cooperation.

Unfortunately, in Russia this principle is continued to be promoted and promoted in practice, without thinking about the results of such projects and their meaning. It is worth paying attention to the multiple-choice wordings proposed by the PRC from the first years

⁷ Received from <http://economy.gov.ru>

⁸ Received from <http://china.ved.gov.ru>

of cooperation on «complementarity», «human exchanges», the creation of a «specific system of legislation» and the transformation of the border into a «belt of friendship and prosperit». In official documents, the terms «fairly and rationally», «in the spirit of mutual understanding and mutual concessions» are found without legal content.

Theoretically, they can be attributed to information pressure tools. The Russian side agreed with the presence of such ambiguous language in the documents, without specifying their meaning, although they can be «read» ambiguously, depending on the situation.

In some cases, we can talk about the departure of the PRC from the principles of mutually beneficial cooperation, for example, in such an important area as the use of transboundary water resources. In particular, due to the construction of water intake canals in Chinese sections of Transboundary Rivers, a threat of shallowing of rivers in Russian territory is created.

The approaches of the Chinese side were reflected in the Agreement of 2008: instead of the principles of observing the «vital interests of the peoples of both countries», «equality and mutual benefit» contained in the 1994 Agreement on Cooperation in the Field of Ecology, other principles were laid down – «mutual understanding, fair and rational use and protection of «transboundary waters» taking into account economic, social and demographic factors. »

That is, the priority of the party whose economy, the development of the social sphere and the demographic state require more resources is proclaimed. In 2009, the parties adopted the Investment Cooperation Plan, the main principles of which are «high complementarity», «mutual compensation of the lack of individual resources, technologies and capabilities of the parties», creation of a «favorable regime». The Plan also indicates the areas of investment in economic sectors. In our opinion, this document can give impetus to the development of industries not only in the PRC, but also in the regions of the

Russian Federation, if only their leadership will pursue the goal of creating conditions with the help of foreign investment for the further development of territories.⁹

In 2011, Russia put forward cooperation priorities:

- cooperation in the modernization of production, in the financial, energy, aviation, space spheres;
- increase in the share of high-tech products in trade;
- development of innovative cooperation;
- transition to settlements in national currency.

This was reflected in the signed Memorandum of Cooperation in the field of economic modernization. Joint work is planned on research and development projects with the sale of finished products in the markets of third countries, cooperation in the field of information and communication, nano and other high technologies, in the nuclear field, space programs, projects in the field of aircraft and shipbuilding, car building, and pharmaceuticals is planned industry. Particular attention should be paid to military-technical cooperation (MTC) of the Russian Federation and China, which is one of the most important aspects of trade relations.

After normalizing relations, the military-technical cooperation immediately became one of the priority areas: the PRC needed new equipment and weapons, and the Russian Federation saw the possibility of obtaining benefits. Also, under the 1992 Agreement, the Russian Federation committed itself to training Chinese specialists in the space industry,

⁹Received from Foreign Trade as a Factor of Economic Growth. Russian-Chinese Foreign Trade Cooperation. Popkova Elena, Sukhodolov Yakov. ISBN 9783319459851

including them in ongoing research, helping to build the necessary structures in the PRC, and providing media for the first launches.

China purchased Russian rocket and space technologies, and implemented joint projects. The volume of deliveries of Russian weapons to China in 1993 reached \$ 1 billion. Since the late 1990s. China began to prefer licensing purchases, while it often violated the intellectual property rights of Russian enterprises by selling slightly modified types of equipment under its brand, cheaper than the originals in the global arms market. ¹⁰

Since 1996, several intergovernmental agreements in the field of protection of intellectual property rights have been signed, but the legal framework is still insufficient. Among other areas of the military-technical cooperation are training and education for officers of the People's Liberation Army of China (PLA), crews of ships, submarines, aircraft, air defense systems, conducting joint military exercises since 2005 as part of the Shanghai Cooperation Organization (SCO) to work out interaction during anti-terrorist operations. ¹¹

Since 2009, among the cooperation priorities, there have appeared joint projects for the creation and production of general purpose aircraft, heavy helicopters, large passenger and transport airliners, engines for civil aviation, but so far these projects exist only on paper. The Russian-Chinese military-technical partnership is one of the main areas of cooperation.

The parties expanded its spectrum, but at the same time, unfortunately, they did not always effectively solve the problems that arose. China, thanks in large part to cooperation with Russia, is successfully modernizing the PLA and is developing the space industry. In general, over more than 20 years, in the process of trade, economic and investment cooperation, which forms the basis of the partnership between the Russian Federation and the PRC, a lot of contradictions, difficulties arose, ready to turn into problems if they were not resolved in a timely manner.

