

# The Current Situation and Problems of Sino-Russian Financial Cooperation

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**Abstract**—China and Russia are political and economic powers that have a tremendous impact on the political and economic aspects of the world. Therefore, Sino-Russian financial cooperation has always been of great concern in the international arena. For China, Russia has always been China's strategic partner, and there are inevitably various problems in the process of long-term cooperation with Russia. To broaden Sino-Russian financial cooperation, we must have a clear understanding of the problems in Sino-Russian financial cooperation. This paper clarifies the background of Sino-Russian financial cooperation, puts forward the existing problems in Sino-Russian financial cooperation, and provides a reference for the future research on Sino-Russian financial cooperation.

**Keywords**—Financial cooperation; Local currency; Payment method; Cooperation risk

## I. INTRODUCTION

China and Russia both play an important role in the international economy and the political arena, and have a decisive role in the world economy. From a historical perspective, the history of Sino-Russian exchanges has been as long as 400 years, and the trade volume between the two countries has gradually increased since the 1990s. Today, the process of economic globalization is gradually intensifying. After China's reform and opening up, the economy of Russia continues to develop. With the implementation of the "the Belt and Road" policy, Sino-Russian financial cooperation is getting closer and closer. Sino-Russian financial cooperation not only conforms to the development of the world economy, but also promotes China's economy in the world. However, due to the inconsistent financial development between the two countries, there are still problems in financial cooperation between China and Russia. In order to make the financial development of China and Russia more stable, it is very necessary to study the current status and existing problems of Sino-Russian financial cooperation.

## II. CURRENT SITUATION OF SINO-RUSSIAN FINANCIAL COOPERATION

### A. Current situation of Sino-Russian financial cooperation

In recent years, with the implementation of the "the Belt and Road" policy, the trade between China and Russia has become more and more close. By consulting the country report network of the Ministry of commerce of The People's Republic of China, we can obtain and sort out the import and export volumes of Russia from January to September 2019, which can clearly grasp the trade situation between Russia and major trading countries. By comparing the trade situation between Russia and major trading countries, we can get the status of trade cooperation between China and Russia.

Table 1: Russian Exports to Major Trading Partners from January To September, 2019

Export object	Exports (million dollars)	Export object	Exports (million dollars)	Export object	Exports (million dollars)
China	40141	Republic of Korea	12837	Poland	8653
the Netherlands	34507	Italy	10754	Britain	7886
Germany	20501	Kazakhstan	10016	Finland	7729
Turkey	16140	America	9482	Ukraine	5403
Republic of Belarus	14842	Japan	8669	Belgium	5116

According to the statistical results in Table I, Russia's exports to China were 401.41 billion dollars, ranking first among the 15 major trading partners. Russia's total exports from January to September 2019 were 3091.56 billion dollars, of which China accounted for 13%. So China is an important export partner of Russia.

Table 2: Import Volume Of Russia's Independent Trading Partners From January To September, 2019

Import objects	Import value (million dollars)	Import objects	Import value (million dollars)	Import objects	Import value (million dollars)
China	38662	Japan	6752	Poland	3617
Germany	18009	Republic of Korea	6092	Turkey	3457
America	9898	France	5712	Britain	2864
Republic of Belarus	9272	Kazakhstan	4116	Vietnam	2783
Italy	7525	Ukraine	3654	the Netherlands	2763

According to the statistical results in Table 2, Russia's imports from China were 386.62 billion dollars, ranking first among the 15 major trading partners. Russia's total imports from January to September 2019 were 1752.95 billion dollars, of which China accounted for 22.1%. So China is also an important import partner of Russia.

To sum up, China is an important trade partner of Russia, and the financial cooperation between China and Russia is very important for the development of the two countries. Therefore, we should constantly strengthen the financial cooperation between the two countries, and timely identify and solve the problems in cooperation.

### B. Settlement in local currency from scratch

In order to promote Sino-Russian economic and trade cooperation, both China and the Russian Central Bank are trying to find a more convenient way. In 2003, China and Russia signed the "Bank Settlement Agreement between the

People's Bank of China and the 43 Central Bank of Russia of the Russian Federation on Trade in Border Areas", which started the path of settlement in the local currency of China and Russia. In 2008, China and Russia expanded the scope of local currency settlement in bilateral trade and signed corresponding documents. In 2010, Russia became the first organized RMB trading market outside China. [1] In 2014, the People's Bank of China and the Central Bank of the Russian Federation signed a bilateral local currency swap agreement and renewed it in 2017. The scale of the agreement is 150 billion yuan/1325 billion rubles.

