

Section 5 Russia and Central Asia

In this section, we will provide an overview of economic trends in Russia and in Central Asian countries, which are deepening their economic relationships with Asian economies in order to capture demand in those economies, whose economies continue to grow.

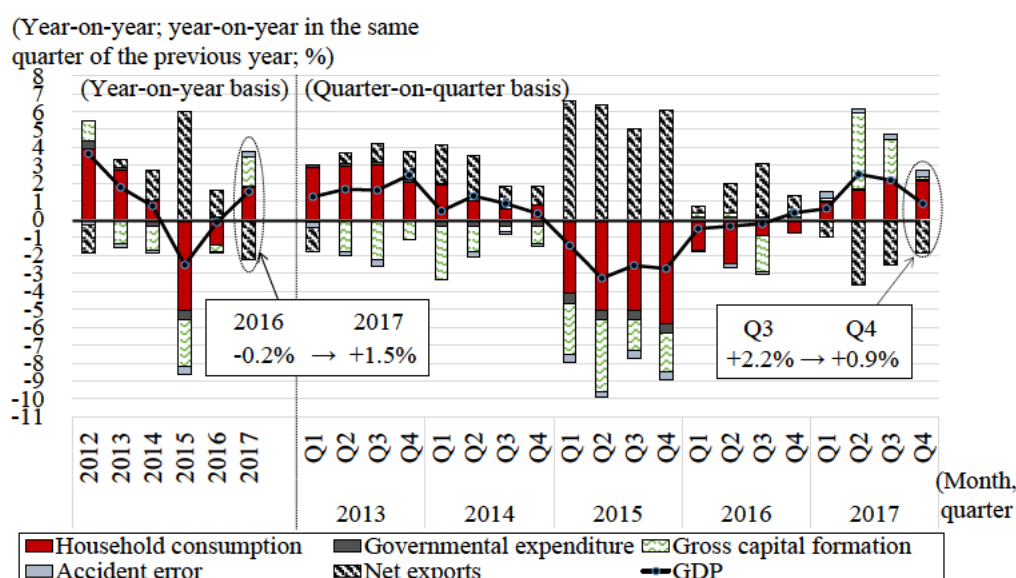
1. Macroeconomic trends in Russia

(1) Overview of economic conditions

In 2017, the Russian economy recovered moderately. Although it recorded negative growth in 2015 and 2016, the Russian economy returned to positive growth in the fourth quarter of 2016 for the first time in eight quarters, marking the start of recovery. In 2017, the Russian economy grew 1.5%, the first positive annual growth in three years.¹⁹⁶

In terms of the contribution to the GDP growth rate in 2017 by expenditure, household consumption and gross capital formation made a contribution of 1.8% and 1.7%, respectively, which means that domestic demand led the growth. On the other hand, while exports were robust, the growth of imports was higher than the growth of exports, resulting in a negative contribution of 2.3% by net export to the GDP growth rate (Figure I-2-5-1).

Figure I-2-5-1 Changes in real GDP growth rates and contribution level by expenditure in Russia



Notes: The quarter-on-quarter and year-on-year data in 2017 set the year of 2016 as a reference year.

Source: Federal State Statistics Service (FSSS) of Russia, CEIC Database.

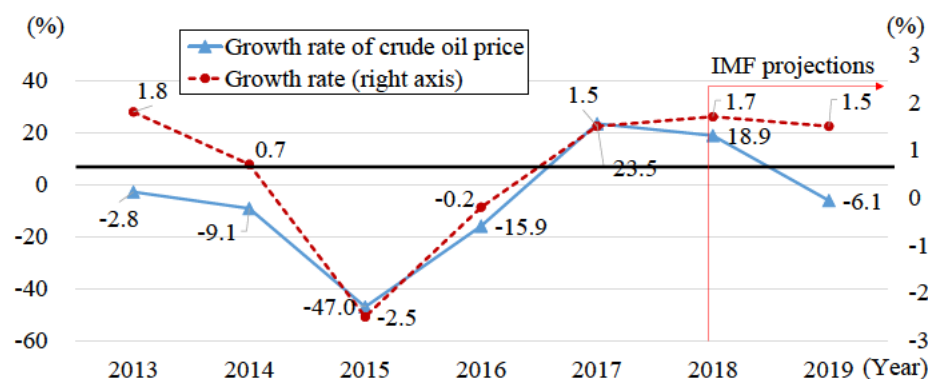
The Russian economy is prone to be affected by the crude oil price trend at the macroeconomic level. The oil price, which was around 99 dollars/barrel in 2014, was almost halved, to around 53 dollars/barrel

¹⁹⁶ Following Russia's annexation of Crimea in March 2014, economic sanctions have been imposed several times. In addition, in April 2018, the United States announced additional economic sanctions in relation to Russia's suspected interference in the U.S. presidential election.

in 2015, and over the same period, the real GDP growth rate also declined, from 0.7% in 2014 to minus 2.5% in 2015. However, as the oil price has recovered¹⁹⁷ thanks to a moderate recovery of the global economy and an agreement reached among OPEC and non-OPEC countries to reduce production, Russia's GDP growth rate is recording moderate growth.

The IMF forecasts positive growth of 1.7% in 2018 and 1.5% in 2019 (Figure I-2-5-2).

Figure I-2-5-2 Changes in growth rates of crude oil prices and real GDP growth rates in Russia (year-on-year)



Source: Data on crude oil prices: Brent price from WEO (IMF; April 2018); data on GDP: FSSS.

(2) Trade trends

As was mentioned earlier, the Russian economy is prone to be affected by the oil price, so reforming the resource-dependent economic structure has been a challenge for many years.

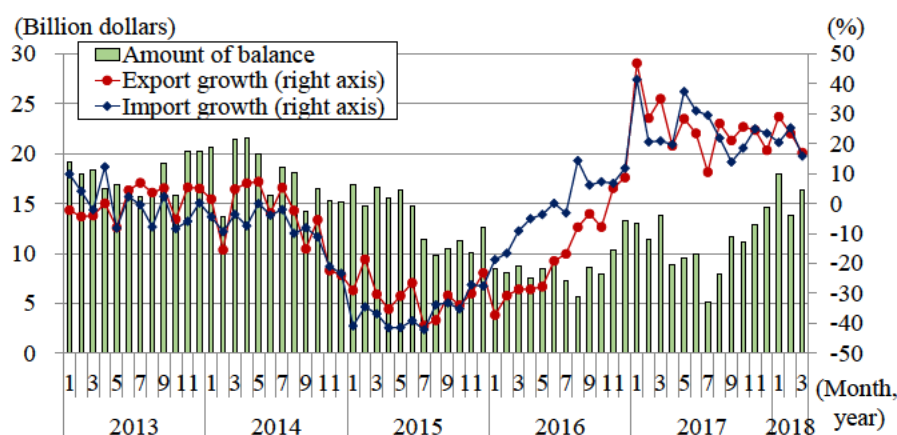
Therefore, in the State of the Union address on March 1, 2018, the goal of increasing the annual value of exports in non-resource sectors to 250 billion dollars over the next six years was proclaimed.

Below, we will describe Russia's trade structure, including the continuing dependence on resources in terms of export, and provide an overview of the background to Russia's deepening economic relationships with Asia-Pacific economies.

Regarding the trend in Russia's trade balance, the country has been steadily recording a trade surplus. In 2017, both imports and exports grew steeply, by 24.7% and 25.2%, respectively, from the previous year (Figure I-2-5-3).

¹⁹⁷ The OPEC member countries and non-OPEC countries, including Russia, agreed twice, in May and November 2017, to extend the period of the reduction of crude oil production, and as a result, the period has been extended to the end of 2018.

Figure I-2-5-3 Changes in trade balance and growth rates of imports and exports in Russia (year-on-year)



Source: Federal Customs Service of Russia, CEIC Database.

Next, regarding Russia's main items of trade, as was mentioned earlier, the leading item of export is mineral fuels, which account for 48.6% of the total value of exports.¹⁹⁸ Other main items of export are steel (5.3%) and precious metals (3.1%)¹⁹⁹ (Table I-2-5-4).

Of the main items of import, general machinery accounts for the largest share, 20.0%, followed by electrical equipment (11.8%), and vehicles and vehicle-related products (9.4%) (Table I-2-5-5).

Table I-2-5-4 Major export items from Russia

		2016	2017	2017	(From 2016 to 2017)	2017
HS code	Category of item	Total value (billion dollars)	Total value (billion dollars)	Share	Growth rate (year-on-year)	Major partner economy (share in target item)
27	Mineral fuels	134.9	173.2	48.6	28.4	Netherlands (17%), China (15%), Germany (7%)
72	Iron and steel	14.1	18.7	5.3	32.6	Turkey (18%), the United States (9%), Taiwan (8%), Belarus (7%)

¹⁹⁸ In 2015 and 2016, the share of exports of mineral fuels in the total value of exports declined (to 50.7% in 2015 and 47.2% in 2016), but the export volume in those years increased. Therefore, the decline in the share is presumed to be attributable to an oil price drop.

¹⁹⁹ The value of grain exports in 2017 rose to a record high (around 7.4 billion dollars, or approximately 2% of the total value of exports). Among the factors behind the record high are not only favorable weather conditions but also increased interest in the agricultural sector. The increased interest came against the backdrop of food import restrictions (August 2014) introduced in retaliation for economic sanctions imposed by the United States and Europe and a ban on vegetable and poultry imports from Turkey (January 2016) imposed in retaliation for the downing of a Russian military aircraft. Some people are of the view that agriculture was promoted as an import substitution measure related to those retaliatory measures.