¹⁰Received from Kamennov P. B. Russian-Chinese military-technical cooperation.

¹¹Received from Kamennov P. B. Russian-Chinese military-technical cooperation.

Among the most pressing issues are returns to fully equitable, balanced relations, a change in the primitive understanding of the principle of complementarity «Russian resources - the Chinese workforce,» replacing the priority of the raw materials orientation of projects with cooperation in high-tech areas, joint scientific and technological developments and production cooperation.

4 Practical part

4.1 The evolution of Russian-Chinese relations from 1992-2015.

As noted earlier, Russian-Chinese relations arose in the distant past, but we would like to consider the modern stages of their formation in the economic sphere. After the collapse of the USSR in the early 1990s, economic relations between Russia and China experienced some instability. The reasons for this situation can be called historical and economic factors, as well as the current situation at that time in the world political environment.

The economic reforms carried out then in both countries, aimed at the transition to a market system, became a significant incentive for the continuation of Russian-Chinese economic cooperation. Also, the factors that contributed to the strengthening of Russian-Chinese economic ties were the geographical proximity of the countries, the ability to mutually complement each other's economic resources, different levels of economic development and low rates of national currencies, which increased the mutual export of goods and services.

4.1.1 Stages of Russian-Chinese economic and trade cooperation.

The process of Russian-Chinese economic and trade cooperation can be divided into three stages:

1) 1992–1999 - the initial stage of development of trade, characterized by unstable relations, in which the establishment of relations between business entities of the two countries.

2) 2000-2009 - the stage of stable development of trade and economic relations, here there are strong long-term relationships between business entities.

3) 2010 – 2015 - the rapid development of relations with their constant deepening and improvement, both at the level of business entities and at the government level.¹²

4.1.1.1 First stage (1992-1999)

So, the initial stage (1992–1999), as it became clear, originates after the collapse of the Soviet Union, which provoked a restructuring of the business life of Russia and China. In Russia, due to serious adjustments in the economic, political and socio-cultural spheres in 1992 and 1993. there was a shortage of supplies of consumer goods, but there was an overabundance in the production of iron and steel, military products, fertilizers, wood products, and other raw materials.

In China, at that moment, the opposite situation was observed: surplus food and light industry goods, on the one hand, and, on the other, a lack of military-industrial products, steel, and wood products, which were in high demand. In order to stimulate foreign economic activity, the Chinese Government in 1992 lifted almost 75% of non-tariff barriers, adjusted the import tax on imported goods, and in preparation for joining the WTO, reduced the average tariff rate by 7.3% for imported goods. In this situation, the governments of the two countries, given the lack of foreign currencies, have adopted new conditions for cooperation in the form of barter.

This helped stimulate the development of trade between the Russian Federation and the PRC: an intensive exchange of consumer goods, food products and light industry for Russian scrap metal, fertilizers, and engineering products was launched. The expansion of trade has helped economic entities of the two countries make significant profits. In 1993, trade with China amounted to 11% of Russia's foreign trade, in the total foreign trade of China it amounted to 3.9%. In 1997-1998, the trade volume of the two countries decreased by 10.7 and 10.5%, respectively, which was caused by a decrease in world prices for raw materials, primarily oil, gas, metals, and also due to the outbreak of the Asian financial crisis.¹³

¹²Received from Portyakov V. Russian-Chinese trade and economic relations:current state and prospects.

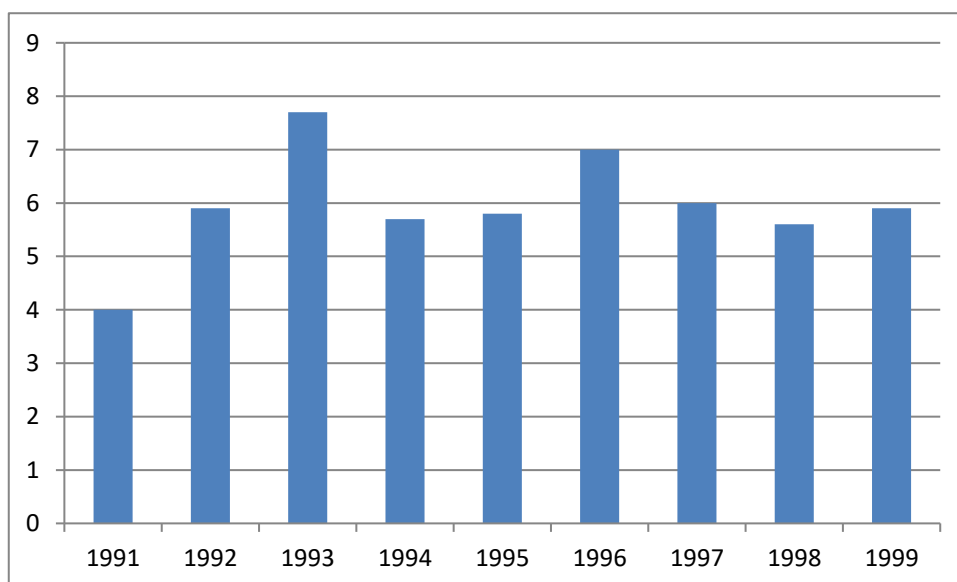
¹³ Received from <http://www.customs.ru>

