

**University of Economics, Prague**  
**International Business**



**Import of Chinese Consumer Goods to  
the Russian Federation**

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**Declaration:**

I hereby declare that I am the sole author of the thesis entitled “Import of Chinese Consumer Goods to the Russian Federation”. I duly marked out all quotations. The used literature and sources are stated in the attached list of references.

In Prague on .....

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Anastasia Tolstykh

### **Acknowledgement**

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# Introduction

Nowadays it is almost impossible to meet someone who would not be familiar with China and its economy which is developing and growing quite fast. The People's Republic of China is frequently mentioned in daily news, political talks, and international trade and simply in our everyday life. The main features which people know about China is that it is one of the ancient civilizations, the most populous country in the world and one of the world's fastest growing economies. Indeed, this nation is a subject of special interest to many people since China's economy has managed to demonstrate a great growth in recent years as well as catch up with the top leaders in international trade. So, what is the secret of this country? In fact, the Chinese products are in great demand worldwide and its trade operations are successful. One of the main China's trade partners is Russia. The advantage of their cooperation lies in mutually beneficial exchange of resources for cheap goods. The relations between China and Russia are peculiar; they are bound not only by past and mutual history but also by shared future. China is not just a geographical neighbour of Russia but also the most important economic partner. Every year Russia purchases variety of goods from China which are further sold on the Russian market with a particular success. Millions of Russian entrepreneurs build their own businesses and derive income just from trade with China. Thus, the main aim of this thesis it to determine whether the procurements of Chinese goods and its further resale on Russian market are profitable. The analysis will be conducted by using numerous aspects of doing business in Russia with China on the basis of their general information as well as experience of the Russian company "EVOKS" which has been trading with China for many years, namely from the first moment of its establishment.

There are many reasons due to which I have decided to choose this topic. As I am a native of Kamchatka Krai, I witnessed the first Chinese markets and stores in the Russian Far East and this theme has been interesting me from my childhood. Since the company "EVOKS" was set up by my father, I have seen its growth on the market from the very first sales and personally know the Chinese supplier who works with my father. Therefore, I has been inspired and was curious about this tendency because Chinese trade is one of the most popular and topical subject in international trade.

The information in this work consists of three chapters. The first one contains the main macroeconomic factors, basic information and political systems of China and Russia which can generally help to understand the economic and political situations in these countries. Moreover, this chapter covers legal conditions, cultural features of business negotiations, customs policy, government subsidies and guaranties which can help to descry situation and difference between

two markets. The second chapter involves practical part on the basis of data provided by the company “EVOKS” where import of Chinese goods to the Russian market was considered. The main information in this section concerns data of the range and prices of goods, distribution conditions of goods in the market and promotion of goods. The third chapter is dedicated to conditions of import and transportation of goods from China to Russia. The material covers logistics, delivery and payment conditions, custom clearance. In the final part, I conclude this thesis and answer the question whether purchase of goods from China and its sale on the Russian market is beneficial. In addition, recommendation and tips are stated accordingly which are primarily based on my own knowledge of Chinese trade.

Thus, this bachelor thesis can be used as a basic information of doing business with China as well as for those who could be interested in procurement of Chinese products to the Russian market. It should be noted that information and statistical data used in this work can vary over time. Since this thesis has been supported by the experience of the company “EVOKS” which is located in territory of Russian Far East, namely on Kamchatka Peninsula, this region will be considered hereafter.

The main data and information used in this diploma work was taken and cited from such databases like ProQuest Central, JSTOR, internet sources, information resources offered by VŠE Library as well as data and information provided by the company “EVOKS”.

# 1. Fundamentals of Russian and Chinese Foreign Trade

## 1.1. Basic Information

To begin with, it is necessary to mention the basic information of China and Russia in order to have a clear idea of what those countries are as well as to be able to analyse these two business partners eventually. Since in this topic Russia is an importer country for China, let us refer to this country first.

It is a well-known fact that the Russian Federation is the largest country on the planet. It is located in the Eastern part of Europe and in the northern part of Asia. According to statistics<sup>1</sup>, the country's area is 17 125 191 km<sup>2</sup> with the population of 143,964,709 people in 2018. The capital city is Moscow and the state language of the country is Russian language. The monetary unit is Russian rubles.

