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RUSSIAN-CHINESE FINANCIAL AND BANKING COOPERATION IN 2022-2023

Maksym Filatov¹

1. Dr., Research Fellow at the Institute of Political Studies,
Faculty of Social and Political Sciences
University of Lausanne (UNIL), Lausanne, SWITZERLAND
ORCID ID: 0009-0005-3388-4863

Abstract: *This article examines the principal aspects of financial and banking cooperation between the Russian Federation and the People's Republic of China (PRC) from the onset of the Russian-Ukrainian conflict until the end of 2023. The author underscores the pivotal role of the Chinese government in furnishing economic assistance to Putin's regime, thereby enabling Mikhail Mishustin's government to sustain the Russian financial and banking system. Furthermore, the integration of the banking systems of Russia and China and the development of new payment systems between the two countries were also discussed.*

Introduction. The geopolitical landscape of 2022 was marked by significant turbulence, primarily due to the Russo-Ukrainian war. In response to the unprovoked aggression of Putin's regime, Western nations imposed stringent economic sanctions on Russia, aiming to cripple its economy. However, Russia found an ally in China, whose government and business community extended critical financial support, thereby mitigating the impact of these sanctions. This article examines the multifaceted collaboration between Russia and China in the financial and banking sectors. It highlights how this partnership played a pivotal role in sustaining the Russian economy during a period of intense international pressure in 2022-2023.

Russian President Vladimir Putin and Secretary of the Russian State Security Council Nikolai Patrushev played pivotal roles in developing and nurturing this close economic and financial cooperation with China. Putin's strategic vision of a multipolar world, where Russia and China serve as counterweights to Western dominance, drove the deepening ties between the two countries. He repeatedly emphasized the importance of Sino-Russian cooperation. For instance, during the

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Eastern Economic Forum in September 2022, Putin stated, "China is our key partner in trade and economic cooperation, and our relationship is based on mutual respect and benefit" [12].

Nikolai Patrushev, a prominent figure within the Kremlin and a significant player in the realm of Russian security, also underscored the geostrategic significance of China-Russia collaboration. Patrushev has consistently advocated for Russia to pursue a diversified portfolio of economic partnerships and to reduce its dependence on Western banking and financial institutions. In an interview with Rossiyskaya Gazeta in 2022, he stated, "Our cooperation with China is not just a necessity but a strategic choice aimed at creating a more balanced and secure global economic system" [13]. Patrushev's role in facilitating high-level discussions and agreements further solidified the economic ties between the two nations, pushing bilateral economic integration.

This article examines the key developments in Sino-Russian financial cooperation, the establishment of alternative payment systems, and the increased Russian reliance on the Chinese yuan in bilateral trade. It also assesses the significant roles played by Chinese President Xi Jinping, Vladimir Putin, and Nikolai Patrushev in shaping this partnership and provides a comprehensive overview of the intensified economic integration between Russia and China in 2022 and 2023.

Methodology. This research employs a qualitative approach, utilizing a combination of primary and secondary sources to construct a comprehensive narrative of Sino-Russian financial cooperation in 2022 and 2023. The primary sources include official statistics from the National Bureau of Statistics of China and the Russian Federal State Statistics Service. Secondary sources consist of books and scholarly articles that provide context and analysis of the geopolitical and economic dynamics between Russia and China. The historiographical analysis examines the various interpretations of the nature and implications of Sino-Russian financial cooperation offered by different scholars.

Historiographical Analysis. The literature on Sino-Russian relations, particularly in the financial and economic realms, reveals a complex interplay of strategic interests and pragmatic cooperation. Scholars such as Helleiner and Kirshner (2020) have emphasized the geopolitical motivations behind China's international monetary relations, arguing that China's financial strategies are deeply intertwined with its broader geopolitical goals [2]. This perspective is crucial for understanding why China would support Russia despite the potential risks associated with secondary Western sanctions. Gabuev (2020) examines the regional implications of Sino-Russian financial cooperation, particularly in Central Asia, Siberia, the Russian Far East, and the Arctic regions [1]. His analyses highlight the strategic dimensions of the partnership and illustrate how economic cooperation accelerates broader geopolitical alignments.

Lo (2021, 2023) discusses the "axis of convenience" between Moscow and Beijing, offering a critical view of the pragmatic and sometimes opportunistic nature of their relationship. This perspective is essential for understanding the underlying dynamics that drive cooperation in the face of external pressures. Additionally, he provides insight into China's domestic financial strategies, highlighting how Chinese banks have navigated troubled loans and economic uncertainties to maintain stability. This background helps contextualize why Chinese financial institutions were willing and able to support their Russian counterparts during the sanctions period [5, 6]. Marcin Kaczmarek (2023) posits that the anti-American ideological foundations and fears of regime survival are bringing the elites of Vladimir Putin and Xi Jinping closer together, leading to unprecedented economic cooperation, including the integration of the financial systems of the Russian Federation and the People's Republic of China [3]. Additionally, in his 2024 study, Janis Kluge examines the increasing economic interdependence between Russia and China, particularly in light of Russia's geopolitical isolation from the West. His analysis highlights how Russia's pivot to China has intensified since the beginning of the Russian-Ukrainian war and subsequent Western sanctions. This relationship has increased Chinese influence over Russian economic policies, which has led to concerns about Russia's economic sovereignty as it becomes more reliant on Chinese markets, banking system, and investments [4].