71	Precious metal, etc.	8.9	11.0	3.1	24.0	Belgium (26%), the United Kingdom (14%), Switzerland (13%), India (10%)
84	General machinery	6.9	8.5	2.4	23.7	China (18%), Belarus (12%), Kazakhstan (12%), India (8%)
44	Wood and products thereof	6.5	7.9	2.2	20.9	China (42%), Finland (6%), Japan (5%), Uzbekistan (4%)

Source: Global Trade Atlas.

Table I-2-5-5 Major import items to Russia

		2016	2017	2017	(From 2016 to 2017)	2017
HS code	Category of item	Total value (billion dollars)	Total value (billion dollars)	Share	Growth rate (year-on-year)	Major partner economy (share in target item)
84	General machinery	35.4	45.3	20.0	27.9	China (30%), Germany (14%), Italy (7%), the United States (5%)
85	Electrical machinery	21.5	26.7	11.8	24.1	China (44%), Viet Nam (6%), Germany (6%), ROK (3%)
87	Vehicles and vehicle-related products	15.7	21.4	9.4	36.5	Japan (17%), Germany (17%), China (8%), ROK (8%)
30	Pharmaceutical products	8.9	10.8	4.8	21.6	Germany (21%), France (9%), Italy (6%), the United States (6%)
39	Plastics and products thereof	7.6	8.8	3.9	15.8	Germany (19%), China (17%), Belarus (8%), Italy (5%)

Source: Global Trade Atlas

Next, we will look at Russia's main trading partners.

Among export destination countries, the EU countries received nearly half, 44.7%, of Russia's overall exports, followed by China (10.9%) and Belarus (5.1%).²⁰⁰ Exports to all these countries grew by more than 20% from the previous year. Imports by China and Turkey²⁰¹ recorded particularly steep growth of 38.9% and 33.0%, respectively (Table I-2-5-6).

Among import source countries, the EU countries had the largest share, 38%, in Russia's overall imports, followed by China with 21.2% and the United States with 5.5%. Imports from China and the EU countries grew by more than 20% (Table I-2-5-6).

Table I-2-5-6 Major import and export partners of Russia

	2016	2017	2017	(From 2016 to 2017)		2016	2017	2017	(From 2016 to 2017)
Export destination economy	Total value (billion dollars)	Total value (billion dollars)	Share (%)	Growth rate (year-on- year; %)	Import source economy	Total value (billion dollars)	Total value (billion dollars)	Share (%)	Growth rate (year-on- year; %)
EU28	130.7	159.5	44.7	22	EU28	69.7	86.2	38	23.7
China	28.0	38.9	10.9	38.9	China	38.1	48.0	21.2	26
Belarus	14.3	18.3	5.1	28.1	United States	10.7	12.5	5.5	16.7
Turkey	13.6	18.1	5	33	Belarus	9.7	11.6	5.1	18.9
ROK	10.0	12.4	3.4	23.5	Japan	6.7	7.8	3.4	16.1

Source: Global Trade Atlas.

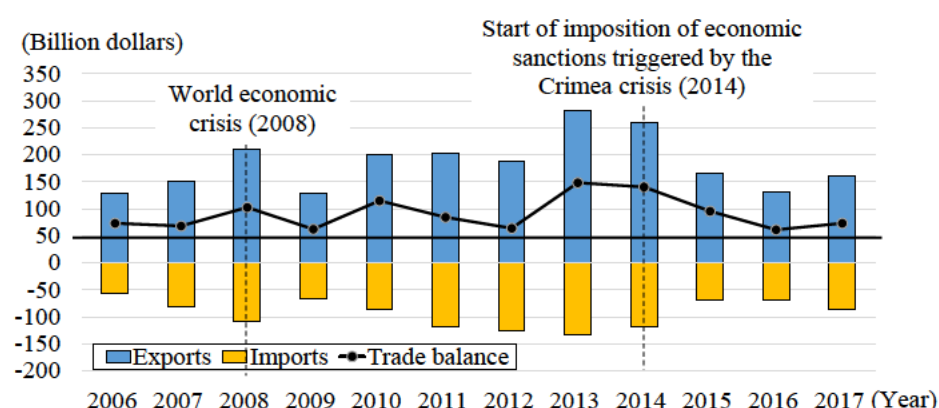
Next, we will look at Russia's trade relationship with the EU countries, its largest trading partners.

In its trade with the EU countries, Russia has been steadily recording a trade surplus. In 2017, the value of Russia's exports was 159.5 billion dollars and the value of imports was 86.4 billion dollars, resulting in a trade surplus of 73.1 billion dollars (Figure I-2-5-7).

200 Belarus refines crude oil imported from Russia at domestic refineries and sells refined oil products in international markets, including Europe.

201 Following the downing of a Russian military aircraft in November 2015, Russia imposed economic sanctions against Turkey. However, in May 2017, the two countries agreed on the removal of most of the sanctions.

Figure I-2-5-7 Changes in trade balance in Russia (with EU member economies)



Source: Global Trade Atlas.

Of Russia's items of export to the EU countries, mineral fuels accounted for by far the largest share of the total value of exports. Above all, crude oil and refined oil products had a particularly large share (the share was 34.7% for crude oil and 20.9% for refined oil products). Although petroleum gas and other gaseous hydro carbons (including natural gas) were also among the main items of export, their share in the total value of exports was only 0.6% (Table I-2-5-8).

Table I-2-5-8 Major import and export items and shares between Russia and EU member economies (2017)

Category (two-digit HS code)	HS code (four- digit)	Product item	Total export value (billion dollars)	Share (%)	Category (two-digit HS code)	HS code (four- digit)	Product item	Total import value (billion dollars)	Share (%)
Mineral fuels	2709	Crude oil	55.4	34.7	Pharmaceutical products	3004	Medicines	6.3	7.3
Mineral fuels	2710	Oil refinery products	33.4	20.9	Vehicles and parts thereof	8708	Vehicle parts and accessories	3.3	3.8
Mineral fuels	2701	Coal	4.3	2.7	Vehicles and parts thereof	8703	Automobiles	3.1	3.6
Precious metal, etc.	7102	Diamonds	2.9	1.8	General machinery	8419	Heating equipment	2.1	2.4
Copper and products thereof	7403	Refined copper or copper-alloy clot	2.7	1.7	Pharmaceutical products	3002	Vaccines, etc.	1.2	1.4

Iron and steel	7207	Semifinished products of iron or non-alloyed steel	1.5	0.9	General machinery	8479	Machinery (for industries, etc.)	1.2	1.3
Precious metal, etc.	7110	Platinum	1.3	0.8	Vehicles and parts thereof	8701	Tractors	1.1	1.3
Precious metal, etc.	7108	Gold	1.1	0.7	Electrical machinery	8517	Mobile phones	1.0	1.2
Mineral fuels	2711	Petroleum gas and other gaseous hydrocarbons	1.0	0.6	General machinery	8481	Valves, tubes and tanks	1.0	1.1
Aluminum and products thereof	7601	Aluminum clot	1.0	0.6	General machinery	8471	Personal computers	0.9	1.1

Notes:

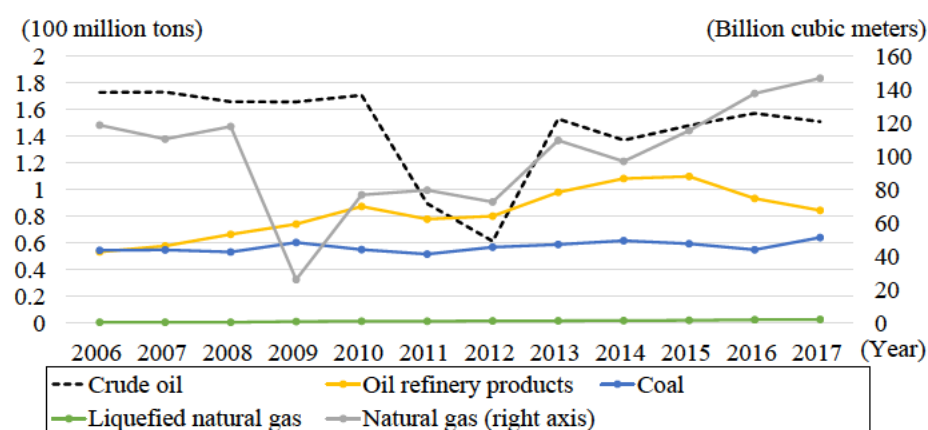
1. Mineral fuels are shown in yellow.
2. This table excludes data to which no HS code is assigned under the Global Trade Atlas.

Source: Global Trade Atlas.

Next, we will look at changes in the volume of exports of mineral fuels to the EU. Since dropping steeply in 2011 and 2012, the volume of exports of crude oil has not recovered to the previous level. The volume of exports of crude oil to the EU countries, which represent the largest export market for Russian crude oil, is peaking out. On the other hand, the volume of exports of natural gas has been trending upward after declining steeply in 2009, and in 2017, it rose to a record high.²⁰² However, as was mentioned earlier, compared with crude oil, the value of exports of natural gas was very small (Figure I-2-5-9).