The country is a federal republic with a bicameral parliament, which includes the State Duma and the Federation Council. The head of the state is president who is elected for a term of 6 years. Currently, Vladimir Putin is the president of the Russian Federation<sup>2</sup>.

Russia has been a member of the United Nations since 1945. Moreover, it is a member of such organizations like BRICS, WTO and CIS.

The main economic indicators listed below are crucial to know especially for those who plan to start any business activity in Russia. There are the main economic indicators<sup>3</sup> which can help to know the country better before starting business there<sup>4</sup>. The statistical data of Russia<sup>5</sup>:

- GDP growth rate: 1.08%
- Export: \$ 282B
- Import: \$ 180B
- Unemployment rate: 5.2%
- Inflation rate: 2.2%
- PPI: 100.6
- CPI: 553.1

Moving forward, the information about industries helps to see the specialization of the country. This, in turn, plays an important role in determination of spheres where China or any other

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<sup>1</sup> Worldometers. Population: Countries in the world by population (2018). [online] Available at <http://www.worldometers.info/world-population/population-by-country/> [cit. 02 September 2018]

<sup>2</sup> Advantour (2018). Basic information about Russia. [online] Available at <https://www.advantour.com/rus/russia/general.htm> [cit. 02 November 2017]

<sup>3</sup> OEC (2018). Russia: Visualizations (2016).The Observatory of Economic Complexity. [online] Available at <https://atlas.media.mit.edu/en/profile/country/rus/> [cit. 04 November 2017]

<sup>4</sup> OEC (2018). Russia: Export/import (2016).The Observatory of Economic Complexity. [online] Available at <https://atlas.media.mit.edu/en/profile/country/rus/> [cit. 04 November 2017]

<sup>5</sup> Trading Economics (2017). Russia - Economic Indicators. [online] Available at <https://tradingeconomics.com/countries> [cit. 04 November 2017]

potential partners can or cannot take an active part. The main industries in Russia are: petrochemical and chemical industry, machine building industry, metallurgy, fuel, energy and agriculture<sup>6</sup>.

Today Russia is considered to be one the major player in the world trade system as it is the most important trading partner for the supply of oil, gas and coal to many countries.

The table below shows the Russia's top export and import partners.

**Table 1. Russia's major trading partners**

<b>TOP EXPORT DESTINATIONS</b>	<b>TOP IMPORT SOURCES</b>
<b>1) Netherlands</b>	<b>1) China</b>
<b>2) China</b>	<b>2) Germany</b>
<b>3) Germany</b>	<b>3) Belarus</b>
<b>4) Belarus</b>	<b>4) Italy</b>
<b>5) Turkey</b>	<b>5) USA</b>

Source: OEC. Russia: The top export destinations and import origins (2016).The Observatory of Economic Complexity. [online] Available at <https://atlas.media.mit.edu/en/profile/country/rus/> [cit. 05 November 2017]

Based on this information it is fair to say that China is the main trading partner for the Russian Federation<sup>7</sup>. The trade turnover<sup>8</sup> between China and Russia was 84.07 billion dollars in 2017.

As far as China is an export country in this thesis, its basic information needs to be mentioned as well<sup>9</sup>.

China is one of the oldest civilizations on our planet. The People's Republic of China has a vast territory of 9,596,960 km<sup>2</sup>, including the uncontrolled island of Taiwan and the adjacent small islands that are not controlled by the central government. In accordance with the statistics<sup>10</sup>, the country's population is 1,415,045,928 people in 2018. In terms of population, China ranks the first place in the world. The official language is the Chinese language. The capital city is Beijing. The monetary unit is Yuan.

Government Type of China is Communist state. President XI Jinping (since 14 March 2013) is chief of state in the Executive Branch. The President of China is elected by the National People's Congress for a five-year term.

China is a member of such organizations like the United Nations, APEC, G20, WTO, SCO and BRICS.