### ***C. Sino-Russian financial institutions actively set up outlets for each other***

Guangwei Pan, the first executive vice president of the Asian Financial Cooperation Association and the second executive vice president of the China Banking Association, clearly pointed out at the China Russia Round Table Dialogue on September 1, 2019, the expert meeting on issues related to China Russia international financial cooperation that, as China and its neighbor Russia have basically reached an important strategic consensus this year, they will invest in each other to build the "the Belt and Road" and the "Greater Eurasian Partnership". The international financial cooperation between countries on both sides has been strengthened, and large financial institutions between China and Russia have actively invested in each other and set up cooperation networks. The two transnational Chinese-funded financial institutions of China and Russia actively cooperated in the investment layout and location, providing new financial policy support for promoting the development and cooperation of the two transnational Chinese-funded enterprises of China and Russia in the economic and social fields. As of 2016, a total of six Chinese-funded banks have set up four subsidiaries and two corporate representative offices in the entire Russian region, and three Chinese insurance investment companies have set up one branch representative office and two management committees in the entire Russian region. Last year, a total of 9 large Russian banks invested and opened 1 large Russian specialized branch and 10 branch representative offices in China, and 2 large Russian specialized insurance investment companies invested and opened 2 professional Russian insurance representative offices in China. [2]

## **III. PROBLEMS IN SINO-RUSSIAN FINANCIAL COOPERATION**

In order to promote Sino-Russian economic and trade cooperation, the Central Bank of China and Russia is trying to find a more convenient way, such as the local currency settlement mechanism and the active establishment of outlets between Chinese and Russian financial institutions, but the following problems still exist in the implementation process.

### ***A. Incomplete settlement system in local currency***

First, From the Bank Settlement of Trade in Border Areas between the People's Bank of China and the Central Bank of the Russian Federation signed on August 22, 2002 to the comprehensive promotion of local currency settlement by the central banks of China and Russia in commercial banks in border areas on January 1, 2005, there are still many problems in local currency settlement today. First, there is still a certain distance between China and Russia in the realization of local currency settlement in the sense of real international interests. The RMB or ruble still cannot complete the complete process of a trade alone, and the local currency settlement still needs to rely on the US dollar conversion. This leads to high settlement

costs. Second, the scope of settlement in local currency needs to be further expanded. At present, settlement in local currency is only limited to various fields of foreign trade. Non-trade fields such as commission, freight, premium, and travel group fees cannot be settled directly in local currency. These non-trade fields also account for a high proportion of the total settlement in local currency. Third, the geographical scope of local currency settlement is relatively narrow, and the RMB is not generally accepted by Russian enterprises, and the banks that carry out local currency settlement are mostly in the Far East.[3] Fourth, the risk prevention system in local currency settlement is not perfect. The banks that conduct local currency settlement have not provided funds and facilities suitable for other banks themselves, have not provided funds suitable for other banks themselves to prevent other financing methods, and the head office has not been authorized or allowed to bear the amount and limit of exchange rate fluctuations. There is no unified settlement service center, which makes each bank have its own system and limited scale, It is difficult to further expand the business.

### ***B. The payment method is too single***

With the rapid development of science and technology, there are many kinds of payment methods in the world. For example, in China, the most widely used is electronic wallet. Everyone has WeChat and Alipay. This is different in Russia. Although they have many ways to choose for themselves, such as bank cards, debit cards, etc., and of course they also have many electronic wallets, most of the bank cards are only used for payment through the salary cards, pension cards, student cards, savings cards, etc. provided by commercial banks. Few of them are used for payment. Most regions still use cash payment. Moreover, many of the bank cards issued by Russia are not suitable for PayPal. This situation in Russia leads to a single payment method. Moreover, Russia does not have a unified payment platform, and the traditional payment method needs to convert RMB into US dollars, and then convert US dollars into rubles. In this way, not only the costs incurred by the exchange rate will be greatly increased in economic trade, but also the handling fee will be as high as 5% - 7%. Not only traditional trade is difficult, but cross-border e-commerce is also difficult to develop in Russia, which makes the gap between the Chinese and Russian economies. Of course, there is another way of paying for trade with Russia that is to use international credit cards, but international credit cards have the risk of non-payment and need to reserve 10% of the deposit. Various reasons lead to the inconvenience of Sino-Russian economic and trade settlement. [4]