²⁰² According to Gazprom, the largest natural gas company, its natural gas production volume rose to a record high, with exports to Europe and Turkey growing. In Europe, calls grew for reducing dependency on Russian in the energy and resource sectors because of the Crimea crisis and other factors. On the other hand, however, it is necessary to achieve the reduction target for greenhouse gas emissions, so reducing coal-fired thermal power generation has become a challenge. It is presumed that as a result, the volume of natural gas exports to Europe increased.

Figure I-2-5-9 Changes in export volume of mineral fuels from Russia to EU member economies



Notes: The target items in this figure refer to those covered by the following HS codes, respectively: crude oil: 2709; oil refinery products: 2710; coal: 2701; natural gas: 271121; and liquefied natural gas: 2711, except 271121.

Source: Global Trade Atlas.

2. Russia's eastward shift

(1) Russia looking east

With respect to Russia's external relationship, what has attracted the greatest attention is the so-called eastward shift. The eastward shift refers to Russia's efforts to strengthen its relationships with Asia-Pacific economies and promote the development of the Far East and Siberia regions, where economic development has been lagging.²⁰³

Russia is making those efforts not only from a foreign policy viewpoint²⁰⁴, but it also hopes to shift sales channels of mineral fuels,²⁰⁵ its leading item of export, away from Europe, where the market has matured, to Asia-Pacific economies, where economic growth is continuing, and at the same time to take advantage of Asian economies' economic growth to support Russia's domestic development.²⁰⁶

The Putin administration has actively strengthened this shift since its inauguration.²⁰⁷

²⁰³ The population in the Far Eastern Federal District, which was around 8 million people immediately after the collapse of the Soviet Union, declined to around 6.39 million people in 2007 and to around 6.18 million people in 2016. Behind Russia's promotion of the development of the Far East and Siberia is not only a population decline in these regions but also a sense of crisis over the economic development of China, which is adjacent to the regions (Shimotomai, 2016).

²⁰⁴ Some people are of the view that the deterioration of the relationship with the United States and Europe after the Ukraine crisis encouraged Russia's eastward shift.

²⁰⁵ For Russia, it is essential to secure sufficient volumes of mineral fuel production and export. However, major oil fields in Western Siberia, the main production region, have grown old and become high-cost operations, so Russia's interest in the eastern regions grew due to the need to make up for the decline of Western Siberia with new development in those regions (Kurita, 2014).

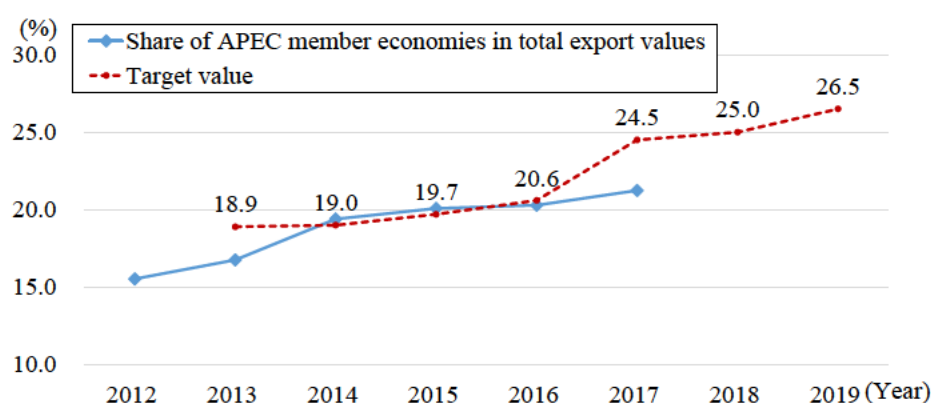
²⁰⁶ In an article titled "Russia and the Changing World," announced before the presidential election in 2012, then Russian Prime Minister Putin pointed out that the importance of the Asia-Pacific region for global politics and economics is growing and argued that for Russia to become a truly Pacific country, achieving the economic reflation of the Far East and Siberian regions is indispensable. In addition, Putin mentioned that to do so, it is important to exploit the economic growth potential of the Asia-Pacific region (Fushita, 2013).

²⁰⁷ The need to promote a Far East policy and strengthen the relationship with the Asia-Pacific region was also mentioned under the Gorbachev administration in the 1980s. Thereafter, a policy of placing

In May 2012, the Ministry of the Development of the Russian Far East was established as an organization specialized in the development of the Russian Far East. In September of the same year, the APEC Summit was held in Vladivostok. Russia sought to redevelop this city as a window into the Asia-Pacific region and attract domestic and foreign investments.²⁰⁸

In 2013, Russia presented a state program called “Promoting Foreign Economic Activity” to develop external economic activities, which indicated a specific target for the share of exports to Asia-Pacific economies in trade in goods²⁰⁹ (Figure I-2-5-10).

Figure I-2-5-10 Russia’s governmental targets in shares of goods exports to APEC member economies in total export values



Source: Global Trade Atlas as for data on actual values; *Promoting Foreign Economic Activity*, the state program, as for data on target values.

emphasis on the Far East was also proclaimed under the Yeltsin administration, but that was not accompanied by effective implementation (Fushita 2013).

Subsequently, at a meeting of the Security Council in December 2006, it was decided to host the APEC Summit in 2012 in Vladivostok and a strategic decision on the development of the Far East was made. In 2006, the construction of the Eastern Siberia-Pacific pipeline started, and the pipeline fully opened at the end of 2012, enabling exports to the Pacific region (Shimotomai 2016).

The Eastern Gas Program, which was adopted in 2007, referred to the development of infrastructure for the supply of gas to China and Asia-Pacific economies (Motomura, 2007).

208 According to the Central Bank of the Russian Federation, the value of foreign direct investments (FDI) in the Far Eastern Federal District in 2016, was 10.39 billion dollars, accounting for 31% of the net inflow of FDI. This was the second largest, after the value of investments in the Central Federal District, where Moscow is located. The value of the net inflow of FDI in 2016 was around 10 times as high as the value in 2006, reflecting a rapid increase.

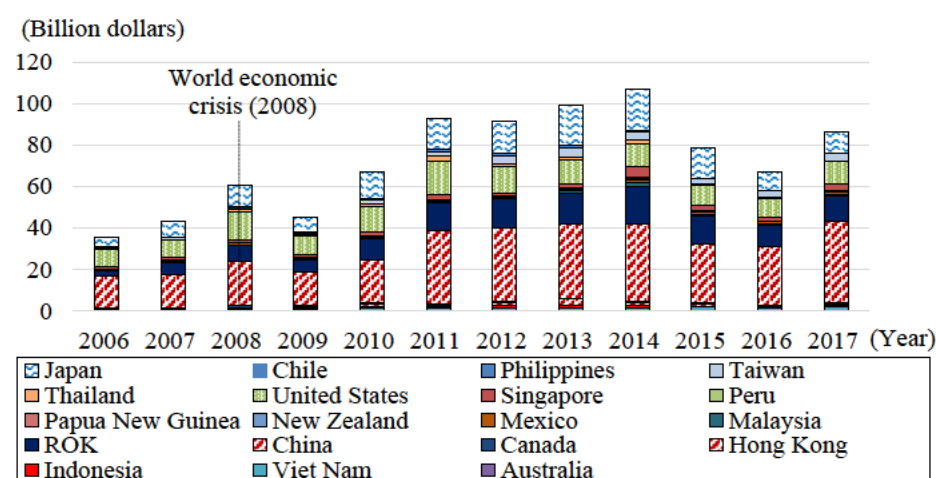
209 State Programmes (<https://programs.gov.ru/Portal/>).

Moreover, in September 2015, the first Eastern Economic Forum was held, and in the same year, Russia launched a quick succession of policy initiatives, such as “The Territories of Leading Social and Economic Development”²¹⁰ and “Free Port of Vladivostok,”²¹¹ whereby preferential tax measures and deregulation are granted.

Looking at changes in the value of Russia’s trade with the APEC economies, although the value of Russia’s exports to those economies declined in 2015 and 2016 due to the effects of an oil price drop, it has been basically increasing as a trend since 2009, when it fell steeply due to the effects of the global economic crisis. The value of Russia’s exports to the APEC economies about doubled in 2017 compared with 10 years ago, increasing from around 42.9 billion dollars to around 86.5 billion dollars, an indication of the deepening of the trade relationship (Figure I-2-5-11). Likewise, although the value of imports from the APEC economies declined in 2015 and 2016, it has been increasing as a trend since 2009. The total value of imports from the APEC economies increased from around 63.7 billion dollars to around 91.6 billion dollars in 2017 (Figure I-2-5-12).

Next, we will look at Russia’s trade with individual APEC economies. Of the total value of exports to the APEC economies in 2017, exports to China accounted for around 45%, while imports from China made up around 52% of the total value of imports. It may be said that Russia’s trade relationship with China among other APEC economies is particularly strong.