In the period from 1992 to 1999, economic relations between Russia and China had certain characteristics:

1. The governments of both countries attached great importance to the development of bilateral relations, so they tried to ensure favorable conditions for trade. In 1992, during a visit to China, Russian President Boris Yeltsin, together with Chinese President Yang Shankun, signed the Declaration on the Fundamentals of Relations between Russia and China, in which Wang Nan was reaffirmed. Ways of developing economic cooperation between Russia and China are the five principles of peaceful coexistence, the development of long-term good neighborliness, friendship between the two countries, and mutually beneficial cooperation.

2. The revision of trade policy has had a great impact on Russian-Chinese economic relations. The transition to a special form of trade - barter, helped to achieve the highest level of trade at this initial stage - \$ 7.68 billion.¹⁴

(fig. 2). Fig. 2. Trade turnover between Russia and China in 1991–1999, billion dollars



Source: Complied by autor. Data from <http://www.customs.ru>

¹⁴ Received from <http://www.customs.ru>

In subsequent years (until 1999), due to the abolition of barter trade and the transition to cash equivalents, the volume of trade between Russia and China decreased significantly.

3. Russia's internal economic downturn has become an obstacle to the development of its foreign trade. The collapse of the Soviet Union caused a sharp decline in production in Russia, and also affected its gross domestic product, which for several years did not increase - all this seriously complicated the development of foreign trade.

4. The negative impression of the Russian consumer on low-quality goods from China. Taking advantage of the situation in Russia during the period of deficit, in early 1992–1993, many Chinese entrepreneurs offered cheap, but at the same time low-quality products on the Russian market. This situation affected the reputation of Chinese goods in Russia - products lost their advantage and caused a negative assessment of consumers.

5. The irrational structure of goods. Electrical products were exported from China to Russia, more than 60% were food products, textiles, but fertilizers and other chemical products, non-ferrous metals, mineral fuels, wood were imported to China, and only about 10% were machinery and equipment. Imported industrial goods from Russia were low, which negatively affected the development of industrial enterprises in the country.

6. Diversification of the Russian market has led to a decrease in demand for goods of Chinese manufacturers. The opening of the trading market in Russia led to a gradual decrease in the dominant position of traditional Chinese goods, which began to lose their competitiveness in comparison with higher-quality goods of multinational companies.

7. The geographical advantage has contributed to the fact that cross-border trade has gradually taken a leading place in Russian-Chinese economic relations. The volume of cross-border trade in 1998 increased by 20% compared with 1997 and amounted to a third of the total trade turnover.

8. The main form of economic cooperation between Russia and China remains commodity exchange. There is insufficient growth in mutual use of investments. By the end of 1996, the Chinese side supported 227 investment programs in Russia for a total of \$ 190 million, which amounted to only 6% of the total foreign investment in Russia. China, in turn, approved the use of 68 direct investment agreements from Russia, the total amount of which amounted to \$ 124 million (0.17% of the total volume under the 26 direct foreign investment agreement in China). The low share of mutual foreign investment and a small number of joint ventures did not correspond to the economic and political status of both states.

