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ANALYSIS

Sino–Russian Geopolitical Rapprochement in Agri-Food Trade Relations

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Abstract

Food and agricultural trade has emerged as a battleground for geopolitics in recent years. Indeed, greater Sino–Russian trade cooperation in these sectors, amidst growing tensions with the West, raises the question of whether this sector is becoming a new focal point in their strategic partnership. But increased trade and market access belies the reality that the ties between the two powers in this sector are still marred by a range of tariff and non-tariff barriers and mismatched rather than complementary market profiles. Moreover, the sector replicates many of the asymmetric dynamics that mark the broader economic relationship. To the extent that the sector has increasingly been considered by authorities in strategic terms, however, Sino–Russian trade in this sector proves a useful indicator of both the possibilities and the limits of the broader bilateral rapprochement.

The Sino–Russian strategic partnership has been the object of ongoing attention, if not consternation, over the past few years, at a geopolitical "moment" that seems to mark the beginning of a lasting transition away from the liberal international order (Ikenberry 2018). In the economic realm, trade wars, long-term sanctions, and the de-coupling, shortening, and diversification of supply chains from East and West are evidence of a growing sense that the commercial is no longer clearly distinct from the geo-strategic and that interdependence and integration exacerbate vulnerability, rather than promote peace (Farrell and Newman 2012). Perhaps surprisingly, one of the economic sectors in which this has been playing out most dramatically is food and agriculture.[1]

In August 2014, faced with Western sanctions over actions related to Ukraine, Russian President Vladimir Putin announced "counter-sanctions": a wholesale ban on agricultural imports from sanctioning states in key product categories. This disrupted over $8 billion worth of trade and one-third of Russian agricultural imports at the time. The import ban has been extended annually for the past seven years. A few years later, in 2018, China imposed its own punitive measures on Western trade partners, escalating U.S. President Donald Trump's ongoing trade war with a "soybean battle" that effectively banned the United States' number-one agricultural export to China. While the measures ended in early 2020 with the Phase 1 trade deal (which resulted in record Chinese purchases of U.S. farm products), Chinese politicians and analysts are open about imperatives to diversify the country's food and agricultural trade partners and supply channels away from the US.

What does this mean for Sino–Russian agricultural relations and the Sino–Russian strategic partnership more broadly? Certainly, geopolitical tensions with the West have been an impetus for deepening that partnership, and both sides have been open about ambitions to raise the level of bilateral agricultural trade and cooperation as part of improving relations to putative "unprecedented heights" (TASS 2020). In the eyes of Putin, U.S.–China tensions opened up a window of opportunity for Russian producers to fill the gaps in a major agricultural market from which, as he put it, the US had "voluntarily withdrawn" (Kremlin 2018). In 2020, the Chinese Minister of Commerce called for a "soybean industry alliance" between Russia and China "to cope with potential risks, including the China–US trade risks" (Global Times 2020). Over the past few years, agricultural relations between Russia and China have indeed reached a new high, with agriculture one of the fastest-growing sectors of resource cooperation between them. 2020 saw the highest level of bilateral agricultural trade in value terms, at around $5.5 billion (Chatham House 2021; Xinhua 2021), though 2021 saw a loss in momentum, due in large part to new coronavirus-related restrictions.

But while one might consider this a sign of broader geopolitical convergence, several caveats apply. First, while agriculture is indeed an area of growing bilateral cooperation, trade growth in this sector is from a notably low baseline and agriculture is still a miniscule sector of cooperation compared to oil and gas. Second, although there has been continual growth in bilateral agricultural trade since 2014 that has been increasingly in favor of Russia (see Figure 1 on p. 10), the relationship still reflects the overall direction of economic dependence: China is the largest export market for Russian agri-food products, while Russia accounts for a miniscule propor-

1 This article draws on the book chapter "Prospects for Agri-Food Trade Between Russia and China," in *Russia's Role in the Contemporary International Agri-Food Trade System*, eds. Stephen K. Wegren and Frode Nilssen (London and New York: Palgrave Macmillan, 2022), 195–223.

tion of China's agricultural imports (see Figure 2 on p. 10). Chinese exports mainly reflect its comparative strength in labor-intensive goods such as vegetables and fruits. In 2019, those two categories accounted for over half the value of Chinese agricultural exports to Russia.