### ***C. The financial cooperation mechanism needs to be improved***

The mechanism of Sino-Russian financial cooperation has not yet been established and improved. The main reasons include:

- China and Russia have not established a common development strategic plan for financial cooperation.
- The functions of the China-Russia Financial Cooperation Sub-Committee are not really fully utilized.
- The relevant policies of Sino-Russian financial cooperation are still imperfect. First, there is no effective financial risk guarantee system for Russia.

Second, due to the limitation of the convertibility of the capital account, the preparation mechanism for direct investment and integration between the two regions and other funds is still not perfect. Third, China's qualification for offshore financial

services in Russia is still limited to four banks, and a large number of offshore financial services in Russia cannot be fully satisfied. Fourth, as a new type of financing, crossborder financial leasing needs further optimization of the foreign exchange supervision and support policies related to such enterprises. [5]

**D. It is difficult to supervise anti-money laundering**

With the increase of the scale of China-Russia crossborder trade, the cross-border flow of people, funds and goods between China and Russia has become the norm. Because the cash transactions in border areas are simple and fast, it is difficult for the relevant authorities to effectively control the import and export of cash, leaving room for money laundering activities. First, it is difficult for individuals to carry cash for law enforcement. According to the customs regulations, "if a person carries more than 10000 dollars of foreign currency cash, he should declare to the customs and apply to the Administration of Foreign Exchange for the certificate required to carry the foreign currency cash." However, in fact, due to the backwardness of the inspection equipment and the need for a long and complex personal search, which affects the efficiency of customs clearance, it is increasingly difficult to control the large amount of cash carried by people. Second, it is difficult to control capital flow. In order to effectively prevent capital flight, China has not completely liberalized foreign investment in individuals. Although China has not restricted foreign investment in individuals at present, some private enterprises and individuals invested in Russia have bypassed the investment restrictions on China in various ways and channels, so it is difficult for China to control capital flow.

Third, it is difficult to crack down on underground banks. Some businessmen who have obtained a lot of rubles from Russia instead of RMB need to convert the rubles into RMB to return to China. There are underground banks that attract these merchants to exchange rubles with them at high interest rates. Faced with the pressure of high exchange rate and the attraction of high interest of underground banks, these merchants finally chose to transfer funds across the border through underground banks, which are very hidden and have a high sense of anti-detection, which creates conditions for cross-border illegal fund collection. [1]

**E. Financing difficulties of border trade enterprises**

The financing of cross-border trade is still difficult, which limits the expansion and upgrading of enterprises. Most of China's special cross-border trade support funds are used overseas, and only a small amount of funds supports pure trade enterprises. Many small and medium-sized enterprises and border economic and trade enterprises cannot get support and help from local governments and the state due to lack of financing, which means it is difficult to expand their business successfully only by themselves. Moreover, there are relatively many types of taxes and fees on administrative matters of border trade, among which the most important taxes and fees include value-added tax, customs declaration fee, export value-added tax, export value-added tax, customs development value-added tax, port construction fee, transaction volume and accessories, etc., and the enterprises use the customs order pricing method as the import declaration form. The pricing of the customs will generally be much higher than the price in the contract or agreement signed by the company, which may lead to the increase of the tax and cost actually paid by the enterprise, thus reducing the enthusiasm of the enterprise to carry out business. [6]

**F. Unreasonable structure of Sino-Russian trade goods**

If financing difficulties reduce the enthusiasm of enterprises to trade with Russia, then the irrational trade commodity structure reduces the choice of enterprises to trade with Russia, and the irrational trade commodity structure also aggravates the friction between China and Russia. From January to September 2019, Russia's exports to China totalled US \$40141 billion. The main commodities exported to China were mineral products, wood and wood products, mechanical and electrical products, accounting for 75.2%, 6.5% and 4.1% respectively. The total value of Russia's imports from China is 38.59 billion. The products imported from China are mainly mechanical and electrical products, base metals and products, textiles and raw materials, accounting for 47.7%, 8.5% and 7.8% respectively. From the perspective of the proportion of Russian imports and exports, the structure of Sino-Russian trade goods is very unreasonable. The products exported by Russia to China are mainly energy products with low substitutability, while the products imported from China are non-energy products with strong substitutability after processing, which makes China easy to rely on Russia, and the products exported by Chinese enterprises are too replaceable, In such a fierce international trade competition environment, it is not conducive to the development of Chinese export enterprises.