4.1.1.2 Second stage (2000-2009)

The next was the stage of stable development of Russian-Chinese economic relations, concluded between 2000 and 2009. In 1999, Russia overcame the effects of the economic crisis. After joining the post of President V.V. Putin of the Russian Federation in 2000 noted his strong determination in favor of overcoming the economic crisis, and also set the goal of returning Russia to one of the leading countries in the world.¹⁵

Thus, the President adopted a pragmatic policy focused on economic interest in China. It is in connection with this that in 2001 the Treaty of Good Neighborhood, Friendship and Cooperation was signed, which, as we noted earlier, laid a solid foundation for business relations between states. After the signing of this agreement, the volume of mutual trade of both countries increased markedly and rapidly. So, from 2000 to 2008, the average annual growth rate of Russian-Chinese trade was set at 30%.¹⁶

In 2001, the volume of trade between the Russian Federation and the PRC for the first time exceeded \$ 10 billion, and in 2004 reached \$ 21.2 billion, accounting for 34.7% of the annual growth. In the following years, from 2006 to 2008, the volume of mutual trade gradually began to increase - \$ 33.4 billion, \$ 48.16 billion and \$ 56.8 billion, respectively. Under the influence of the global economic crisis, since 2008, the mutual

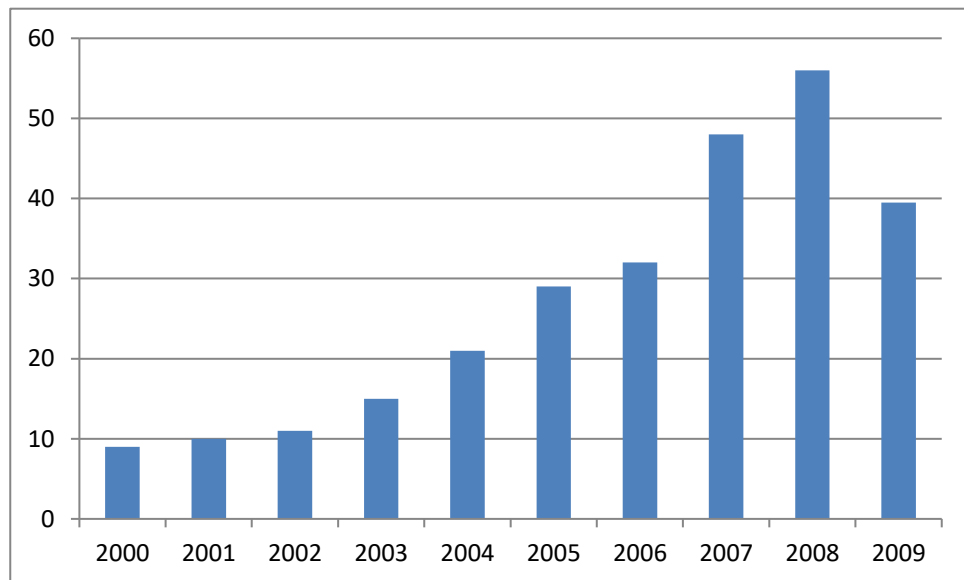
¹⁵Received from Collection of Russian-Chinese documents. 1999-2007

¹⁶Received from <http://economy.gov.ru>

growth in the volume of trade in goods began to slow down, and the growth rate was 18%.
17

And Russia was no exception - the country also experienced a serious crisis, aggravated by the structural imbalance of its economy: excessive dependence of a large share of energy and raw materials in exports; falling world energy prices. Actually, this caused a decrease in bilateral trade between Russia and China by 31.9% billion dollars.

(fig. 3). Fig. 3. Trade turnover between Russia and China in 2000–2009, billion dollars



Source; Compiled by autor. Data from <http://www.customs.ru>

Thus, at this stage, Russian-Chinese economic relations began to develop rapidly and were characterized by the following factors:

¹⁷Received from <http://russia.mofcom.gov.cn>

1. The rapid development of the economies of Russia and China favorably influenced the conditions of economic cooperation between the countries. After overcoming the financial crisis in 2000-2004, the Russian economy embarked on a path of rapid sustainable development, including an average annual GDP growth of 4-6%, industrial and agricultural enterprises began to produce and sell more products. In China, from 2000 to 2009 the average annual GDP growth rate reached 10%. In 2000-2007 bilateral trade increased almost 6 times - from \$ 8 to \$ 48.2 billion.

2. Intensification of investment and technical cooperation between the two countries. In 2003, investment flows from the Chinese side to Russia amounted to \$ 31 million, and already in 2005, the amount of direct investment increased 6.5 times and reached \$ 203 million. In 2006, in order to protect mutual investments by at the international level, the governments of the two countries signed an Agreement on the Promotion and Reciprocal Protection of Investments. Such an agreement led to an increase in direct investment from China to Russia, the amount of which reached \$ 470 million in 2006. As the volume of trade grew, direct investment by the Russian side in Chinese enterprises also increased. If direct investment in 2000 was only \$ 16 million, then by 2004 it had grown to \$ 126.38 million. ²⁸ Further progress in Russian-Chinese cooperation is reflected in the implementation of large joint projects in the field of nuclear energy and the construction of hydroelectric facilities. At this time, the Tianwan Nuclear Power Plant was built and commissioned, using Russian technologies and equipment, power plants were built in Yimen and Suezhong.¹⁸

3. The level of interregional economic cooperation between the two countries is gradually increasing. Economic cooperation of the border regions between Russia and China is an important component of the economic relations of these states. The share of cross-border trade in total bilateral trade increased from about 1.5% in 1983 to 17% in 2007.