Figure I-2-5-11 Changes in values of exports from Russia to APEC member economies



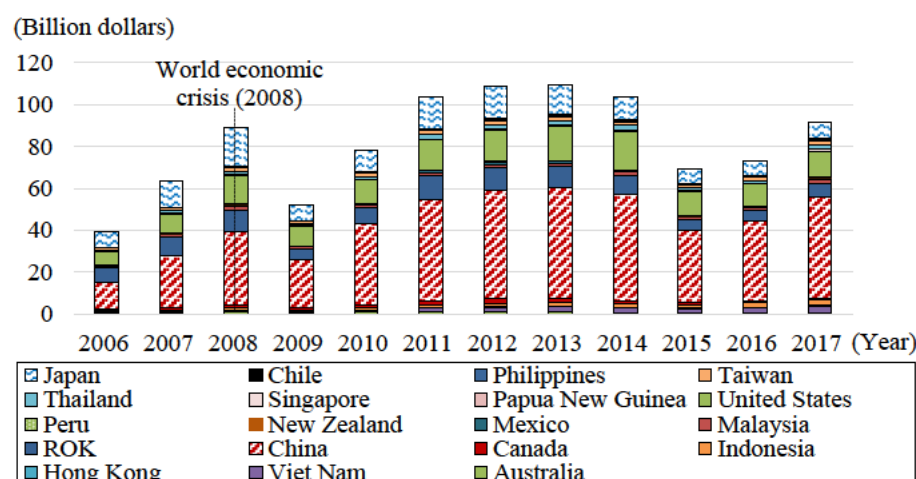
Source: CEIC Database.

210 The State of the Union address in December 2013 referred to the development of the Far East and Siberia as a national priority for the 21st century and proposed the establishment of special zones (advanced development zones) there with special conditions for organizing non-extractive production, including that intended for export.

The objective is to achieve growth in the Far Eastern region by attracting domestic and foreign investments and increasing exports to the Asia-Pacific region through the implementation of preferential tax and deregulation programs. The programs include exemption or reduction of the corporate tax (20%), exemption from the value-added tax (18%) and easing of the criteria for accepting foreign workers. The programs started operating at the end of March 2015. The implementation organizations include Far Eastern Development Corporation.

211 This is intended to develop the Maritime Territory by promoting various industries through tariff-free and preferential tax measures for companies located in the zone. The programs include tariff-free delivery of goods into and out of the port and easing of the visa procedures.

Figure I-2-5-12 Changes in values of imports from APEC member economies to Russia



Source: CEIC Database.

(2) Russia's economic relationship with China

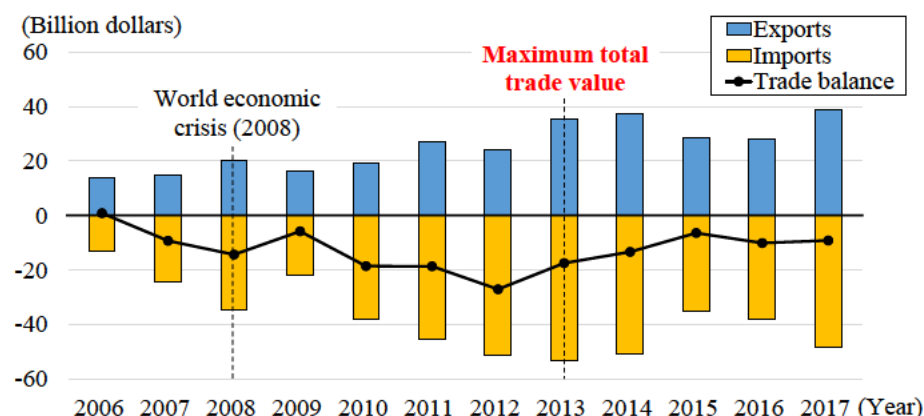
Here, we will look at Russia's trade and investment relationship with China.

In its trade with China, Russia has continued to record a trade deficit since 2007.

Since 2010, the total value of trade between the two countries has been growing as a trend, and in 2013, it rose to a record high of around 88.7 billion dollars (the value of exports at around 35.6 billion dollars and the value of imports at around 53.0 billion dollars).

In 2015 and 2016, when the oil price fell, both imports and exports declined, but in 2017, the value of imports and exports recovered to around 48.0 billion dollars and 38.9 billion dollars, respectively, with the total value of trade reaching the third highest level on record (Figure I-2-5-13).

Figure I-2-5-13 Changes in trade balance in Russia (with China)



Source: Global Trade Atlas.

Notes: The term "Maximum total trade value" refers to the largest value marked since 1992 after the collapse of the Soviet Union.

Next, we will look at the main items of import and export. First, of Russia's items of export, mineral fuels are the leading item of export,²¹² and crude oil in particular has a very large share, 52.8%, in the total value of exports (Table I-2-5-14). As a matter of fact, China's presence as a crude oil export destination for Russia is growing. The share of exports to China in the total value of Russia's crude oil exports rose from around 5% in 2007 to around 22% in 2017, making China the largest crude oil export destination country for Russia (Table I-2-5-15). For China, Russia was the largest crude oil import source country in 2017 (with a share of 14.6%) (Table I-2-5-16).

Table I-2-5-14 Major import and export items and shares between Russia and China (2017)

Category (two-digit HS code)	HS code (four- digit)	Product item	Total export value (billion dollars)	Share (%)	Category (two-digit HS code)	HS code (four- digit)	Product item	Total import value (billion dollars)	Share (%)
Mineral fuels	2709	Crude oil	20.6	52.8	Electrical machinery	8517	Mobile phones	5.3	11.1
Mineral fuels	2710	Oil refinery products	2.6	6.8	General machinery	8419	Heating equipment	3.4	7.1
Wood	4407	Rough wood	2.0	5.2	General machinery	8471	Personal computers	3.2	6.7
Mineral fuels	2701	Coal	1.7	4.5	Vehicles and parts thereof	8708	Vehicle parts and accessories	1.1	2.2
General machinery	8411	Turbojets	1.2	3.2	Toys and parts thereof	9503	Tricycles and scooters	0.9	1.9
Wood	4403	Wood	1.2	3.0	Electrical machinery	8529	Television and radio parts	0.8	1.8
Animals	0303	Fish	0.9	2.4	General machinery	8473	Parts of personal computers	0.7	1.4
Wood pulp	4703	Chemical wood pulp	0.8	2.0	Electrical machinery	8516	Electric products	0.6	1.4
Copper and products thereof	7403	Refined copper or copper-alloy clot	0.5	1.2	Shoes, hats, etc.	6402	Shoes	0.6	1.3

212 Regarding natural gas, the Power of Siberia gas pipeline leading to China is scheduled to open in December 2019 at the earliest and in 2022 at the latest. In 2014, an agreement on a supply contract was reached between Gazprom and China National Petroleum Corporation (CNPC) (Sakaguchi 2017).

Fertilizers	3104	Potassic fertilizers	0.4	1.1	Shoes, hats, etc.	6403	Shoes (those made of leather)	0.5	1.1
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Notes:

1. Mineral fuels are shown in yellow.
2. This table excludes data to which no HS code is assigned under the Global Trade Atlas.

Source: Global Trade Atlas.

Table I-2-5-15 Crude oil export destination economies for Russia

Ranking by economy	2007	2017
1st	Netherlands (22%)	China (22%)
2nd	Italy (13%)	Netherlands (18%)
3rd	Germany (9%)	Germany (10%)
4th	Poland (7%)	Poland (7%)
5th	China (5%)	Italy (6%)

Notes:

1. The crude oil in this table refers to that covered by HS code 2709.
2. The shares show those of target economies in total export volume of crude oil.

Source: Global Trade Atlas.

Table I-2-5-16 Crude oil import source economies for China

Ranking by economy	2007	2017
1st	Saudi Arabia (16.4%)	Russia (14.6%)
2nd	Angola (16.1%)	Saudi Arabia (12.6%)
3rd	Iran (13%)	Angola (12.1%)
4th	Russia (9%)	Iraq (8.5%)
5th	Oman (8%)	Oman (7.5%)

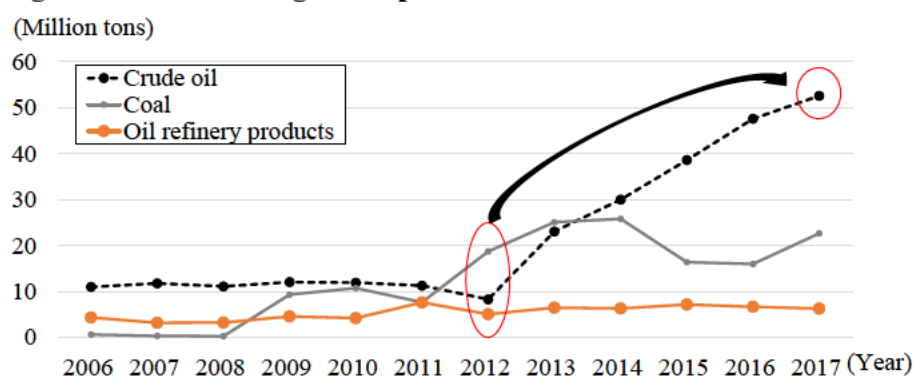
Notes:

1. The crude oil in this table refers to that covered by HS code 2709.
2. The shares show those of target economies in total export volume of crude oil.

Source: Global Trade Atlas.

Moreover, the volume of Russia's exports of crude oil to China has increased rapidly since 2012 (Figure I-2-5-17). One factor behind the increase is the full opening of the Eastern Siberia-Pacific Ocean pipeline in 2012.

