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**Research Report**

## Russia's ever-increasing economic dependence on China

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# BOFIT Policy Brief

## 10 • 2025

Heli Simola

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Heli Simola

## Russia's ever-increasing economic dependence on China

### Abstract

This note discusses recent developments in economic relations between Russia and China. China has become an essential economic partner for Russia since the invasion of Ukraine. Cut off from most Western economies, Russia today is heavily dependent on trade with China and actively pursues greater cooperation with China. Yet new Chinese investment in Russia remains scarce. Indeed, foreign investment flows into Russia overall have collapsed and trends in Chinese investment are hardly better.

Keywords: Russia, China, trade, investment

# 1. Introduction

Economic relations between Russia and China have expanded in recent years. Cooperation was already gradually increasing before the invasion of Ukraine, but since has intensified considerably. In contrast, economic relations between Russia and many advanced countries participating in sanctions have collapsed due to restricted trade and financial flows. China, which is not part of the sanctioning coalition, has sought to exploit the gaps left by sanctioning countries. At the same time, the Russian economy has become heavily dependent on China.

This brief addresses a few key areas of economic cooperation between Russia and China in light of recent statistical information. Our analysis shows that China has become an indispensable trading partner for Russia, and that Russia now actively pursues greater long-term cooperation with China. Notably, while Chinese companies established in Russia have been cementing their positions, there are no signs of any significant increase in new Chinese investment in Russia. Chinese investors remain wary of the risks related to the Russian markets due to sanctions and Russia's policies.

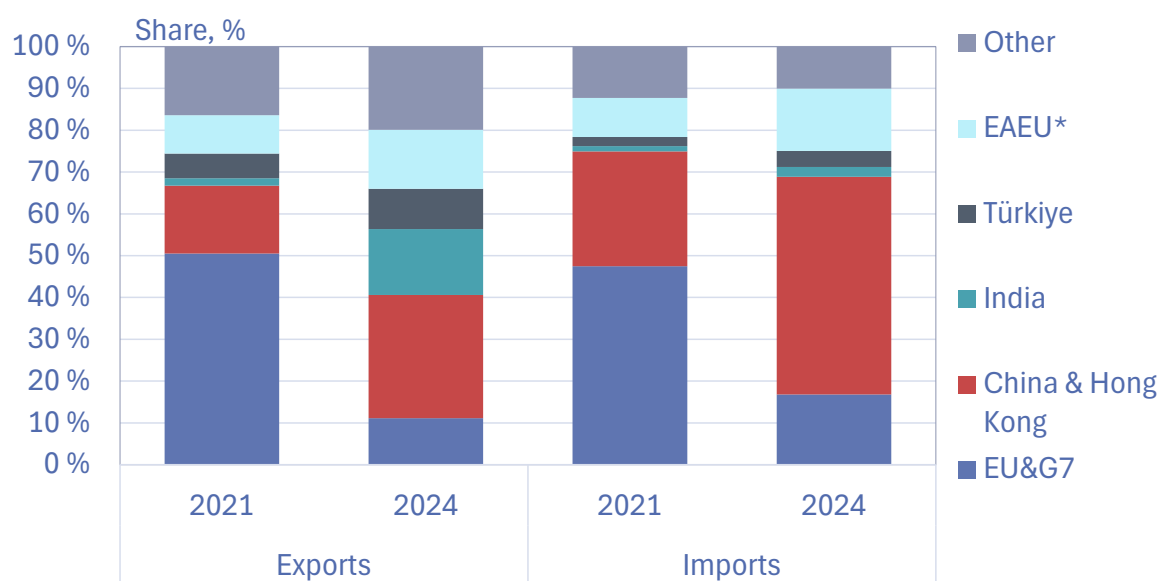
The discussion in the following section illustrates Russia's increasing dependency on China, particularly with respect to trade. The third section focuses on Russia's active policies in shifting economic relations towards China with an emphasis on currency issues. Chinese investment in Russia – or the lack thereof – is discussed in the fourth section. The fifth section offers concluding comments.