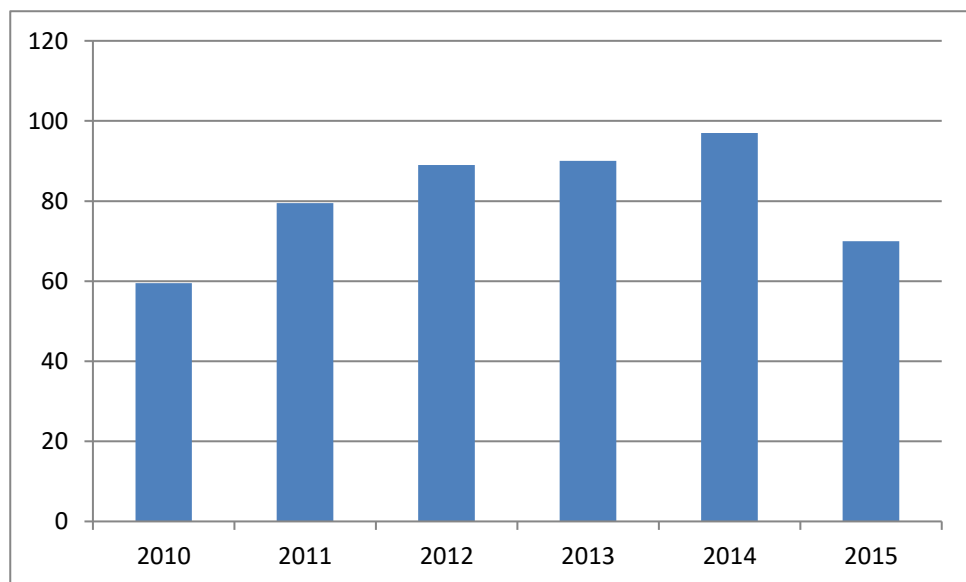
¹⁸ Received from <http://economy.gov.ru>

4.1.1.3 Third stage (2010-2015)

The last stage, according to our division, begins in 2010 and lasts until the present, and so far it is difficult to determine its clear characteristics, since this period is still in dynamics. In 2009, due to the global financial and economic crisis, a decrease in the foreign trade turnover of both countries was noticed.

However, already in 2010, trade between Russia and China grew to \$ 59.3 billion, and in 2013 - to \$ 89.21 billion. In 2014, Russian-Chinese trade amounted to \$ 95.28 billion, including the number of Russian exports to China - 41.6 billion dollars, imports from China - 53.6 billion dollars.

(fig. 4). Fig. 4. Trade turnover between Russia and China in 2010–2015, billion dollars



Source: Compiled by autor. Data from <http://www.customs.ru>

The main articles of Russian exports to China at this stage are mineral fuel, oil, oil products, wood, ore raw materials, non-ferrous metals and chemical products, while China,

in turn, supplies to Russia mainly machinery and equipment, textiles, footwear, precious metals and chemical products.

However, in 2015, the momentum of economic cooperation between Russia and China decreased slightly. Trade amounted to 68.08 billion dollars, that is, decreased by almost 29%. In the list of countries - the main trading partners of China, Russia took 16th place, instead of the usual 9th place¹⁹.

But there are objective reasons for this:

- geopolitical tensions in the world as a whole;
- slowdown in the economic growth of both countries;
- fall in world prices for such goods, which are the main export for our country, namely, energy and raw materials;
- exchange rate fluctuations of the Russian currency;
- pressure on the negative dynamics of China's trade turnover with its main foreign trade partners.

Russian exports to China also declined by 20%, which is due, first of all, to falling prices for primary and industrial goods. Russian exporters were forced to increase the physical volumes of supplies for certain commodity items (oil, iron ore, copper, nickel), or to try to discover new niches (agricultural products, high-tech goods).

The last way turned out to be very difficult, because in many cases it was necessary to start from scratch. Nevertheless, it was possible to maintain the physical volumes of the main goods, due to which the share of Russia in the total imports of China did not change much, decreasing from 2.12% to 1.98% compared to 2014. Russian-Chinese cooperation in

¹⁹ Received from <http://russia.mofcom.gov.cn>

the energy sector at this stage has reached a qualitatively new, “strategic” level, this is confirmed by the number and scale of projects.