Figure I-2-5-17 Changes in export volume of mineral fuels from Russia to China



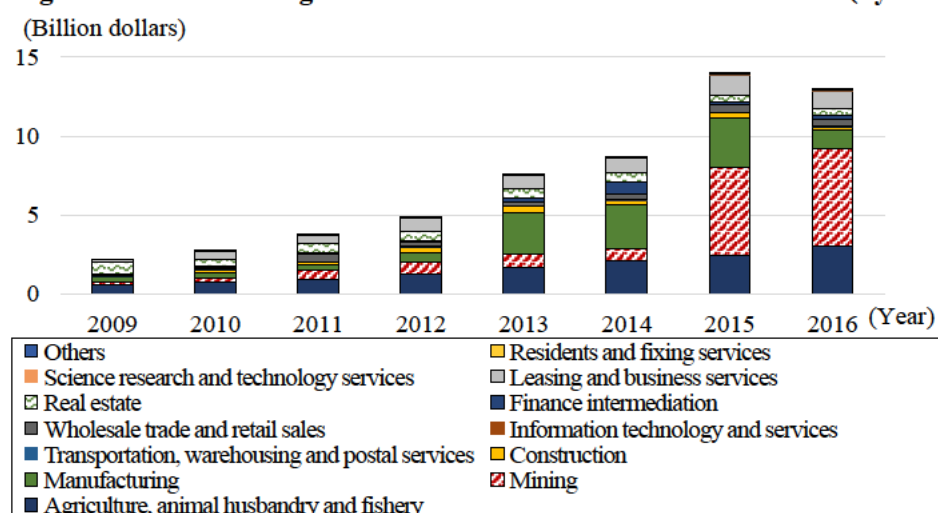
Notes: The target items in this figure refer to those covered by the following HS codes, respectively: crude oil: 2709; coal: 2701; and oil refinery products: 2710.

Source: Global Trade Atlas.

Of Russia's items of import, electrical equipment, including mobile phones, had the largest share, 11.1%, in the total value of imports from China, followed by heating equipment²¹³ and general equipment, including personal computers.

Next, China's foreign direct investments in Russia have increased in such sectors as mining, agriculture, livestock farming, and fishing since 2009. The steep increase in the balance of investments in 2015 is presumably attributable to the presence of large-scale investment projects in the mining sector.²¹⁴ In 2016, the mining sector received the largest value of investments, followed by the agriculture/livestock/fishing sector, and the manufacturing sector (Figure I-2-5-18).

Figure I-2-5-18 Foreign direct investments from China to Russia (by industry; on a stock basis)



Source: CEIC Database, Ministry of Commerce of China.

²¹³ Including heating equipment, water heaters, dryers and distillation apparatus.

²¹⁴ In December 2015, China Petrochemical Corporation (Sinopec) acquired 10% of all outstanding shares in a major chemical company (Sibur). The value of investment was around 1,338 million dollars (JETRO (2016)).

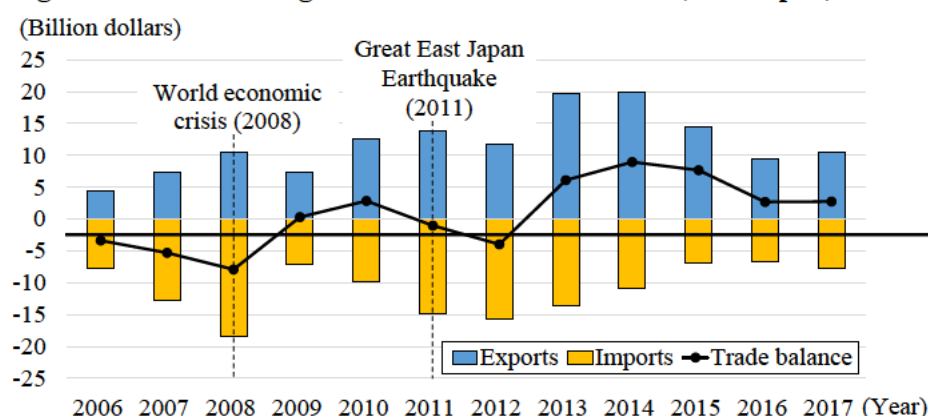
(2) Russia's economic relationship with Japan

Next, we will describe Russia's trade and investment relationships with Japan.

In its trade with Japan, Russia recorded a trade deficit in 2011 and 2012 but has been in surplus since 2013. In 2017, the value of Russia's exports to Japan was around 10.5 billion dollars and the value of imports from Japan was around 7.7 billion dollars, resulting in a surplus of around 2.7 billion dollars (Figure I-2-5-19).

Looking at Japan-Russia trade by item, Russia exports mineral fuels and other resources to Japan and imports vehicles and vehicle parts from it.

Figure I-2-5-19 Changes in trade balance in Russia (with Japan)



Source: Global Trade Atlas.

A closer examination of items of export shows that Russia's leading item of export is mineral fuels, as in the case of trade with other trading partner economies. What is different from trade with other trading partner economies is that the shares of petroleum gas and other gaseous hydrocarbons, and coal in the total value of exports are large²¹⁵ (the share is 21.9% for petroleum gas and other gaseous hydrocarbons and 14.5% for coal). In particular, for Russia, Japan²¹⁶ is the largest export destination country for its liquefied natural gas. For Japan as well, Russia's presence as an import source country of liquefied natural gas is growing. In 2017, 7.9% of Japan's overall imports of liquefied natural gas came from Russia, which became the fifth largest import source country (Tables I-2-5-20 and I-2-5-21).

²¹⁵ As the volume of coal exports to APEC economies is increasing, the transportation volume of Siberian Railways' BAM line is growing. The volume of exports to the ROK, China and Japan is particularly large. As a result, in 2014, the government of Russia approved a modernization plan for Siberian Railways' BAM line in order to expand transportation capacity.

²¹⁶ In 2009, LNG exports from the Russian Far East to Asia started.

Table I-2-5-20 Major export destination economies of liquefied natural gas for Russia

Ranking by economy	2009	2017
1st	Japan (73.1%)	Japan (72.4%)
2nd	India (7.3%)	ROK (16.2%)
3rd	ROK (6.3%)	Taiwan (9.8%)
4th	Kuwait (6.1%)	China (1.1%)
5th	Taiwan (3.6%)	Poland (0.2%)

Notes:

1. The liquefied natural gas in this table refers to that covered by HS code 271111.
2. The shares show those of target economies in total export volume of liquefied natural gas.
3. Russia started exports of liquefied natural gas to East Asian economies in 2009.

Source: Global Trade Atlas.

Table I-2-5-21 Major import source economies of liquefied natural gas for Japan

Ranking by economy	2007	2017
1st	Indonesia (22.2%)	Australia (31.1%)
2nd	Malaysia (19.9%)	Malaysia (17.3%)
3rd	Australia (16.1%)	Qatar (11.4%)
4th	Qatar (12.8%)	Indonesia (8.1%)
5th	Brunei Darussalam (7.8%)	Russia (7.9%)

Notes:

1. The liquefied natural gas in this table refers to that covered by HS code 271111.
2. The shares show those of target economies in total import volume of liquefied natural gas.

Source: Global Trade Atlas.

Next, of Russia's items of import, vehicles and vehicle parts had the largest share in the total value of imports from Japan in 2017, and above all, the share of automobiles and automotive parts was particularly large (the share was 26.9% for automobiles and 14.9% for automotive parts), followed by rubber tires (4.5%), excavators (3.9%) and engines (2.6%) (Table I-2-5-22).

Table I-2-5-22 Major import and export items and shares between Russia and Japan (2017)

Category (two-digit HS code)	HS code (four- digit)	Product item	Total export value (billion dollars)	Share (%)	Category (two-digit HS code)	HS code	Product item	Total import value (billion dollars)	Share (%)
Mineral fuels	2709	Crude oil	3.2	30.7	Vehicles and parts thereof	8703	Automobiles	2.1	26.9
Mineral fuels	2711	Petroleum gas and other gaseous hydro carbons	2.3	21.9	Vehicles and parts thereof	8708	Vehicle parts and accessories	1.2	14.9
Mineral fuels	2701	Coal	1.5	14.5	Rubber and products thereof	4011	Rubber tires	0.3	4.5
Aluminum and products thereof	7601	Aluminum clot	0.8	7.8	Vehicles and parts thereof	8707	Bodies (for automobiles)	0.3	4.0
Mineral fuels	2710	Oil refinery products	0.8	7.2	General machinery	8429	Excavators	0.3	3.9
Precious metal, etc.	7110	Platinum	0.5	4.6	General machinery	8407	Engines	0.2	2.6
Wood	4407	Wood	0.3	3.0	General machinery	8443	Printing machines	0.1	1.8
Animals	0303	Fish	0.2	1.6	Vehicles and parts thereof	8704	Motor vehicles for the transport of goods	0.1	1.7
Iron and steel	7202	Ferroalloy	0.2	1.5	Optical equipment	9018	Medical equipment	0.1	1.7
Ships and floating structures	8901	Cruise ships and cargo ships	0.1	0.9	Other products	9619	Diapers, etc.	0.1	1.4

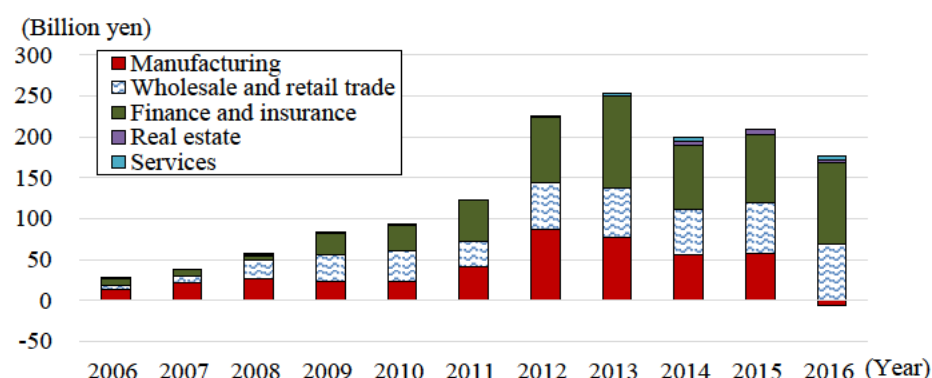
Notes: Mineral fuels are shown in yellow.