Small volumes and values notwithstanding, bilateral trade has, on balance, increasingly tilted in favor of Russia as an exporter. The main Russian agricultural export to China over the past two decades has consistently been fish and seafood, which accounted for over 90 percent of Russian agricultural exports to China up until the early 2010s (Yu et al. 2015) and still comprised about half the value of Russian exports as late as 2019—though temporary restrictions on Russian fish and seafood have recently been introduced by China in response to coronavirus being found on shipment packaging. There has since been some diversification in the structure of Russian agri-food exports to China, particularly in the direction of oilseeds and fat products, which accounted for one-third of Russian agricultural exports to China in value terms in 2019, as well as some processed foodstuffs. This diversification reflects the fact that Russia has now gained access to the Chinese market in key product categories, clearing important phytosanitary hurdles over the past five years as protocols for staple grain, soybeans, poultry, beef, dairy, and other items have been signed.

This opening of the Chinese market can be seen as motivated in part by broader geopolitical factors. However, in this regard Sino–Russia agri-food trade over the last several years has been more marked by the removal of policy and technical bottlenecks, and hence is only reaching a baseline of normalized market-based relations. Moreover, negotiations laying the groundwork for greater market access take place over several years, and the fruits thereof are only now starting to be realized (Shtepin 2019). Increased accommodation and policy facilitation for Russian exporters should also be placed in the context of China's opening to a broader range of countries: in 2019, China expanded access to its market, allowing meat imports from an additional 16 countries (PRC State Council 2019).

Also tempering any speculation that the increase in agricultural trade represents a fundamental shift in the two countries' geoeconomic relationship is that high-level declarative cooperation and cooperation plans—such as the "Plan for Deepening Cooperation between Russia and China in Soybeans"—are driven more by the countries' respective national and domestic priorities than by any meaningful agricultural "alliance" in this sector. Most importantly, these national priorities include self-sufficiency imperatives that in both countries impose limits on how deep the partnership can become.

These insulating and import-substitution imperatives on the one hand limit Russian export of staple grain to a Chinese market that is largely closed to this most competitive of Russian agricultural products. China has had a policy of self-sufficiency in staple grain[2] categories, including wheat, corn, and rice, since the mid-1990s. It applies strict tariff-rate quotas (TRQs) to these sensitive commodities: within-quota tariffs are set at a low 1 percent, but outside-quota tariffs are a prohibitive 65 percent, and with limited licenses that usually go to the major Chinese state-owned enterprises. What imports do arrive are usually of very high quality and for a niche market. While soybeans are a markedly different commodity given China's high dependence on foreign imports, it is unlikely Russia could represent anything more than a miniscule supplier in what is a robustly developed—if not saturated—international market.

There is little indication that the Chinese authorities will loosen their food security principles. At the same time, basic staple commodities such as corn, rice, and wheat are becoming less important to the Chinese diet. Thus, according to Arkady Zlochevsky, the president of the Russian Grain Union, "there are no particular prospects for the growth of grain sales" (Ganenko 2019). Ironically, any impetus to open up the Chinese market for grain imports is likely to come not from Russian influence, but from U.S. pressure at the WTO.

Meanwhile, in Russia, long-term policy imperatives include not only export dominance, but also self-sufficiency and import substitution. This makes increasing Chinese agri-food imports unappealing to Russian officials and leaders.

Furthermore, even increased market access does not mean smooth sailing. A range of issues—non-tariff trade barriers, low competitiveness of Russian high-value products, different consumer preferences, and infrastructural issues—also limit cooperation. Now legally able to export a broader range of products to China, in many cases Russian companies still need to obtain individual export licenses. Russian exporters must also comply with tough technical regulations regarding quality certification, specific packaging and labelling requirements, and complicated customs formalities. Sanitary and phytosanitary measures for export to China are extremely strict, as evidenced by the ongoing ban on Russian fish and seafood. The same is true in the opposite direction: in 2019 and 2020, Russia imposed a number of restrictions on Chinese agricultural exports to Russia, including a ban on stone fruits in August 2019 and restrictions on citrus fruits as well as certain fish and seafood products in January

2 The category is "liangshi," and although conventional, the English "grain" is an imperfect translation of this term.

2020. In early 2020, many Russian food retailers also suspended sales of Chinese agricultural products due to concerns over coronavirus (Burlakova and Romanova 2020).