China is one of the world's largest energy consumers, and, accordingly, it needs to ensure energy security and maintain high economic growth rates. For Russia, cooperation with China in this area is an opportunity to diversify the direction of export of energy resources. The result of cooperation in the oil sector was the commissioning of the Skovorodino-MoheDacin pipeline branch, which is a branch of the Russian East Siberia-Pacific Ocean oil pipeline.

Among other things, the priority area of cooperation between the Russian Federation and the PRC is cooperation in the field of innovation, as well as the expansion of practical cooperation between research centers, academic institutes and technology parks.

So, in Shanghai in October 2014, the seventh Pujiang International Innovation Forum was held, the Russian delegation consisted of representatives of the Far Eastern, Ural and South-West federal universities, the Skolkovo technology park, NTG Geotech, Central Research Institute of Robotics and Technical Cybernetics, and the Scientific Center Prometheus, the Genesis of Knowledge group of companies and other organizations.²⁰

²⁰Received from <http://www.xinhuanet.com>

4.2 Comparative analysis of the economies of Russia and China

Today, the entire world economic system is a source of uncertainty, and it will remain so throughout the next coming period. There is a strategic instability of the global economic development process.

This is due to several factors:

1. unresolved fundamental problems of structural imbalances in consumption and accumulation in the global economy,
2. uneven development of economies in different regions of the world, regulation of financial markets and capital flows.

There is a process of changing the dynamics of development of the western and eastern centers of the world economy, this in turn leads to increased competition in world markets for goods and capital. In order to conduct a comparative analysis of the current economic status of Russia and China, it is necessary, first of all, to consider the indicators of each of the economies separately.

4.2.1 Description and analysis the economic situation in the Russian Federation.

Today, the economic situation in Russia can hardly be called stable, this is primarily due to the currency crisis that began in mid-2014. A lot of strategic and current problems have accumulated, in particular, an outdated production and technical base, raw material dependence of the economy, weak investment and innovative attractiveness, and others. For these reasons, our country needs to modernize and build an innovative economy, subject to the active participation of the state in these processes.

The currency crisis, associated with lower oil prices and Western economic sanctions against Russia, caused a significant depreciation of the ruble against foreign currencies, led to increased inflation, and then to a decrease in real disposable income and consumer demand. The ruble depreciated against the US dollar and the euro by 87.23%

and 80.57%.²¹ Geopolitical tensions, sectoral sanctions and forced retaliatory measures accelerated the outflow of capital, slowed down investment activity even more, deprived the country of access to external financial markets and pushed the Russian economy to a new round of crisis.

The government tried to quickly respond to these challenges: increased government support for the financial sector, which now accounts for about 15%. It is with such old and new problems that the country entered 2016. One cannot fail to note the competent foreign policy pursued by Russia: with the help of its embargo it makes it clear to the whole Western world that their sanctions will not go unpunished.

On the one hand, this situation created a good opportunity for Russia to show its strength, and also gave great confidence to domestic producers in the food industry. Now, before Russia again allows foreign products to enter its market, Europe will have to experience the consequences of its own actions. Closing access to Western food products did not make us outsiders of the global economy, because such a huge country cannot be taken and isolated from the rest of the world.

Together with the above socio-economic conditions prevailing in recent years in Russia, it is necessary to note the positive aspects of the current state of its economy:

1. The Russian economy is characterized by an efficient allocation of resources that are directed to the production of goods necessary for society.
2. In Russia, a situation of great competition is unfolding. This circumstance makes it necessary for entrepreneurs to reduce product prices and organize a discount system.
3. The conditions for a favorable business climate are being created, although significant problems remain regarding significant government intervention in the economy and a high level of corruption.

²¹Received from <https://www.cbr.ru>

4. An integral component of the modern economic model is the optimal use of the results of scientific and technological progress everywhere. Today, Russia is striving to introduce newer and improved technologies into production, healthcare and other important areas of the economy.

This is a summary of the current state of the economy of the Russian Federation. Noting all the shortcomings and advantages of the current economy, it should be noted that in general it serves the state with dignity. But, nevertheless, internal incentives are needed to increase its effectiveness, to reduce the direct participation of the state in the economy, private initiative should be encouraged and noticed.

4.2.2 Analysis of the economy of the People's Republic of China.

The Chinese economy is characterized by:

- ✓ The combination of a planned economy with the benefits of a free market. Hence the reasonable combination of state ownership - for large and strategically important enterprises, and private for everything else.
- ✓ The wide attraction of foreign capital and the world's largest producers.
- ✓ The real fight against corruption and cases of arbitrariness of officials.
- ✓ A nationwide policy to promote exports and deter imports.
- ✓ Cheap labor and high labor discipline.