## 2. China emerges as Russia's dominant economic partner

Russia's invasion of Ukraine and heightened economic sanctions imposed on Russia by a coalition of advanced economies has dramatically changed the geographical structure of Russia's foreign economic relations, particularly in foreign trade. China has long been an important trading partner for Russia, but in recent years its significance has substantially increased.

China's share of Russian exports doubled from 15 % in 2021 to 30 % in 2024 (Figure 1). Following EU bans on the import of commodities such as oil and coal from Russia, China stepped up its purchases, reaping the benefits of discounted prices. The International Energy Agency estimates that China's share in Russian oil exports increased from 21 % in 2021 to 32 % in 2024. Similarly, Centre for Research on Energy and Clean Air (CREA) estimates China accounts for 33 % of Russia's total energy exports (includes oil, natural gas, and coal) in 2024. China's increased share of Russian energy product imports was boosted in part by the completion in 2024 of the Power of Siberia gas pipeline, which runs from gas fields in Eastern Siberia to China.

**Figure 1.** Geographical distribution of Russia's foreign trade in 2021 and 2024 (based on mirror statistics).



\*EAEU refers to the Eurasian Economic Union, which comprises Russia, Armenia, Belarus, Kazakhstan, and Kyrgyz Republic.

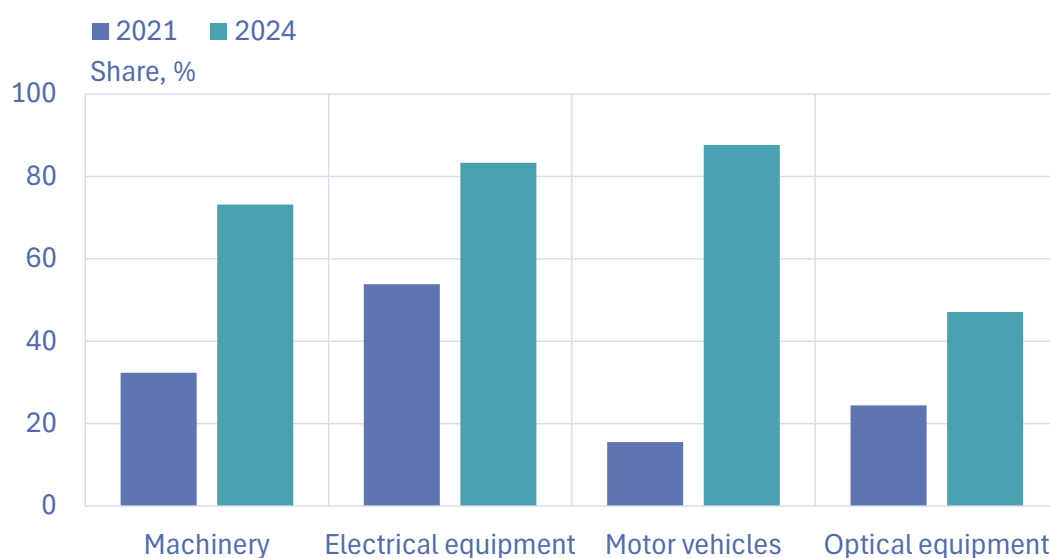
Source: IMF.

China's share in Russian imports has roughly doubled from around 25 % in 2021 to nearly 50 % in 2024. Particularly in technology products, China's share has risen even more dramatically. In machinery and equipment as well as motor vehicles, China's share in Russian imports was 70–90 % in 2024 (Figure 2). Despite variation across individual products, China is Russia's primary import source (over

50 %) of more than 500 of the roughly 1,000 product lines of technology products<sup>1</sup>. China also holds significant pricing power with Russian clients, which lets suppliers demand higher prices from Russian buyers due to their dominant position as supplier and risk premia arising from sanctions (Emlinger & Lefebvre, 2025; Simola, 2023).

China's dominance in Russian markets is visible in both civilian and military spheres. The Russian car market well highlights the trade transformation on the civilian side. According to the Association of European Businesses (AEB), the Chinese brands accounted for 5 % of car sales in Russia at the beginning of 2021. By the start of 2024, the share of Chinese brands had climbed to 40 % of car sales. The rise of the Chinese car makers is notable also among corporations operating in Russia. The publication *Forbes Russia* estimates that Chinese automobile manufacturer Chery was the largest foreign-owned company by sales in Russia already in 2023. Carmakers Geely and Great Wall Motor Company also made the *Forbes Russia* top-10 list of foreign-owned companies.