<sup>6</sup> Advantour (2018). Industry, Economy of Russia. [online] Available at <https://www.advantour.com/russia/economy/industry.htm> [cit. 05 November 2017]

<sup>7</sup> Studopedia (2017). Russia's place in world trade (2017). [online] Available at [https://studopedia.ru/15\\_62927\\_mesto-rossii-v-mirovoy-torgovle.html](https://studopedia.ru/15_62927_mesto-rossii-v-mirovoy-torgovle.html) [cit. 05 November 2017]

<sup>8</sup> TASS (2018). The trade turnover between Russia and China in 2017 grew by 20.8%. Information Agency of Russia "TASS". [online] Available at <https://tass.ru/ekonomika/4868742> [cit. 23 January 2018]

<sup>9</sup> National Geographic. China: Fast facts. [online] Available at <https://kids.nationalgeographic.com/explore/countries/china/#china-dragon.jpg> [cit. 10 December 2017]

<sup>10</sup> Worldometers. Population: Countries in the world by population (2018). [online] Available at <http://www.worldometers.info/world-population/population-by-country/> [cit. 04 September 2018]



China's economic indicators<sup>11</sup>:

- GDP growth rate: 1.6%
- Export: \$ 2.06T
- Import: \$ 1.32T
- Unemployment rate: 3.9%
- Inflation rate: 1.5% (<https://tradingeconomics.com/countries>)
- PPI: 103.7
- CPI: 102.9

The presence of many developed industries in China allows the country to be strong in economic terms. The predominant industries in the country are heavy industry, coal, engineering, chemical and textile industries, manufacturing, services and agriculture<sup>12</sup>.

The Chinese trade has developed rapidly over the past decades. Successful domestic policies have helped the country to attract government and foreign direct investment (FDI) to improve China's production capabilities. This resulted in technological advances and also in a competitive and strong international demand for China, which, in turns, put its economy to the second place among the largest economies in the world<sup>13</sup>.

The table below illustrates the China's top export and import partners.

**Table 2. China's major trading partners**

TOP EXPORT DESTINATIONS	TOP IMPORT SOURCES
1) USA	1) Hong Kong
2) Hong Kong	2) South Korea
3) Japan	3) USA
4) South Korea	4) Japan
5) Germany	5) Germany

Source: OEC. China: The top export destinations and import origins (2016).The Observatory of Economic Complexity. [online] Available at <https://atlas.media.mit.edu/en/profile/country/chn/> [cit. 11 November 2017]

The most interesting fact is that Hong Kong as a financial developed administrative district of China is popular not only among foreign partners but also in its own country – it is one of the main trading partner of China<sup>14</sup>.

<sup>11</sup> Moody's Analytics . China - Economic Indicators. [online] Available at <https://www.economy.com/china/indicators> [cit. 04 September 2018]

<sup>12</sup> Ross, S. The 3 Industries Driving China's Economy. Investopedia. [online] Available at <https://www.investopedia.com/articles/investing/091515/3-industries-driving-chinas-economy.asp> [cit. 11 November 2017]

<sup>13</sup> China Power Team (2016). "Is China the world's top trader?" China Power. Available at <https://chinapower.csis.org/trade-partner/> [cit. 11 November 2017]

<sup>14</sup> Wong, R. (2002). The Role of Hong Kong in China's Economic Development. [online] Available at [http://wangyujian.hku.hk/papers/lectures/international/The\\_Role\\_of\\_HK\\_in\\_Chinas\\_econ\\_development.pdf](http://wangyujian.hku.hk/papers/lectures/international/The_Role_of_HK_in_Chinas_econ_development.pdf) [cit. 18 November 2017]

## 1.2. Political and Legal Conditions

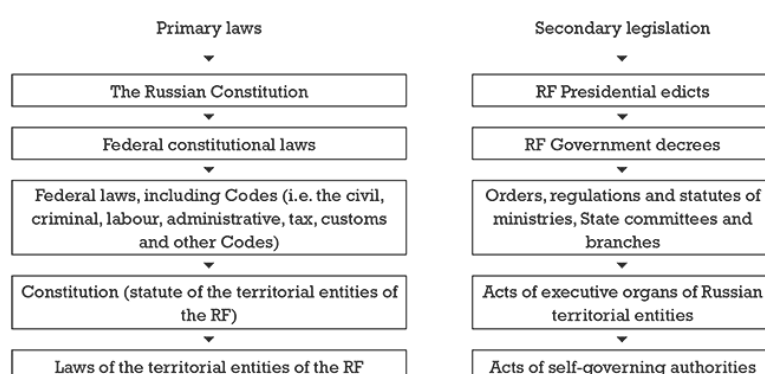
This subchapter will be mainly focused on legal and political environment of both countries. I will firstly explore the political and legal situation in Russia and then will describe the Chinese one as well.