Source: Global Trade Atlas.

The value of imports of automobiles, which account for the largest share among the items of import from Japan, has been declining as a trend since 2013. Among the factors behind the downtrend are presumably a decline in purchasing power²¹⁷ due to the oil price fall and an increase in local production of automobiles.

Regarding Japan's direct investment in Russia, in recent years, Japanese investments have been made in a broad range of industries, including financial and insurance services and wholesale and retail trade. Investments were basically trending upward until 2014, when a downtrend started. Currently, while investments in the financial and insurance services industry and the wholesale and retail trade industries are robust, investments in the manufacturing industry are declining²¹⁸ (Figure I-2-5-23).

**Figure I-2-5-23 Changes in values of foreign direct investments from Japan to Russia
(by industry: on a stock basis)**



Notes: This figure shows data on a balance basis.

Source: *Balance of Payments* (Ministry of Finance (MOF)).

3. Central Asia's external economic relationship

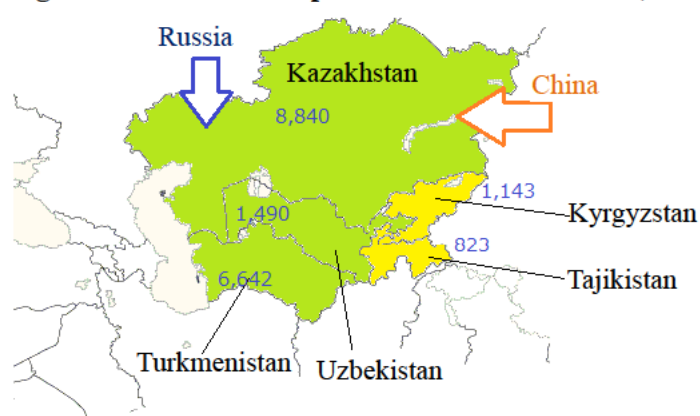
The five Central Asian countries²¹⁹ are relatively new countries created after the collapse of the Soviet Union in 1991. After their independence, the economic situation has differed from country to country, but one of the factors that has caused significant differences in terms of economic growth is the presence or absence of resources. Indeed, the value of per-capita GDP for resource-exporting countries is higher than the value for resource-importing countries (Figure I-2-5-24).

²¹⁷ The value of Russia's imports of automobiles (HS8703) from the rest of the world in 2015 was halved from 2014. In 2014 and 2015, when the oil price dropped, the ruble also depreciated, lowering purchasing power. In 2016 and 2017, the value of imports stayed at almost the same level as in 2015.

²¹⁸ In 2016, the value of foreign direct investments in the Russian manufacturing industry declined 28.6% from the previous year (balance of international payments basis, net, flow).

²¹⁹ The five Central Asian countries as referred to here are Kazakhstan, Uzbekistan, Turkmenistan, Kyrgyz and Tajikistan.

Figure I-2-5-24 Per-capita GDP in Central Asia (dollars)



Nominal GDP / person (US dollars; 2017)

■ Oil and gas export destination economy

■ Oil and gas import source economy

Source: WEO (IMF, April 2018)

Until 1991, the five countries were republics that constituted the Soviet Union, so both historically and economically, they have built close relationships with Russia. Even after the Central Asian countries became independent, Russia has sought to integrate the former Soviet regions in various ways under its own initiative. The Eurasian Economic Union, which was established in January 2015, may be regarded as part of that effort.

One new development in recent years is the rapid development of the Central Asian countries' economic relationship with China, a neighboring country with continuing economic growth. In particular, the One Belt, One Road initiative that is promoted by the administration of President Xi Jinping is becoming an important factor for the future of the Central Asian countries' relationship with China.

Here, we will look at the Central Asian countries' relationships with China and Russia, two superpowers that are advocating their respective regional economic union plans.

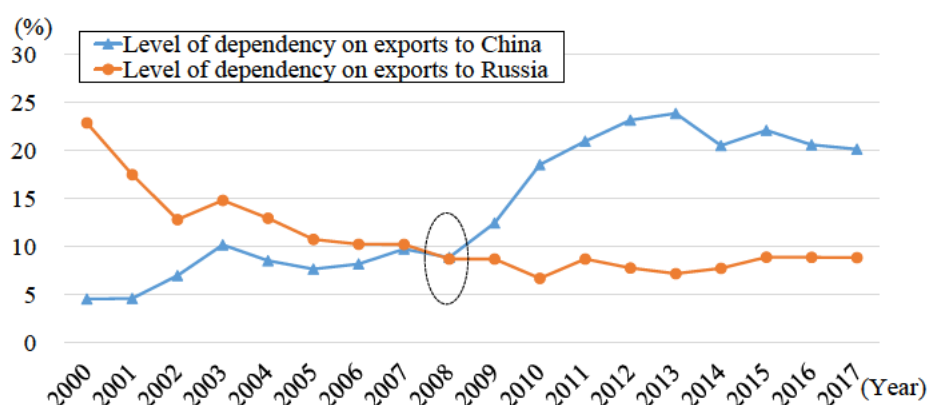
(1) The Central Asian countries' external relationships

First, we will describe the Central Asian countries' dependency on each of Russia and China in terms of export.

Of particular note is that since 2009, these countries' export dependency on China has been higher than their dependency on Russia. In 2000, the Central Asian countries' export dependency on Russia was higher than 20%, as their trade structure continued to be characterized by strong relationship with Russia.

However, the dependency on Russia gradually declined, and in 2010, it was down to around 7%. Although the dependency rose slightly in 2017, it was only around 9%. On the other hand, the export dependency on China has been rising as a trend since around 2009, and in 2017, it was around 20% (Figure I-2-5-25).

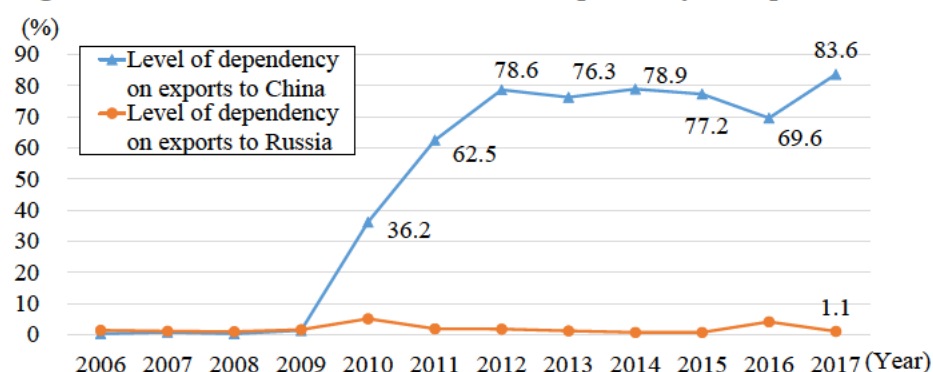
Figure I-2-5-25 Changes in dependency levels on exports in the Central Asian economies



Source: DOTS (IMF).

One factor behind the rise in the export dependency on China is the start of natural gas exports to China from Turkmenistan following the construction of a pipeline leading to China. Turkmenistan's export dependency on China has rapidly risen, and in 2017, it surpassed 80% (Figure I-2-5-26). Another factor behind the increase in the value of exports is the rapidly increasing demand for natural gas in China.²²⁰

Figure I-2-5-26 Level of Turkmenistan's dependency on exports to China and Russia



Source: DOTS (IMF).

Turkmenistan's main item of export is natural gas, so one reason why the country's export dependency on Russia did not rise as much as its dependency on China is considered to be the small scale of its exports to Russia, which is a resource-rich country.

Next, we will compare the value of imports and exports by individual Central Asian countries from China in 2007 and the value in 2017.

The share of exports to China in the total value of exports rapidly increased for Turkmenistan, as was already mentioned (from 0.8% in 2007 to 83.6% in 2017). The share of exports to China is also growing for Tajikistan and Uzbekistan (Table I-2-5-27).

²²⁰ Under the 13th five-year plan, the government of China is implementing the policy of promoting a shift in energy source from oil and coal to natural gas. In 2017, demand for natural gas has increased due to the strengthening of air pollution control measures, among other factors (Takehara, 2016).

Table I-2-5-27 Growth of trade in the Central Asian economies with China

(Unit: 100 million dollars; %)

	Exports					
	2007			2017		
	To other economies	To China		To other economies	To China	
	Value	Value	Composition rate	Value	Value	Composition rate
Kazakhstan	477.6	56.4	11.8	483.5	57.7	11.9
Kyrgyz	7.4	0.4	5.3	17.9	1.0	5.5
Tajikistan	15.1	0.1	0.6	11.0	1.7	15.4
Turkmenistan	59.1	0.5	0.8	74.2	62.0	83.6
Uzbekistan	65.3	3.4	5.2	90.8	13.9	15.3

(Unit: 100 million dollars; %)

	Imports					
	2007			2017		
	To other economies	To China		To other economies	To China	
	Value	Value	Composition rate	Value	Value	Composition rate
Kazakhstan	328.0	35.1	10.7	291.4	46.9	16.1
Kyrgyz	31.1	4.5	14.5	46.0	14.9	32.5
Tajikistan	26.1	2.8	10.6	23.9	2.9	12.1
Turkmenistan	24.2	3.2	13.2	45.5	4.0	8.9
Uzbekistan	66.9	8.1	12.1	122.5	29.3	23.9

Source: DOTS (IMF).