**Figure 2.** China's share in Russian imports of technological products in 2021 and 2024.



Source: Global Trade Tracker.

<sup>1</sup> Technology products refer to HS chapters 84, 85, 87 and 90.

Russia's military has become heavily dependent on Chinese suppliers. A Kyiv School of Economics report (KSE, 2025) suggests that Russia is almost completely reliant on imports from China for metal-cutting tools, optics, and radio & communication equipment. Imports from other countries have dried up since Russia's invasion of Ukraine, and domestic producers in Russia have failed to provide adequate substitutes, particularly for the military-industrial complex.

For some technological products, however, China is an intermediate country for Western products to enter Russia. The restrictions imposed by the sanctioning countries on exports to Russia and international payments with Russia have substantially complicated Russia's access to certain goods needed particularly in the military production. KSE (2025) evaluates that for battlefield items, 18 % of Russian imports from China consist of items manufactured by Western companies outside China and transshipped to Russia, while another 16 % of imports consists of items manufactured by Western companies in Chinese factories. This highlights the importance of keeping sanctions in place and further improving their implementation.

Development of trade in services appears more moderate. Service trade between countries is much smaller compared to goods trade, it accounts for only a few percentages of total trade. China's share in Russia's services trade has slightly increased in recent years. In 2023, it was estimated at 10 % of Russian service exports and 5 % of service imports.<sup>2</sup>

### 3. Russia seeks stronger economic ties with China

Strengthening of economic ties with China, or the “pivot to the East,” has long been a political priority for Russia. Since the illegal annexation of the Crimean peninsula in spring 2014, Russia has actively sought Chinese support in replace economic de-

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<sup>2</sup> Official data on bilateral service trade is not available for the most recent years. We apply available OECD-WTO estimates which run to 2023.

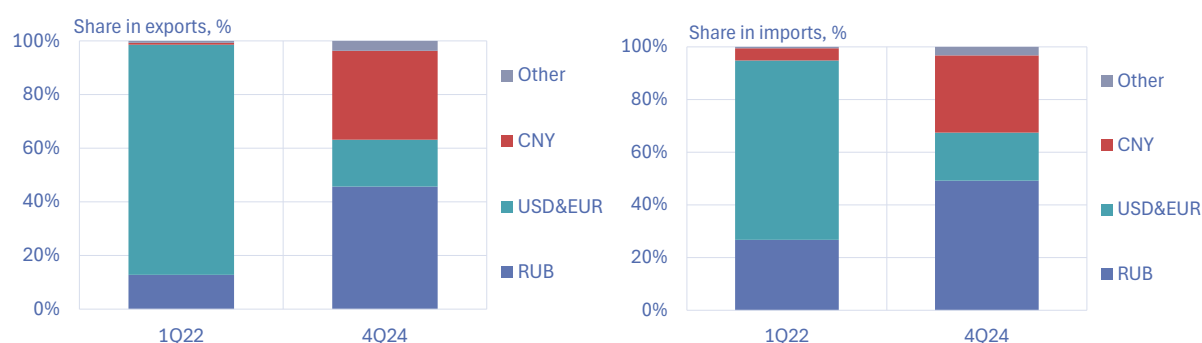


pendencies on Western countries. This is particularly pronounced in Russia's currency policies with the rise of Chinese yuan in economic transactions. This trend has been sharply amplified by Western sanctions that have severely complicated the ability of Russia to transact in Western currencies like the US dollar or euro.

Russia has gradually shifted its international reserves towards yuan-denominated assets, mostly at the expense of USD assets. In 2017, the share of yuan assets in Russia's international reserves was a mere 3 %. By 2021, that share had climbed to 17 %. Even so, over half of Russia's international reserves were still held in Western currencies in 2021. Russia then lost control of these assets as a consequence of the sanctions imposed on Russia in spring 2022.