### Russia: Political legislation

One of the most important criteria for considering a country as a place of doing business is the country's political system, through which we can assess the situation in the country from the comfort and security point of view for the future business.

According to the Constitution of the Russian Federation, Russia is a democratic federal rule-of-law state with the republican form of government<sup>15</sup>.

**Figure 1. The hierarchy of Russian legislation**



Source: IMRG. An overview of Russia's legal framework. [online] Available at <https://www.imrg.org/russia-legalities/> [cit. 26 November 2017]

### Legislature

As is known, the legislative power is a body that has the highest legal force. It is in charge of issuing the legal acts and laws. The Parliament of the Federal Assembly is the legislative body which includes the Federation Council. This Federal Council also refers to the upper chamber and the State Duma which is called the lower house of assembly. In the Federation Council, according to the Constitution of the Russian Federation, there are two representatives of the executive and legislative bodies from each constituent entity of the Federation.

The duties of the Federation Council include:

- appointment and dismissal of the Russian president from power;

<sup>15</sup> The Ministry of Foreign Affairs of the Russian Federation. The Constitution Of The Russian Federation. [online] Available at [http://www.mid.ru/en/foreign\\_policy/official\\_documents/-/asset\\_publisher/CptlCk6BZ29/content/id/571508](http://www.mid.ru/en/foreign_policy/official_documents/-/asset_publisher/CptlCk6BZ29/content/id/571508) [cit. 26 November 2017]

- approval of the change of borders between subjects of Russia;
- decisions to use the Russian Armed Forces outside the territory of the Russian Federation.

The obligations of the State Duma comprise:

- solution to the question of trusting the government of the Russian Federation;
- announcement of amnesty;
- bringing charges against the president of the Russian Federation;
- annual reports of the Russian government about the results of its actions;
- appointment of the chairman of the Central Bank.

### **Executive power**

The Ministry of Justice of the Russian Federation is the state body which is responsible for meeting the needs of public interests and citizens. In addition, it is in charge of monitoring the implementation of all existing laws and punishing individuals who disobey or violate the laws<sup>16</sup>.

### **Court system**

Russia is not a country with judicial legislation from a legal point of view. In this country courts do not interact with each other and do not support decisions which were taken by other courts. Depending on the region of the country, the practice and competence of the courts is diverse. But in spite of this, the lower courts most often follow the decisions of the high courts.

There are various courts in Russia such as the Constitutional Court, the Standard Courts, the Military Courts and others. As for the leading parties of the Russian Federation, there are The United Russia, the Communist Party of the Russian Federation and the Liberal Democratic Party.

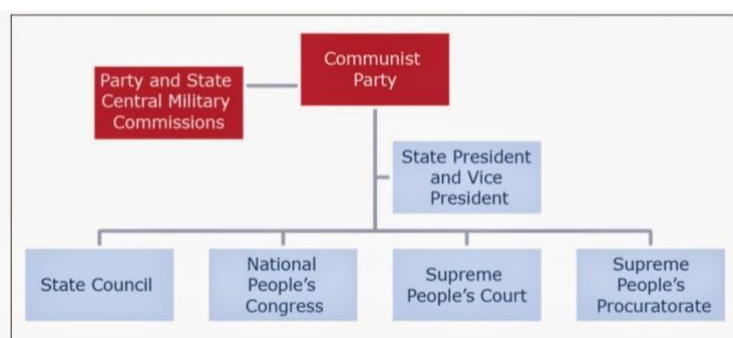
### **China: Political legislation**

China's political system can be called one-party. Despite the fact that there are several parties in the country, the Communist Party of China remains the main and the leading one. According to the Chinese Constitution, China is a socialist state of the democratic dictatorship, whose power is in the hands of the people.