On the other hand, the share of imports from China in the total value of imports in 2017 recorded the largest increase for Kyrgyz compared with 2007. The share of imports from China recorded the second largest increase for Uzbekistan (the share increased from 14.5% to 32.5% for Kyrgyz and from 12.1% to 23.9% for Uzbekistan) (Table I-2-5-27).

A look at the Central Asian countries' items of trade with China shows that those countries mainly export primary goods, such as resources, to China and import general machinery and electrical equipment from it. For Kazakhstan, Uzbekistan and Turkmenistan, the leading item of export is mineral fuels, while Kyrgyz and Tajikistan export ore and other items (Table I-2-5-28).

Table I-2-5-28 Shares of import and export items between the Central Asian economies and China

Kazakhstan				Kyrgyz			
Exports		Imports		Exports		Imports	
Category of item	Share (%)	Category of item	Share (%)	Category of item	Share (%)	Category of item	Share (%)
Mineral fuels	24.0	General machinery	24.0	Mineral ore, slug and ash	53.6	Shoes	16.6
Copper and products thereof	20.5	Electrical machinery	19.4	Tobacco and manufactured tobacco substitutes	12.6	General machinery	14.1
Inorganic chemical products, precious metal, etc.	19.6	Iron and steel products	9.0	Leather	8.7	Artificial textiles and products thereof	10.3
Iron and steel	14.3	Plastics and products thereof	5.4	Mineral fuels	8.2	Electrical machinery	9.4
Mineral ore, slug and ash	10.6	Optical equipment	3.6	Vehicles and parts thereof (excluding those for railways and rails)	2.6	Clothing and accessories therefor	6.8

Uzbekistan				Turkmenistan			
Exports		Imports		Exports		Imports	
Category of item	Share (%)	Category of item	Share (%)	Category of item	Share (%)	Category of item	Share (%)
Mineral fuels	42.9	General machinery	24.2	Mineral fuels	98.5	General machinery	16.4
Cotton and cotton textiles	21.7	Electrical machinery	15.8	Salt, sulfur, etc.	0.6	Electrical machinery	26.4
Inorganic chemical products, precious metal, etc.	12.8	Plastics and products thereof	7.6	Vegetable products	0.4	Vehicles and parts thereof (excluding those for railways and rails)	2.9
Plastics and products thereof	10.2	Iron and steel	6.7	Cotton and cotton textiles	0.2	Iron and steel products	2.5

Copper and products thereof	4.9	Iron and steel products	4.8	Lac, gums, resins, etc.	0.1	Rubber and products thereof	0.9
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Tajikistan			
Exports		Imports	
Category of item	Share (%)	Category of item	Share (%)
Mineral ore, slug and ash	52.9	General machinery	27.6
General machinery	14.4	Electrical machinery	12.1
Optical equipment, etc.	13.7	Iron and steel	10.8
Cotton	7.5	Iron and steel products	10.4
Vehicles and parts thereof (excluding those for railways and rails)	7.4	Vehicles and parts thereof (excluding those for railways and rails)	5.9

Notes: The latest data released by ITC are those in 2016 (as of May 2018).

Source: International Trade Center.

For China, the Central Asian countries' presence as a natural gas import source is growing. Of China's overall natural gas imports, around 85% comes from the Central Asian countries, with 76% of the total imported from Turkmenistan (Table I-2-5-29).

Table I-2-5-29 Major import source economies of natural gas for China

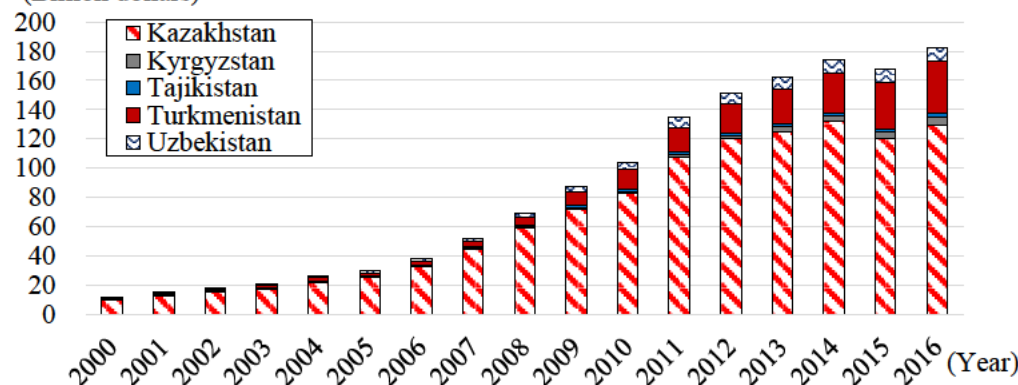
Ranking by economy	2010	2017
1st	Turkmenistan (100%)	Turkmenistan (76.6%)
2nd	-	Myanmar (13.8%)
3rd	-	Uzbekistan (7.6%)
4th	-	Kazakhstan (2.1%)

Notes: The liquefied natural gas in this table refers to that covered by HS code 271121.

Source: Global Trade Atlas.

Next, we will look at direct investments in the Central Asian countries. First, the balance of direct investments in the Central Asian countries from the rest of the world, which was 12.3 billion dollars in 2000, increased steeply, by a factor of around 15, to 182.5 billion dollars in 2016. By country, Kazakhstan had a share of 70% in the total balance of investments, followed by Turkmenistan with a share of around 20%, which means that investments in resource-rich countries were robust (Figure I-2-5-30).

Figure I-2-5-30 Changes in values of global direct investments in the Central Asian economies
(Billion dollars)



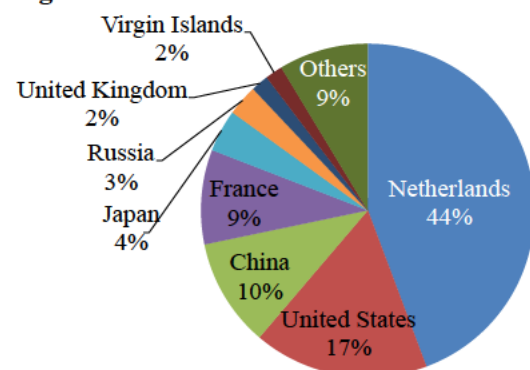
Notes: This figure shows data on a balance basis.

Source: UNCTAD.

Next, we will look at the value of direct investments in the Central Asian countries by investor country. Here, investments in Kazakhstan, Kyrgyz, and Tajikistan, for which the IMF has published data, will be discussed.

Kazakhstan, which is rich in resources, including crude oil, uranium and metals, attracted robust investments from the United States and Europe, with U.S. and European investments accounting for around 70% of the total balance of direct investments in the country. China, which had a share of around 10% in the balance of investments, was the third largest investor country (Figure I-2-5-31).

Figure I-2-5-31 Shares of inward direct investment balance in Kazakhstan by economy (2016)

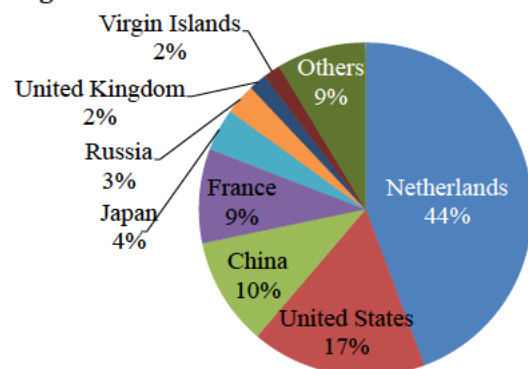


Notes: The data on China are calculation results including values in Hong Kong.

Source: Coordinated Direct Investment Survey (CDIS) (IMF, December 2017)

Kyrgyz, which has gold mines, attracted investments from Canada and other economies. However, compared with Kazakhstan, Kyrgyz received fewer investments from the United States and Europe. On the other hand, China, with a share of around 27% in the balance of investments, was the largest investor country (Figure I-2-5-32).

Figure I-2-5-32 Shares of inward direct investment balance in Kyrgyz by economy (2016)

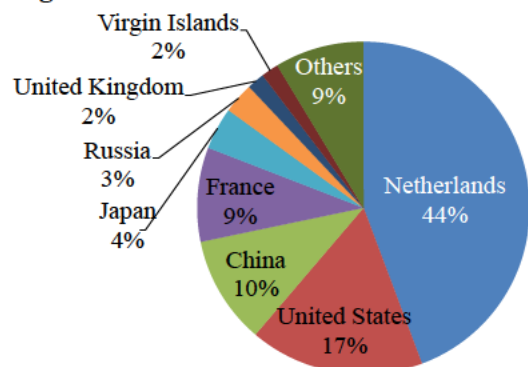


Notes: The data on China are calculation results including values in Hong Kong.

Source: CDIS (IMF, December 2017).

The U.S. and European share in the balance of investments was the smallest in Tajikistan among the three Central Asian countries, while China was the largest investor country with a share of around 44% (Figure I-2-5-33).

Figure I-2-5-33 Shares of inward direct investment balance in Tajikistan by economy (2016)



Notes: The data on China are calculation results including values in Hong Kong.