Moreover, despite sharing a long land border with China, the bulk of Russian agricultural production is currently concentrated in the European part of the country. Transport either proceeds via freight through the body of the continent, which is quicker but more expensive, or via marine shipment from the West passing Europe, Africa, and the Indian Ocean. From the western part of Russia, it can take up to 60 days for products to reach their destination in China's eastern seaports.

As officials in Russia's Ministry of Agriculture acknowledge, "China is the country to which all export-oriented countries want to supply their products. We are no exception" (RIA Novosti 2018). Yet while China is often idealized as having unlimited absorptive capacity, it is a deeply challenging market not only to penetrate, but also to navigate (Karlova and Serova 2020). Understanding—if not meeting—specialized Chinese tastes and consumer preferences requires investment in baseline market analytics. As Russian Minister of Agriculture Dmitry Patrushev has admitted, "The Chinese are a difficult people; it takes a very long time to convince them that our products are better. They are picky and, of course, self-interested" (RIA 2018). Rising standards of living and changing dietary patterns in China have increased demand for higher-value and higher-quality products, which have not historically been Russian strengths, although the situation is slowly changing. Hence, distinct from market access is the question of Russia's market competitiveness, which is limited (Karlova and Serova 2020). Russia faces competition from other, already dominant exporters of soybeans, oilseeds, meat, and dairy, as well as from emerging markets with which China has been cultivating closer agricultural trade ties in recent years.

Geopolitical turbulence and great power competition is clearly playing out in the food and agricultural sector in terms of both defensive and offensive measures by individual states, and opportunities for tightened resource relations between Russia and China are emerging. However, in food and agriculture as in the broader political relationship—whether characterized as a rapprochement, an entente or even an "axis"—the limits of integration are clear: both systems are largely oriented toward mitigating their individual geopolitical risks. Moreover, while wider geopolitical dynamics and any broader Russia–China entente are by no means irrelevant to the agri-food trade, in the medium if not long term, other factors loom larger. These include not only policy misalignment, but also the challenges of overcoming market barriers, as well as operational issues of both hard and soft infrastructure.