Every year, the urban population of China is added by 21 million people, that is, “five” Russia appears in five years, and the United States in twelve years. This is the whole secret of China - tens of millions of new workers and, at the same time, consumers.

Subject to the competent management of the country, urbanization will continue to have a positive effect on the rapid development of the country. Energy resources are the most important component of the economy of all countries of the world, and they occupy a rather high role in the Chinese economy.

There is a problem here: the energy intensity of our Asian neighbor is much inferior to developed countries. China's industry as a whole remains in the same position and for 40 years it forms almost half of GDP. And the share of agriculture has already decreased to 10%. It is important to note that the share of the high-tech field in industry is not growing - it has been around 14% for ten years now.

Online sales are expected to grow in China in the coming years, the state plans to improve logistics, improve the work of small and medium businesses, and the development of free economic zones will continue.

The state will revise taxes downward, because the real high taxes on cars and real estate, as well as some instability in generating incomes, lead to an increase in savings from the population, rather than spending. Despite all the measures taken by the Chinese government, the growth rate of the PRC economy in the coming years will decline.

However, these rates are still the highest compared to other economically developed countries. It is difficult enough to make a comparative analysis of two countries with different economic models and with different economic policies of the country.

4.2.3 Comparison of the economics of Russia and China.

We will compare the exact data presented in table 1 for a simplified and visual comparison of the countries of the Russian Federation and China.

Table 1 Indicators of the state of the economy of the PRC and the Russian Federation for 2016

Indicators	China	Russia
Population (mil. People)	1 373.5	142.4
GDP growth rate (%)	6.6	-0.2
Nominal GDP (bil.USA \$)	11 390	1 268
PPP GDP (bil. \$)	21 270	3 745
The growth rate of industrial production, (%)	6.1	0.7
Inflation, %	2.3	7.2
Unemployment rate, (%)	4.2	8.2
Export volume, (bil.USA \$)	2 011	259.3
Import volume, (bil.USA \$)	1 437	165.1
Government debt,(% of GDP)	20.1	13.7

Source;Complied by autor. Data fromURL: <http://russia.mofcom.gov.cn> and URL: <http://economy.gov.ru>

Referring to the table, we can conclude that China is ahead of Russia in many respects. Low inflation in China is a positive factor in the country's economy, which stimulates demand, expands production and increases investment attractiveness.

One can note a huge difference between the volume of exports and imports in two countries: in Russia this indicator is lower, which is associated with a drop in oil prices, as well as with a decrease in demand for Russian goods due to sanctions.

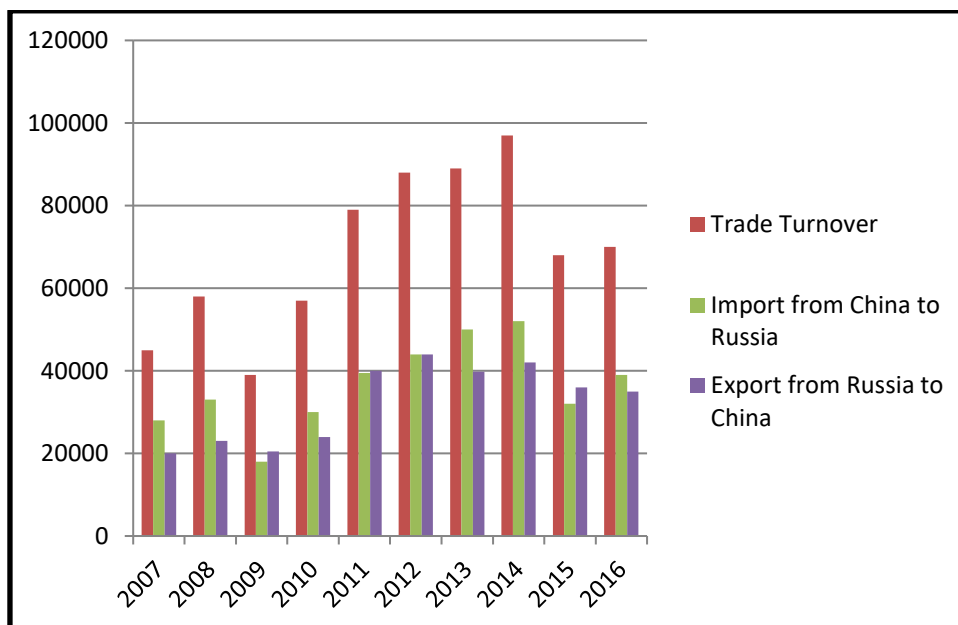
But for Russia this should not be a reason for frustration, the country is obliged to strive for the performance of its friendly neighbor and partner, perhaps learning from some experience and using effective mechanisms for managing the country's economy.