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<sup>16</sup> Studopedia (2015). Acts of local authorities. [online] Available at [https://studopedia.ru/8\\_51669\\_akti-organov-mestnogo-samoupravleniya.html](https://studopedia.ru/8_51669_akti-organov-mestnogo-samoupravleniya.html) [cit. 27 November 2017]

**Figure 2. China's Political Structure**



Source: Zhu, W. (2013). Charting Chinese Politics: A visual breakdown of the Communist Party's political structure. *The World of Chinese*. [online] Available at <https://www.theworldofchinese.com/2013/11/charting-chinese-politics/> [cit. 27 November 2017]

## Legislature

Through the National People's Congress (NPC), people establish the state power in the country. Moreover, the National People's Congress is the supreme body of the state power. In the composition of this legislative body there are deputies from provinces, central cities and autonomous regions. They are elected for a five-years term.<sup>17</sup>

The head of the People's Republic of China (PRC) is the president, who is elected by the NPC for a five-years term. The president or "chairman of the PRC" has the authority to appoint the prime minister of the State Council of the PRC and members of the State Council.

## Executive power

The State Council is the state executive member of the People's Republic of China. The State Council reports to the NPC and it enforces the laws issued by the NPC. The aim of the State Council is to establish administrative and legal acts, orders and instructions. The State Council includes the deputy prime ministers, a head of the secretariat, the chairmen of state committees and others.

## Court system

The Supreme People's Court is the highest court, which is responsible to the National People's Congress and operates under the Constitution of the People's Republic of China.

There are two procurators office in China. One of them is The People's Procurator's Office and the second one is the Military Prosecutor's office. For example, the People's Procuratorates are divided into four levels: higher, supreme people's procuratorates, the grassroots and intermediate procuratorates.

<sup>17</sup> Jacoby, CL (ed.) 2014, *China's Political System : Features, Institutions, and Leaders*, Nova Science Publishers, Incorporated, Hauppauge. Available from: ProQuest Ebook Central. [14 November 2017]

Supreme People's Procuratorate (SPP) is the main prosecutor's fund. The goal of this body is to monitor the observance of laws by citizens<sup>18</sup>.

### 1.3. Legal Entities

As this bachelor thesis is about Chinese products transported to Russia, it is reasonable to consider the Russian legal entities for doing business. Before starting with business activities in Russia, it is important to get acquainted with the legal types of companies and the procedure of company registration.

According to the Civil Code<sup>19</sup>, the most common legal entities in the Russian Federation are:

- General partnerships
- Joint stock companies (JSC)
- Limited partnerships
- Limited liability companies (LLC)
- Additional liability companies

Out of the above list only Joint stock companies (JSC) and Limited liability companies (LLC) are the frequently occurring legal entities which are used by investors in order to enter the Russian market. Therefore, this chapter will cover only these two types.

#### **Limited Liability Company**

Limited Liability Company may have more than one owner. This type of company shares the duties and the participation income from the company, which is stipulated and prescribed in the constituent documents, between the co-owners of the firm. The risk of this type of company is only the loss of a financial portion of the company's revenue in case of failure. Therefore, formally the LLC members of an organization or firm are not responsible for their obligations.

There is a rule according to which the number of co-owners of the Limited Liability Company should not be more than 50 members. In case of exceeding the number of participants in the organization, the company can be liquidated and have problems with the court. In order to create an LLC, the capital must be at least 10,000 rubles<sup>20</sup>.

The structure of LLC has three main tasks:

- Members of the organization are the main body of the structure and they have an equal opportunity to change the Charter of the organization and to approve the annual financial report of the company.

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<sup>18</sup> China Internet Information Center. The State Prosecution Organ. [online] Available at [http://www.china.org.cn/english/features/state\\_structure/64414.htm](http://www.china.org.cn/english/features/state_structure/64414.htm) [cit. 28 November 2017]

<sup>19</sup> The Civil Code of Russian Federation. Chapter 4. [online] [https://www.wto.org/english/thewto\\_e/acc\\_e/rus\\_e/WTACCRUS48A5\\_LEG\\_119.pdf](https://www.wto.org/english/thewto_e/acc_e/rus_e/WTACCRUS48A5_LEG_119.pdf) [cit. 30 November 2017]

<sup>20</sup> Vlasova, AS, & Udalova, NM 2017, Doing Corporate Business in Russia : From Civil Theory to Practice, Routledge, London. Available from: ProQuest Ebook Central. [04 December 2017]

- The body that controls all the activities of the company is called the Board of Directors
- The executive body may be executive director of the company, who has the responsibility to run the company every day.

### **Joint Stock Company**

The company's capital is divided into shares contributed by each member of the organization. Members of this organization agree with the possible risks and are responsible only for shares which, in case of financial problems, they must reimburse the cost of the contributed shares.