About the Author

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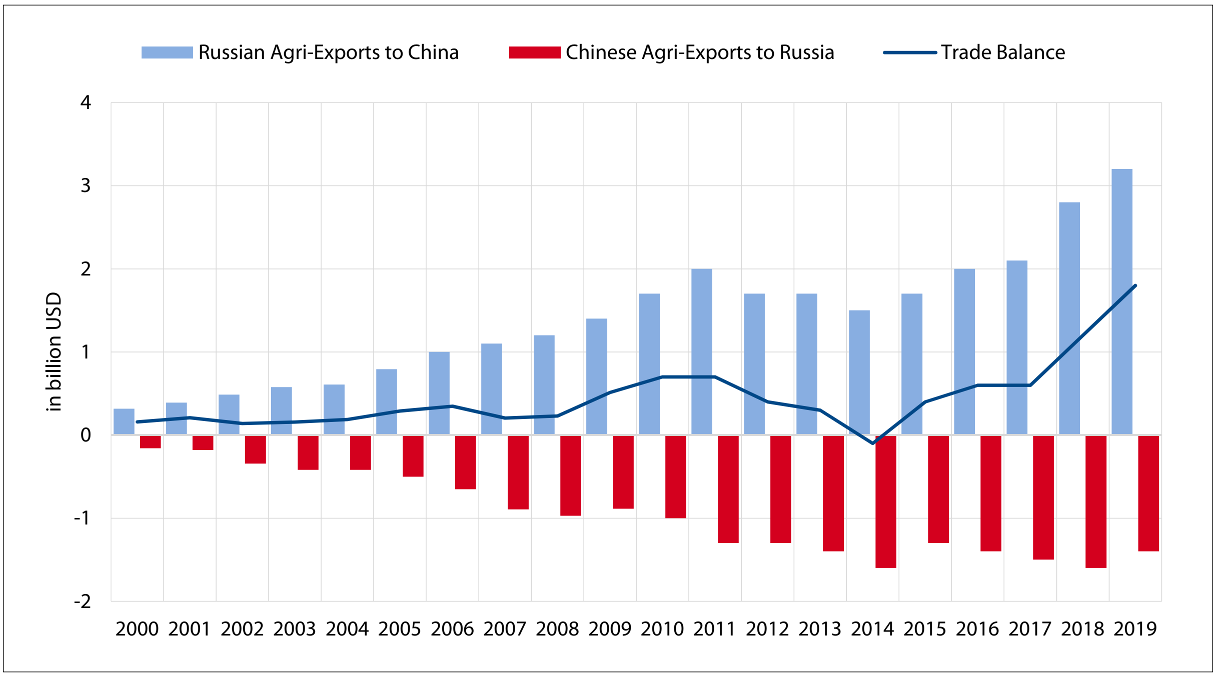
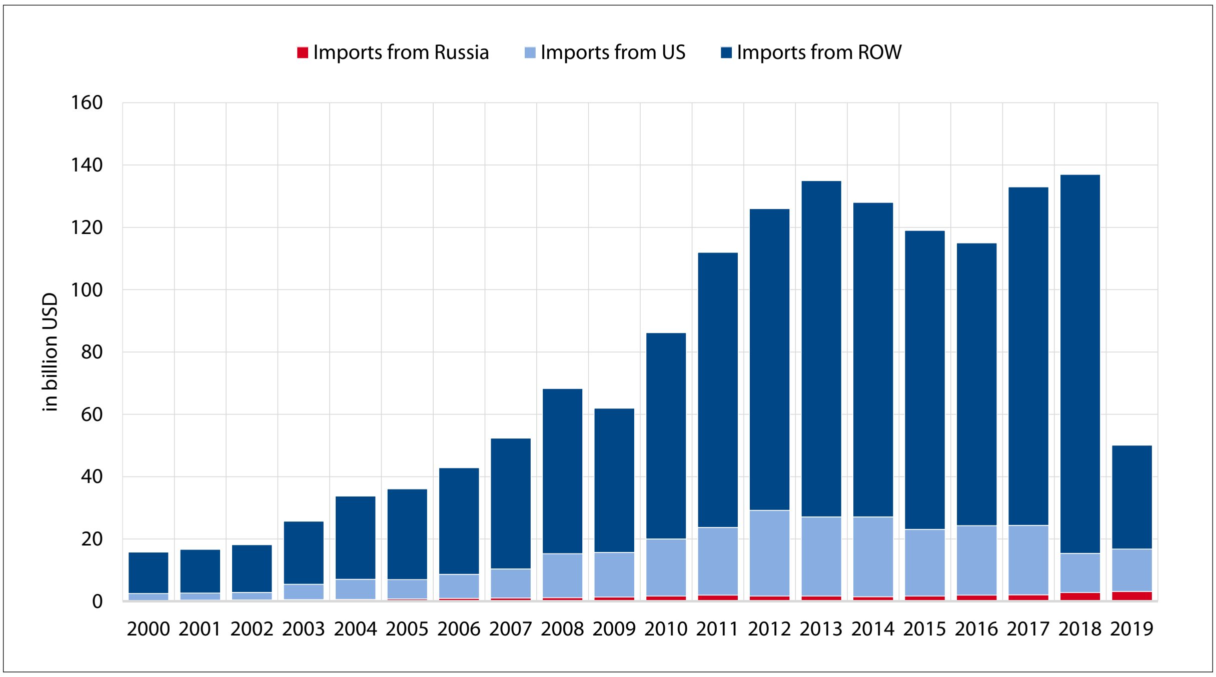
Figure 1: Russia–China Agri-Trade Balance (in billion USD)



Source: Chatham House, researchtrade.earth (2021).

Figure 2: Total Chinese Agri-Imports (in billion USD)



Source: Chatham House, researchtrade.earth (2021).