4.2.4 Analysis of the effectiveness of economic cooperation.

And now we turn to the analysis of the effectiveness of economic cooperation between the two countries. Russian trade with China in 2016 amounted to \$ 69.525 billion (+ 2.2%), including Russian exports to China - \$ 32.228 billion (-3.1%), imports from China - \$ 37.297 billion .(+7.1%).²²

The data in Figure 4 will help to visually examine not only how the volume of trade between Russia and China changed, but also the volume of its components - exports and imports from 2007 to 2016.

(fig.5). Fig. 5. Mutual trade between Russia and China from 2007 to 2016, mln. USD



Source; Compiled by autor. Data from – URL: <http://www.ved.gov.ru>

²²Received from <http://economy.gov.ru>

It should be noted that the slowdown in the dynamics of mutual trade in 2015 was due to a number of objective factors that formed back in 2014.

Firstly, this is a general geopolitical tension, the complication of the situation in Ukraine, the imposition by Western countries of economic sanctions against Russia, and the deterioration of world foreign trade conditions, including a decrease in demand in foreign commodity markets, volatility of the global financial market, debt problems of the eurozone and the United States.

Secondly, a slowdown in economic growth, both in Russia and in China, and, as a consequence, a drop in the growth rate of commodity circulation.

Thirdly, the fall in world energy and commodity prices, which make up more than 70% of Russian exports to China.

Fourth, a decrease in the purchasing power of Russian consumers of Chinese products due to sharp exchange rate fluctuations of the Russian ruble against major world currencies, including the Chinese yuan.

Fifth, the increasing pressure of a downtrend in China's foreign trade, which began back in 2014 and fully manifested itself in the first half of 2015.

Thus, according to customs statistics, China's foreign trade turnover in January-September decreased by 6.1% (\$ 2,904.14 billion), including export - by 1.9% (\$ 1,664.12 billion), imports - by 15.5% (1,240.03 billion dollars).

Negative dynamics are noted not only in trade with Russia, but also with the main foreign trade partners of China. In particular, trade with the EU decreased by 8.3% (\$ 465.46), with ASEAN - by 3.0% (\$ 378.82 billion), with Japan - by 11.2% (229.84 billion

dollars). Slight growth is noted in trade with the United States + 1.8% (461.14 billion dollars).²³

Thus, by considering the basic macroeconomic indicators of Russia and China, a comparative analysis of the economies of the two countries was carried out, so that we can evaluate the effectiveness of this cooperation.

4.2.5 Conclusion of comparative analysis.

In 2015, the trade turnover between the countries decreased by 29.3% compared to 2014, and its indicator slightly increased by 0.3% from January to October 2016 compared to the same period a year earlier.²⁴

But there are objective reasons for this:

- geopolitical tensions in the world as a whole;
- slowdown in the economic growth of both countries;
- fall in world prices for such goods, which are the main export for our country, namely, energy and raw materials;
- exchange rate fluctuations of the Russian currency;
- pressure on the negative dynamics of China's trade turnover with its main foreign trade partners.

The listed reasons, of course, influenced the quality of economic relations between the Russian Federation and China, but such a partnership cannot be unequivocally defined as ineffective. Since joint large-scale projects and key areas of cooperation have not undergone significant changes.

²³Received from Titarenko M. L.- Russia and its Asian partners in a globalizingthe world.

²⁴ Received from <http://russia.mofcom.gov.cn>

Conclusion

Decision-making in a mutual economic strategy relations between the Russian Federation and China are based on common interests on the international arena, in friendship and mutual understanding.

Within strategic partnership between coordination of their foreign policy, and with that foreign economic priorities and initiative, countries advocate for multipolarity and polycentricity of the world, neat attitude to humanitarian interventions.

Holistic analysis of the main forms of economic cooperation between the two countries showed that global economy, bilateral trade with every year is gaining momentum.

The potential of bilateral economic relations between Russia and China huge, and with a competent strategic policy of the government of both countries, we can talk about its inexhaustibility.

States intend to maintain and deepen trusting dialogue at the highest level, enhance the effectiveness of existing bilateral cooperation and, if necessary, form new ones, actively develop cooperation between regions, expanding the geography of such interactions.

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