Joint Stock Company has two types<sup>21</sup>:

- **Open joint stock companies (OJSC)**  
The organization has few shareholders in the company. The initial capital for the opening of this type of company is 10,000 rubles. Also, there is an option of reselling shares.
- **Closed joint stock companies (CJSC)**  
The number of shareholders cannot exceed 50 members. The required initial capital is 100,000 rubles. The company's shares are only the property of the shareholders. Therefore, shares can be resold only after decisions of the stockholders.

### **Branch and Representative Offices**

Foreign branches and Representative offices of companies are not legal Russian members, but they represent the interests of the foreign companies on the territory of the Russian Federation.

To start with, representative offices are a foreign company that is limited in its ability to make and to carry out the commercial activities. The objective of the Representative Office is to study the marketing of the Russian market. It has just 3 years to exist on the Russian territory.

Branch is a foreign commercial entity that performs its commercial activities on the territory of the country. The branch can exist 5 years and it has an opportunity to be extended<sup>22</sup>.

### **Registration**

Once the type of the company is decided, it is necessary to register it in the Unified State Register within 5 days. A foreign investor must collect a list of documents, which is required by the legislation of the Russian Federation. Before coming to Russia a foreign investor should collect all the needed documents in the home country as well as prepare the notarized copy in the Russian language.

Company registration steps<sup>23</sup>:

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<sup>21</sup> Invest in Russia (2016). Establish a business. [online] Available at <http://invest-rf.com/doing-business/establish-a-business/> [cit. 30 November 2017]

<sup>22</sup> Business Law Post (2010). Doing Business in Russia. [online] Available at <http://www.businesslawpost.com/search?q=russian+law> [cit. 30 November 2017]

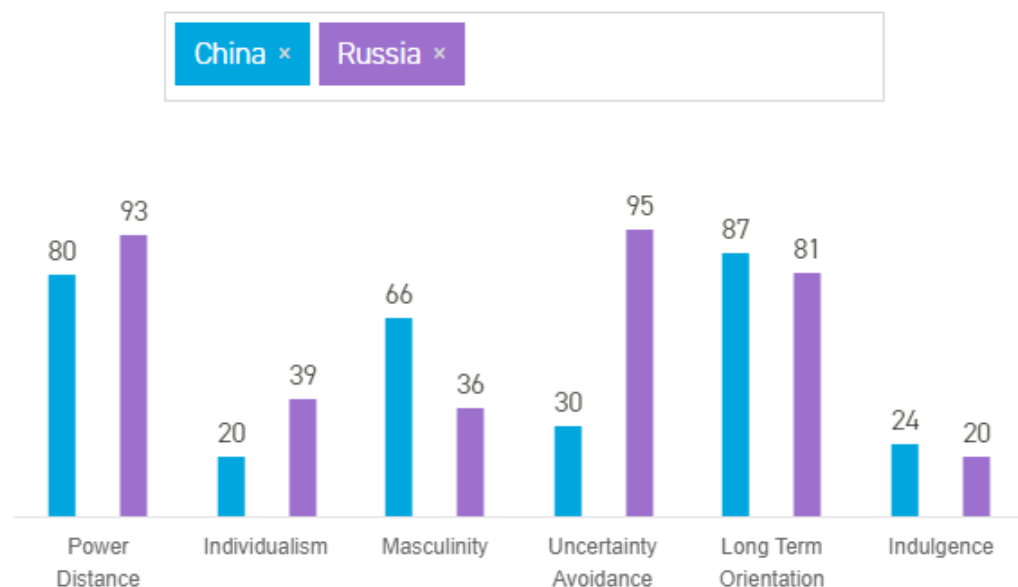
- 1) Registration with the State Statistics Committee
- 2) Registration in the medical insurance fund, pension insurance fund and social insurance fund
- 3) Create a bank account
- 4) Inform the tax inspection about opening a bank account
- 5) Register a company seal

## 1.4. Cultural Aspects of Business Negotiations

### 1.4.1. Hofstede's Cultural Dimensions

Cultural difference between countries is one of the most essential aspects which need to be taken into account when starting a trade with foreign nations. The more states have a lot in common the easier for them to find a common language. This section will be dedicated to the critical organizational and cultural issues which are based on the Hofstede's cultural dimensions.