Financial and Banking Cooperation. In the aftermath of Western sanctions, Russia and China intensified their financial collaboration through a series of bilateral agreements between Mikhail Mishustin's and Li Qiang's governments, as well as joint initiatives involving major financial institutions. The People's Bank of China and the Central Bank of the Russian Federation were pivotal in facilitating this cooperation. A noteworthy development was the establishment of currency swap agreements pushed by Xi Jinping and Nikolai Patrushev, which permitted both countries to conduct trade in their respective currencies—the renminbi and rubles—thereby reducing reliance on the US dollar and mitigating the risk of currency fluctuations due to Western sanctions [9]. According to official data, Sino-Russian banking cooperation substantially increased in 2022. The volume of transactions in national currencies increased by 67% compared to 2021, indicating a significant shift towards financial independence from Western-dominated systems [14]. This process continued in 2023, resulting in the intensification of the use of the Chinese yuan and the Russian ruble in bilateral trade. By the end of 2023, 95% of all Sino-Russian trade was based on transactions in national currencies [14-15].

In order to circumvent Western-controlled financial networks such as SWIFT, Russia and China accelerated the development and integration of alternative

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payment systems. Russia's System for Transfer of Financial Messages and China's Cross-Border Interbank Payment System emerged as vital tools in this effort. By linking these systems, both countries ensured seamless cross-border transactions, enhancing financial stability and operational continuity for businesses affected by the US and the EU sanctions [8].

Furthermore, the integration of Russia's Mir payment system and China's UnionPay which began after Vladimir Putin's and Nikolai Patrushev's meeting with Xi Jinping on February 4, 2022, has had a transformative impact on facilitating financial transactions between the two countries, offering numerous benefits to businesses and individuals. This integration has facilitated financial transactions in several key ways. Firstly, it has enabled seamless and hassle-free payment experiences for individuals and businesses conducting transactions between Russia and China. This has resulted in swift and secure transactions, reducing the time and effort required for cross-border payments. Secondly, the integration has expanded the range of payment options available to Russian businesses and consumers when engaging in transactions with their Chinese counterparts. They are no longer solely reliant on traditional international payment mechanisms, such as SWIFT. Moreover, Russian businesses could significantly reduce the costs associated with cross-border payments by utilizing the integrated Mir and UnionPay payment systems. Traditional payment methods often involve intermediary banks and currency conversions, which can result in additional fees. The integration streamlines the payment process and minimizes unnecessary expenses. Furthermore, the integration enables businesses to transact in their respective national currencies, the Russian ruble and the Chinese yuan, thereby mitigating currency risks by reducing exposure to fluctuations in exchange rates and the need for currency conversions [15].

The significance of the Chinese yuan in this new system of payment cannot be overstated. The renminbi became the primary trading currency for Russian foreign trade, significantly altering the financial dynamics between the two countries. The shift towards using the yuan was driven by several factors, including stability and internationalization of the yuan. The renminbi has been increasingly recognized as a stable and reliable currency in international trade. China's efforts to internationalize the yuan, including its inclusion in the International Monetary Fund's (IMF) Special Drawing Rights basket, have enhanced its credibility and attractiveness as a global trading currency [2]. It was crucial for maintaining the high volume of trade and investment flows between the two countries [10-11, 14].

In addition, the Central Bank of Russia began to restructure its reserves, which had traditionally been based on two strong currencies: the U.S. dollar and the euro. As a result, by the beginning of 2022, about half of Russia's foreign exchange

reserves were converted into gold, the Chinese yuan, Chinese government securities, the Indian rupee, and the currencies of other "friendly nations." The process continued in 2023-2024 due to the ongoing Russian-Ukrainian war and U.S. economic sanctions against Russia. This has led to the replacement of the US dollar by the renminbi as the main hedging asset in the Russian market. The Chinese currency became the main currency for the international reserves of the Central Bank of the Russian Federation in 2023. This strengthened bilateral economic cooperation and created a close link between the two countries' financial systems, making the Russian government more economically dependent on China.

Assistance in Circumventing Sanctions. The Chinese government and business community provided significant assistance to Russia in navigating the economic sanctions imposed by the West. Following instructions of Xi Jinping and Li Qiang, Chinese state-owned banks, such as the Industrial and Commercial Bank of China and the Bank of China, expanded their operations in Russia in 2022-2023, offering crucial financial services that Western banks had withdrawn after the beginning of the Russian-Ukrainian war. These banks facilitated trade financing, provided massive amounts of loans, and enabled smoother financial transactions, ensuring that Russian businesses remained operational [9].