Russia's international reserves (including the liquid assets in the National Welfare Fund) have since been held only in gold or yuan-denominated assets. The Central Bank of Russia (CBR) now conducts its operations in the currency markets in yuan, and has stated that the yuan will remain its key currency in CBR assets due to various complications and risks related to the use of other currencies. The yuan also plays a much more pronounced role in Russia's foreign trade. In the beginning of 2022, the yuan's share as the invoicing currency represented just a few percent of Russia's foreign trade. In 2024, about a third of Russia's foreign trade was invoiced in yuan (Figure 3).

**Figure 3.** Invoice currencies in Russia's foreign trade in January-March 2022 and October-December 2024.



Sources: CBR, BOFIT.

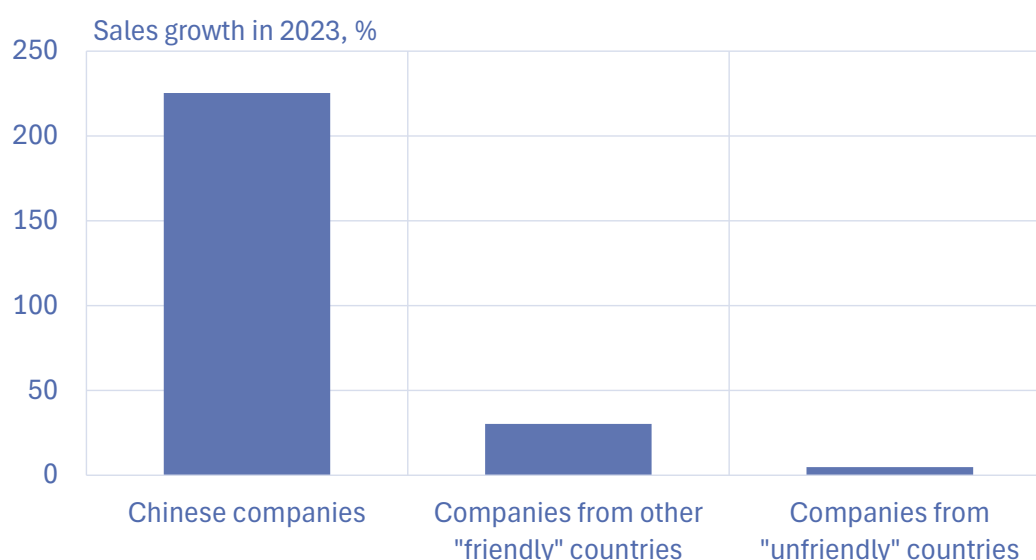
The yuan's growing importance has supported the growth of Chinese banks operating in Russia (Solanko, 2024). The value of combined assets of the four Chinese banks present in Russia has soared since the beginning of 2022. Chinese banks

focus almost entirely on intermediation of yuan corporate payments and have no household customers.

Russia's recent policies openly favoring companies from countries considered "friendly" is set to continue. Companies from "unfriendly" countries are not allowed to repatriate profits from Russia. Moreover, such companies are likely to find divestment or selling their business in Russia extremely complicated and expensive. Russian officials have even seized the assets of foreign companies from "unfriendly" countries. In contrast, companies from "friendly" countries seem immune to such treatment.

Chinese companies operating in the Russian market have taken advantage of the situation. KSE data suggest that over 90 % of Chinese companies operating in Russia have continued to do business as usual since the invasion of Ukraine. Many Chinese companies increased their sales in Russia. Among the top-50 foreign companies in Russia in 2023, Chinese companies increased their sales by 225 % from 2022. The corresponding rate was 30 % for companies from other "friendly" countries and 5 % for companies from "unfriendly" countries.<sup>3</sup>

**Figure 4.** Sales growth of top-50 foreign companies in Russia in 2023.



Sources: Forbes Russia, BOFIT.

<sup>3</sup> The ranking only includes foreign companies that continued to operate in Russia in 2023. It also covers companies seized by the Russian officials (e.g. Danone, Carlsberg, and Fortum).