Composition of main commodities exported by Russia to China

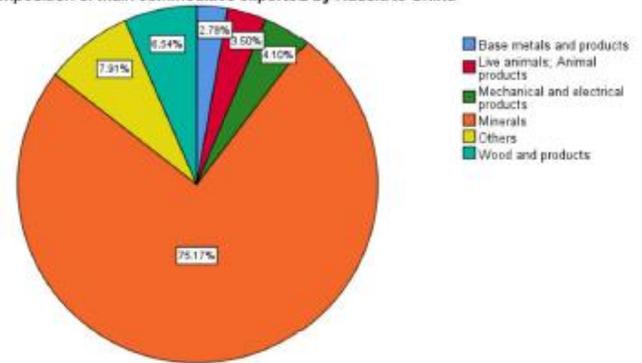


Fig. 1. Main products exported by Russia to China from January to September 2019 (million dollars)

Composition of main goods imported by Russia from China

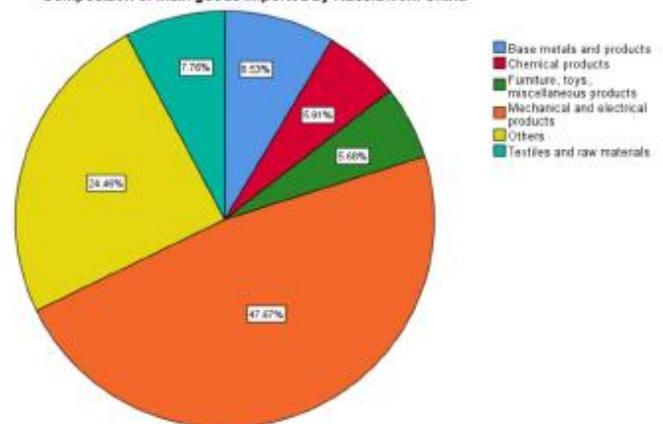


Fig. 2. Main products imported by Russia from China from January to September 2019 (million dollars)

**G. High risk of financial cooperation**

Due to the severe economic restrictions imposed by the United States on Russia, the financial environment in Russia has deteriorated, and the development of the financial system is still at the initial stage of the innovation period. There are still great technical risks in the cooperation between the Bank of

China and Russian companies. Its main characteristics are as follows:

- Russia's legal system is not yet sound, and its financial policies have frequently changed, which has led to the deteriorating investment environment in Russia.
- The development of the Russian banking system is still relatively immature, the relevant system is imperfect, the bank credit rating is low, and the capital market and insurance industry are also in the initial stage of development.
- The basic overall financial services of the banking industry in the Russian Federation are very low.
- The financial supervision and prevention capacity of cooperation between the major financial partners of China and Russia is still insufficient, and there are large financial risks.
- Western governments impose sanctions. The risk of cooperative investment and cooperation in the international financial field between Russia's two major powers is still relatively high. [7]

[7] Haifeng Pang, Mengxia Huo and Shuyue Pang, Analysis of the current situation, problems and countermeasures of Sino-Russian financial and trade cooperation. Heilongjiang Finance, 2019, (02): 57-60.

### CONCLUSION

Sino-Russian financial cooperation is an indispensable part of Sino-Russian economic development and an inevitable result of expanding Sino-Russian trade. Since China's reform and opening up, the financial cooperation between China and Russia has made great achievements. The local currency settlement has grown from scratch, and the financial institutions of China and Russia have actively set up outlets for each other. However, there are still some problems in China-Russia financial cooperation. The local currency settlement system between China and Russia is incomplete, the payment method is too single, the financial cooperation mechanism needs to be improved, the anti-money laundering supervision is difficult, the border trade enterprises are

difficult to finance, the structure of Sino-Russia trade goods is unreasonable, and the risk of Sino-Russia financial cooperation is high. It will take some time to solve these problems, and new problems may burst out at the same time. This requires us to keep learning, studying and solving problems, so that the path of Sino-Russian financial cooperation can go further and further, and continue to develop harmoniously and steadily.

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