Chinese companies also increased their investments in Russia, particularly in sectors critical to the Russian economy, such as energy, mining and defense industries, and infrastructure. These investments not only provided financial lifelines but also helped sustain employment and industrial activity, thereby stabilizing the Russian economy amidst the sanctions [7]. Chinese investments have been pivotal in the industrial development of the Russian Far East and Siberia. These regions, rich in natural resources, have benefited from Chinese capital and technological expertise. Chinese companies have invested heavily in energy projects, including the construction of natural gas pipelines such as the Power of Siberia and the Power of Siberia-3 pipelines, and the development of new oil fields in Sakhalin, Khabarovsk, and Surgut. These projects have significantly boosted regional energy production and Russian export capacity towards the Chinese, Indian, Vietnamese, and North Korean markets. Infrastructure projects, including the enlargement of the Baikal-Amur Mainline, and the construction of the new ports in Primorsky Krai and Khabarovsk Krai, have received substantial Chinese investment, improving connectivity and economic integration within the region. The Belt and Road Initiative has been a significant catalyst for many of these infrastructure developments [10].

Chinese investments in the manufacturing and technology sectors have led to the establishment of new factories and research centers in South Siberia and the Russian Far East, promoting industrial diversification and technological

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advancement in these regions [4]. According to the Ministry for the Development of the Russian Far East and Arctic, Chinese investments in the region reached 6.4 billion USD in 2021, subsequently increasing to 12.4 billion USD in 2022 and 15.8 billion USD in 2023. Projections indicate that this figure will reach 19.7 billion USD in 2024. This substantial financial commitment serves to highlight the strategic importance of the Russian Far East and Siberia in the broader Sino-Russian economic partnership [7]. The industrial development of these regions has not only boosted economic growth but also strengthened the geopolitical alignment between Russia and China. The collaboration in these resource-rich areas underscores the mutual benefits derived from their economic partnership and sets the stage for continued cooperation in the future [10].

Increased Financial Interaction and Sino-Russian Trade. Bilateral trade has been growing at a steady pace for the past decade. However, the growth rate accelerated significantly since 2020. In 2021, the volume of Sino-Russian trade reached 147 billion USD, representing a 37% increase compared to 2020. The trade volume between Russia and China saw a significant surge in 2022, driven by mutual economic interests and the need to diversify trade partners that were caused by the geopolitical conflict with the United States in which both countries were fully involved. According to official statistics, Sino-Russian trade reached a record high of 146.9 billion USD, a notable 29.5 % increase from the previous year [7]. This growth was driven by increased exports of Russian energy and agricultural products to China, as well as Chinese exports of machinery, electronics, and consumer goods to Russia. By 2023, the trade volume between Russia and China continued to rise, reaching over 243 billion USD. This 28% increase from 2022 underscored the deepening economic ties and the resilience of bilateral trade against the US and the EU pressures. According to the current governor of the Central Bank of Russia, Elvira Nabiullina, significant growth trends do not show a tendency to decrease in 2024, making it possible for bilateral trade to reach a 320 billion USD record by the end of the current year. Over the past four years, the volume of Sino-Russian trade has tripled [7]. Chinese investments in Russia also saw substantial growth in 2022-2023. According to data from the Russian Ministry of Economic Development, Chinese foreign direct investment in Russia increased by 42% in 2022 and 35% in 2023. This investment was concentrated in sectors such as energy, the mining industry, metallurgy, infrastructure, electronics production, the car industry, and the agricultural sector, which are of strategic importance for both countries [9, 15].

Conclusion. The banking cooperation between Russia and the People's Republic of China (PRC) allowed the Russian government to maintain the stability of the ruble and the banking system of the country despite the imposition of harsh economic sanctions by the United States and the European Union (EU) following

the February 24, 2022, invasion of Ukraine. The financial and banking cooperation between Russia and China in 2022-2023 brought significant changes to the economic realms of Eastern Europe and the Asian-Pacific regions. By circumventing Western economic sanctions and fostering a robust partnership, both nations have demonstrated their ability to adapt and thrive in a challenging geopolitical environment. The increased use of the yuan in bilateral trade, the establishment of alternative payment systems, and the substantial growth in trade and investment underscore the resilience and strategic depth of Sino-Russian financial cooperation. As the global economic order continues to evolve, the partnership between Russia and China is likely to play an increasingly pivotal role in shaping future financial and geopolitical dynamics in the region. The roles of key figures such as Xi Jinping, Vladimir Putin, and Nikolai Patrushev in promoting and sustaining this cooperation cannot be overstated. Their strategic vision and diplomatic efforts have been instrumental in forging a resilient economic alliance that serves the interests of the Chinese political elite. The industrial development of the Russian Far East and Siberia, driven by Chinese investments, provides further evidence of the tangible benefits of this partnership. It allows Russia to overcome economic and technological isolation.

In conclusion, the Sino-Russian financial cooperation of 2022-2023 serves as a testament to the enduring strategic alignment between the two countries. Despite facing significant external pressures, Russia and China have managed to create a mutually beneficial economic framework that not only addresses immediate challenges but also lays the foundation for future growth and stability. The continued collaboration in banking, trade, and investment is likely to reinforce Chinese geopolitical influence on Russia, thereby enabling the Chinese government to exert influence over the formation of Russian foreign and domestic policies.

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