## 4. Economic relationship remains superficial

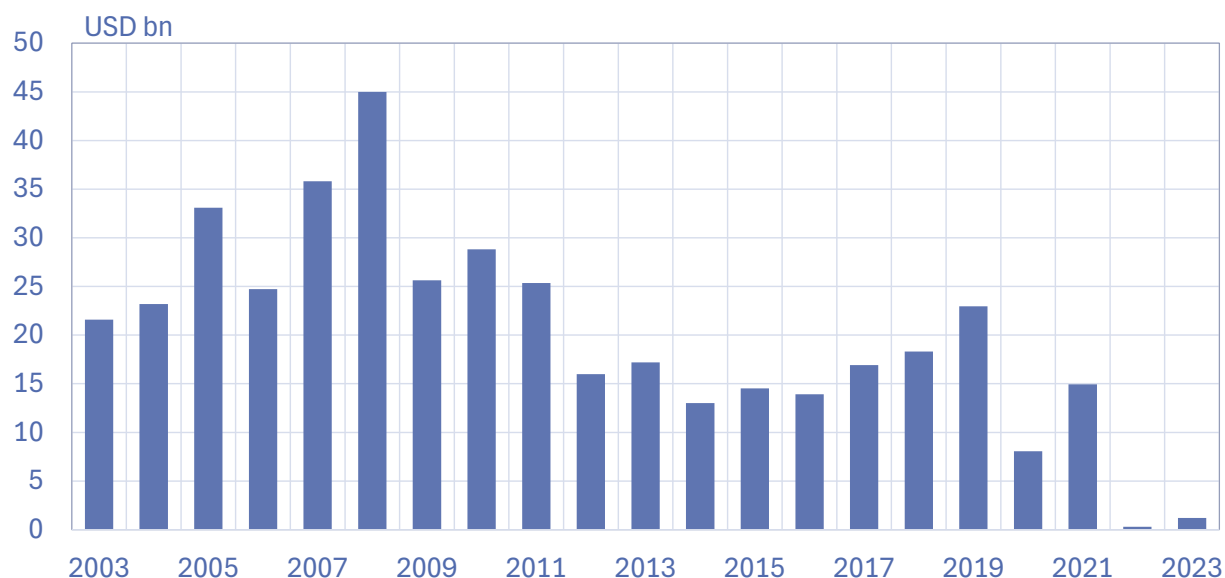
Chinese companies already operating in Russia have exploited the possibilities that have opened up, but there are no indications of substantial interest by new entrants. All available data<sup>4</sup> suggest that new investments from China to Russia have not increased by any substantial amount. Both aggregate and China-specific data indicate a sharp contraction in foreign investment to Russia since Russia's invasion of Ukraine and increased sanctions.

Russian statistics show that the inward foreign direct investment (FDI) stock in Russia has diminished from about \$500 billion USD at end of 2021 to about \$220 billion at the end of 2024. FDI or foreign bank loans were each used as financing sources for a mere 0.02 % of investment in fixed assets in Russia in 2024. Chinese (or any other foreign investors) have not stepped up for the Russian government. The value of Russian government bonds held by foreign investors dropped from 3 trillion rubles to 0.9 trillion rubles in 2021–2024. Foreign investors now hold just 4 % of Russian government bonds.

International data sources paint the same bleak investment picture with complementing indicators. For example, UNCTAD data shows that the number of net cross-border M&As in Russia was negative in 2022–2023 for the first time in the history of post-Soviet Russia, i.e. more foreign companies used M&As to exit rather than enter the market. Greenfield FDI projects have also become scarce. In 2011–2019, Russia averaged 300 greenfield FDI project starts a year with the total value of \$18 billion. The average fell to 20 projects and \$700 million a year in 2022–2023 – a figure substantially lower than in e.g. Zambia or the Dominican Republic.

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<sup>4</sup> Data on bilateral international investment flows has numerous limitations and uncertainties, but using various sources and indicators alleviates the problem.