**Figure 3. Country Comparison: China and Russia**



Source: Hofstede Insights. Country Comparison: China and Russia. [online] Available at <https://www.hofstede-insights.com/country-comparison/china,russia/> [cit. 16 December 2017]

#### Power Distance

To start with, both countries have a high score of Power Distance indicator, which tells us that people are used to and agree to obey the hierarchical system. People in these countries tend to follow the regulations which are given by the person from the higher position.

<sup>23</sup> Andreev, N. (2015). Registration LLC: step by step instructions. Regforum. [online]. Available at [http://regforum.ru/posts/1622\\_registraciya\\_ooo\\_samostoyatelno\\_poshagovaya\\_instrukciya\\_v\\_2018\\_godu/](http://regforum.ru/posts/1622_registraciya_ooo_samostoyatelno_poshagovaya_instrukciya_v_2018_godu/) [cit. 06 January 2018]

For example, in the culture of China, this manifests itself as a distribution according to the status of employees in the firm. When entering the office an employee at the lower position must greet an employee with a higher rank first and only then all the rest. In addition, at the business lunch or dinner an employee holding a low post cannot start eating unless the higher-ranking employee has started its meal first.

The power in Russia is spread unevenly. Russian employment is distributed over levels and controlled by a higher-ranking person. People in society are not equal to each other and it leads to a clear division of poor and rich classes. Such a course of events is explained by the fact that investments and revenues are sent to Moscow. The most prosperous and income-dependent part of the population lives in the center of Russia and the rest of the regions are not developed enough. All instructions and orders come from Moscow and are further distributed by region.

### **Individualism**

Comparing the indicator of individuality of these two countries, it can be noted that the difference between Russia and China is not that big. Russia takes 39 percent and China takes 20 percent on the graph. Russia is more collectivistic country than China as it can be seen on the **Figure 3**. Russian people do not divide their private and public life; they can consider their business partners as potential friends. What is more, Russians use the word "brother" for their sibling and for their cousin too. It is also common in the Russian society that the conversation or negotiation can be interrupted if someone receives a call from a family member. Contacts and family ties are very important for Russians. In China, for example, collectivism manifests itself in helping friends and relatives through moving up the career ladder. Thus, in terms of individualism Russia and China are very similar to each other that clearly can facilitate the good negotiations.

### **Masculinity**

Based on the data China takes 60 points of masculinity. It is so because Chinese people are striving for competitiveness and the desire to be the best and recognized in society, they avoid those things they would like to do for their own pleasure. Based on this information, we can say that the Chinese choose success and the desire for something incomprehensible instead of the typical and quite way of life. Chinese people do not like to stand still, they want to move on. Russia is absolutely different in this criterion and it takes a low of 39 points. This is because in this country people put family and friends values on the first place while business just goes after. There is a low desire for competition, this is due to the fact that people modestly recommend themselves, underestimate their capabilities and are afraid of uncertainty in the future.



### **Uncertainty avoidance**

This criterion tells us how the country copes with threats of uncertainty. China has a low score in this criterion (30); this tells us that people in this country are not afraid to act in a new way. They are not limited to fears and look at any problem as a task that has a solution. Russia has a pretty high score (95). This means that under the formal behavior and norms accepted by everyone, people are afraid of changes and doing something against the system. They are afraid of the consequences and prefer not to change the situation that can lead to problems and uncertainty.

### **Long term orientation**

According to this assessment, Russia (81) and China (87) have high scores. These both countries have the pragmatic approach. Thus, we can say that people living in these countries can easily adapt to any changes and problems. They are prudent, act on circumstances and use any convenient opportunity. Even in hard situations, a country with pragmatic approach will always find a way to solve the problem and be able to adapt any uncomfortable conditions, into profitable ones.

### **Indulgence**

In this criterion, Russia and China have a low score which means that both countries are rather restrained in expressing their feelings and emotions and their behavior depends on public opinion and recognition. People in such countries tend to hide their interests and hobbies in order to suit the society's preferences and norms. As a result, this attitude causes dissatisfaction with work which further leads to pessimism and cynicism in their lives.

## **1.4.2. Business Etiquette**

Going deeper into the subject of negotiation, business etiquette is the most important thing to remember and follow when dealing with various business partners, mainly when the person came from a foreign culture. Inappropriate behaviour, irrelevant manner of dress and even a wrong gesture can ruin the relationship at the first instance. Therefore, knowing the difference and the key norms of established attitude can positively influence the meeting as well as make a good impression on the business associate.