Source: CDIS (IMF, December 2017)

Next, we will look at changes in China's share in the balance of foreign direct investments in the Central Asian countries. In Kazakhstan, which had the largest balance of direct investments among those countries, China's investment share in the total value of direct investments in 2016 was around 10.5%, more than triple the level in 2006. China's investment share in Kyrgyz also steadily increased, growing from only around 10% in 2009 to around 27% in 2016 (Table I-2-5-34). It may be said that China's presence in the Central Asian countries is growing in terms of not only trade but also foreign direct investment.

Table I-2-5-34 Changes in shares of China in inward direct investments

(Unit: %)

	2009	2010	2011	2012	2013	2014	2015	2016
Kazakhstan	3.0	3.2	3.8	4.5	5.1	4.1	11.3	10.5
Kyrgyz	10.2	13.1	13.9	14.2	23.5	23.1	25.9	26.6
Tajikistan	-	-	-	-	-	-	37.7	43.7

Notes:

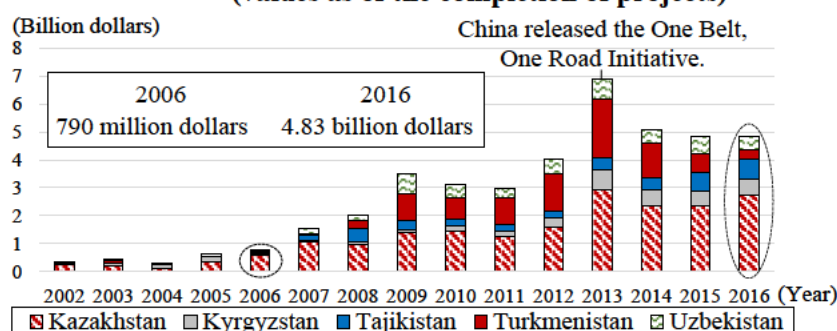
1. The investment values by China includes those by Hong Kong and Macau.
2. The data on Tajikistan are those released from 2015.

Source: CDIS (IMF, December 2017)

(2) Economic cooperation for the Central Asian countries

One recent development related to the Central Asian countries' economic relationship with China in recent years is the One Belt, One Road initiative, as was already mentioned.

Therefore, we will look at changes in the value of China's economic cooperation for the Central Asian countries.²²¹ Since the beginning of the 2000s, the value of China's economic cooperation for the Central Asian countries has basically been trending upward. In particular, the value stood at 6.8 billion dollars in 2013, when the One Belt, One Road initiative was proposed. Recently, the growth in the value has been slowing down as a trend. Although the value was down to 4.83 billion dollars in 2016, this figure was more than six times as high as the level in 2006. On a country-by-country basis, in 2016, Kazakhstan received the largest value of economic cooperation, around 2.7 billion dollars, followed by Tajikistan (around 0.7 billion dollars) and Kyrgyz (around 0.5 billion dollars) (Figure I-2-5-35).

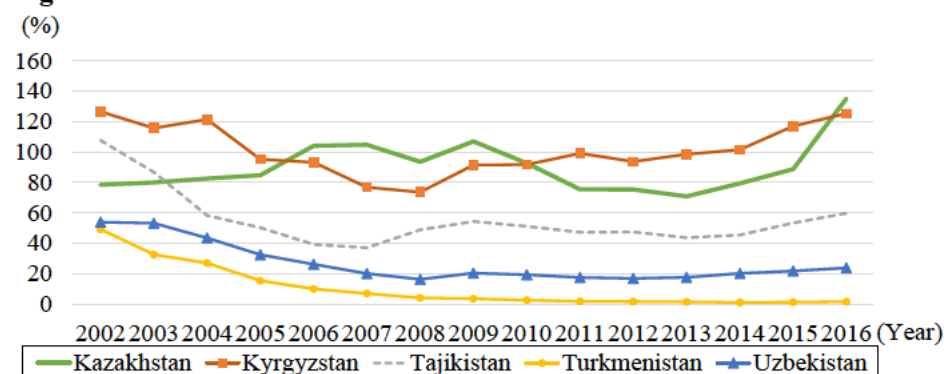
Figure I-2-5-35 China's economic cooperation for the Central Asian economies (values as of the completion of projects)

Source: Ministry of Commerce of China, CEIC Database.

²²¹ As China is not a member of the OECD, "economic cooperation with foreign countries or regions" as referred to in the English version of the China Statistical Yearbook compiled by the National Bureau of Statistics of China may be different from cooperation provided to developing economies through official development assistance (ODA) programs as recognized in Japan. "Economic cooperation with foreign countries or region" is considered to be a concept that includes external construction work undertaken and external labor cooperation. External economic cooperation as referred to here is "external construction work undertaken."

With respect to the Central Asian countries, there are concerns over an increase in external debts. Looking at individual countries' ratio of the debt balance to GNI, the ratio for Kazakhstan, where many economic cooperation projects are ongoing, was 135% in 2016, up sharply from the previous year's 88%. The ratio for Kyrgyz, which has also been trending upward, was 125% in 2016 (Figure I-2-5-36).

Figure I-2-5-36 Shares of external debt balance in the Central Asian economies to GNI



Source: International Debt Statics (World Bank).

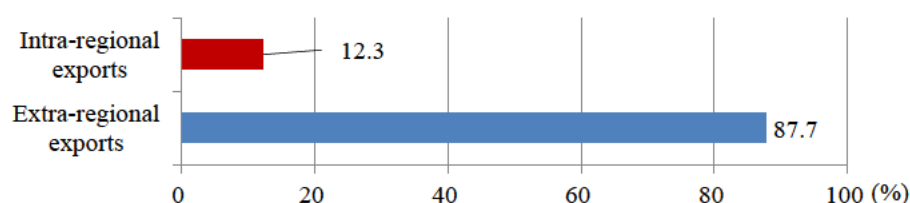
(3) Eurasian Economic Union

What is noteworthy about the economic relationship between Russia and the former Soviet region is the Eurasian Economic Union (hereinafter referred to as the EEU).

The EEU was established in January 2015 in order to realize the free movement of goods, capital, labor and services within the region.²²² From Central Asia, Kazakhstan and Kyrgyz joined the EEU, and the other members are Armenia, Belarus, and Russia. The objective of the establishment of the EEU is to increase trade between the Eurasian regional economy and other regions by strengthening the regional economic union.

In fact, the share of intra-regional trade is small in terms of both import and export, with most export transactions conducted with regions outside the EEU. The share of extra-regional exports in the total value of exports from the member countries was around 88%, while the share of extra-regional imports was around 82% (Figures I-2-5-37 and I-2-5-38).

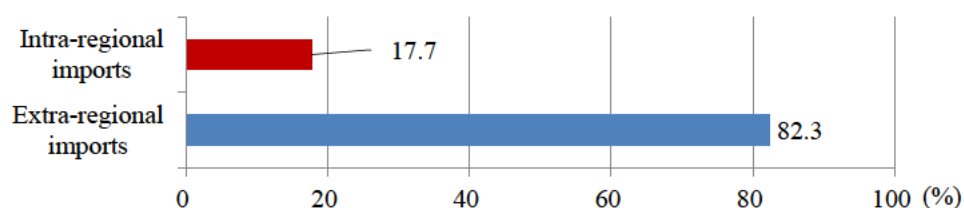
Figure I-2-5-37 Shares of intra- and extra-regional exports of the Eurasian Economic Union in total export values (2017)



Source: Eurasian Economic Union.

²²² In 2010, a customs union started as the predecessor to the Eurasian Economic Union.

Figure I-2-5-38 Shares of intra- and extra-regional imports of the Eurasian Economic Union in total import values (2017)



Source: Eurasian Economic Union.

The main factor behind the small share of intra-regional trade is the outstandingly large value of trade by Russia, whose economic scale is huge compared with other countries. As a result of the lopsided economic scale, Russia's trade structure has a significant impact on the share of intra-regional trade in the EEU.

Currently, the EEU is exploring the possibility of strengthening its relationships with China, India, Southeast Asian countries, and Middle East countries. In October 2016, an FTA between the EEU and Viet Nam was put into force. By 2025, the average import tariff rate is scheduled to be lowered from 9.7% to 2% on the EEU side and from 10% to 1% on the Vietnamese side. The EEU is also exploring the possibility of strengthening its relationships with India, New Zealand and the ROK.²²³

(4) Great Eurasian partnership

As described above, amid the deepening of the economic relationship between the Central Asian countries and China, the Silk Road Economic Area plan was proposed by Chinese President Xi Jinping in 2013. At that time, as this plan was considered to cause conflicts of interest with the Russia-led EEU, it was greeted with wariness and opposition.

However, under a Chinese-Russian joint statement issued in May 2015, China and Russia agreed in principle to link together China's One Belt, One Road initiative and the Eurasian union.²²⁴ Furthermore, an article contributed by Russian President Vladimir Putin²²⁵ before the APEC Summit in November 2017 proposed to build a great Eurasian partnership based on the EEU and One Belt, One Road.

Attention will focus on what kind of economic relationship the Eurasian continent economies, including Russia, China and the Central Asian countries, will develop.

²²³ At the ROK-Russian summit in September 2017, an agreement was reached to promote the conclusion of a free trade agreement.

²²⁴ In October 2017, the EEU and China announced the conclusion of the negotiations over a trade and economic cooperation agreement. The specifics of the agreement were not disclosed.

²²⁵ Together Towards Prosperity and Harmonious Development (<http://en.kremlin.ru/events/president/news/56023>).