**Figure 5.** Value of greenfield FDI projects in Russia in 2003-2023.

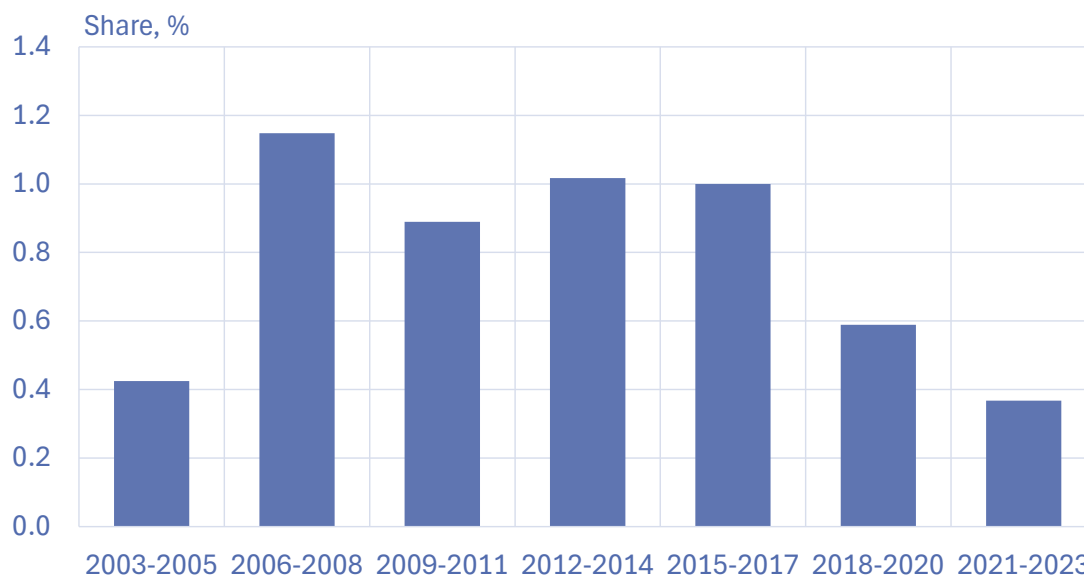
Source: UNCTAD.

The total value of foreign portfolio investment to Russia declined from \$190 billion in 1H21 to \$50 billion in 1H24. The drop in portfolio investment from China to Russia was similar, keeping the share of Chinese portfolio investment in Russia at a marginal 0.3 %.<sup>5</sup>

Official data from China's Ministry of Commerce show negative Chinese investment in Russia in 2021 with a slight recovery in 2022–2023. The average annual investment flow of \$400 million was down considerably from \$1.2 billion a year in 2011–2018. In cumulative terms, the share of Russia in Chinese outward FDI has gradually declined over the past decade, falling to a mere 0.4 % in 2023, or slightly less than two decades ago. Chinese statistics show that FDI from Russia to China has long been negligible, only about \$30 million in 2022–2023.

The American Enterprise Institute (AEI) collects information on Chinese overseas investment and construction projects of \$100 million or more. The AEI's latest recorded Chinese investment in Russia was in 2021 (a Sinopec investment in Russia's chemical industry). The data include three construction projects conducted by Chinese companies in Russia initiated in 2023–2024. Nevertheless, even construction projects have seen a decline in recent years.

<sup>5</sup> Portfolio investment from Hong Kong to Russia is negligible in the IMF CPIS data.

**Figure 6.** Russia's share of China's cumulative outward FDI, 2003–2023.

Sources: CEIC/China's Ministry of Commerce.

## 5. Concluding remarks

China has emerged as a practically irreplaceable economic partner for Russia since the invasion of Ukraine and the tightening of Western sanctions. Russia today is heavily dependent on trade with China. In particular, Chinese imports of numerous technological products critical to Russia dominate. The turning towards China and away from the West has long been a political goal in Russia, and progress in this “pivot to the East” has gained traction in recent years.

In terms of new investment, however, recent developments have been modest. Foreign investment to Russia in general has collapsed, and China, well aware of the consequences of secondary sanctions and the capriciousness of Russian policies, remains wary about stepping in to fill the breach.

Nevertheless, economic rapprochement with China is essential for Russia. Even if Western sanctions are eventually lifted, Russia would continue to pursue greater economic ties with China. Chinese companies have cemented their strong positions in Russian markets. Lifting of sanctions could even facilitate Russia's developing economic relations with China as Chinese companies could take advantage of their established networks without having to worry about risks related to sanctions.

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