**Table 3. Business Etiquette: China and Russia**

China	Russia
Dress code: formal	Dress code: formal /casual
Enter the room in proper order	Enter the room in proper order
Handshakes: gentle	Handshakes: confident
Anticipated language differences	Appreciated Russian language
The word “no”: unacceptable	The word “no”: acceptable
Gifts: unacceptable	Gifts: acceptable
Business cards: pass by both hands	Business cards: pass by one hand

Source: Leadem, R. (2016). Business Etiquette Basics From Around the World (Infographic). Entrepreneur Europe. [online] Available at <https://www.entrepreneur.com/article/285651> [cit. 18 December 2017]

### China: Business Etiquette

A conservative appearance is crucial at any business meeting. Any unnecessary bright colors can be accepted as inadequacy and are better avoided. The dress code shows your respect and attitude towards the meeting and requires a special attention.

Based on the culture of China, it has been preserved in the tradition that people should enter the premises according to their status. To be more precise, it means that young or lower-ranked people should let the elders or people with higher status enter the room first.

At the business meetings it is common to shake hands and do it weakly without any pressure. It is essential to wait until your business partner initiates the gesture. If you try to do it first, it can be regarded as a gross and inappropriate gesture.

Before the meeting it is necessary to know whether your business partner speaks English. If not, it is better to hire an interpreter. Attempting to speak a bad level of Chinese can be taken as rudeness.

In order to build a good relationship and positively influence the decision-making and cooperation in future it is important to have a small introductory conversation before the meeting starts. The Chinese prefer to establish strong business relationships that can be useful in future. It is not common to say “no” during the negotiation. Decisions are rare made right away, it usually takes time and can last longer than it is expected. Patience is a key point in here.

Any gifts can be considered as a bribe or an irrelevant act. Therefore, it is better to put this intention aside.

The business card exchange at the end of the meeting is a crucial procedure. The business card should be two-sided with information written in Chinese on one side and in English on the other. The card should be passed to the partner by both hands; the front side must be in Chinese

language. When receiving a card it is important to explore it a bit by looking through and only then it can be put in the card holder.

### **Russia: Business Etiquette**

It is common to see Russian business people dressed in formal suits because it perfectly shows their status. However, if the meeting is held outside of the office Russians prefer to wear casual style of clothes.

The same as in China, in Russia people enter the premises according to their status. This also applies to the decision making. Since Russia is a hierarchical society, it is not productive to spend time negotiating with middle managers because the decision is ultimately taken by the higher ranked employee.

In Russia, a handshake is not only a sign of greeting but also a sign that you do not have ill intentions. The person who should hold out his hand first has higher social status.

Speaking in Russian language is encouraged and conveys the confidence and trust of your Russian partner.

Doing business in Russia can be called more personal and informal because all dealings depend on communications and contacts. Most often Russian business is built on short partnerships in order to obtain some temporary finance from dealings. During the negotiations, it is important to avoid inaccuracies and behave yourself most simply because otherwise you can achieve misunderstanding and mistrust of the Russian partner. Therefore, the refusal or the word "no" is acceptable.

Your Russian partners will be very pleased with gifts from a foreign country. Bringing alcohol at a business meeting is unacceptable, but souvenirs are the best options.

A business card must have both sides where one side is written in Russian and another is in your language. The card should be kept in a business card holder.

## **1.5. Customs Policy and Other Constraints**

Russia, as any other states, focuses on the protection of its economic interests via custom policy. The country strives to maintain various barriers toward imports by imposing tariffs, tariff-rate quotas, certification regimes, licensing, prohibitive fees and charges. In brief, custom policy is an intentional activity of a state where the main goals comprise regulation of the foreign trade exchange like export and import structure, volume and conditions. This activity is carried out by established custom regime of the transportation of goods and vehicles across the custom borders.

To begin with, the Federal Customs Service (FCS) is the major custom control body of the country which is under the jurisdiction of the Ministry of Finance of the Russian Federation<sup>24</sup>. What is more, it also acts in agreement with the Ministry of Economic Development of the Russian Federation<sup>25</sup>. Despite the fact that Russia is a member of the Eurasian Economic Union (EAEU), which represents the union of customs of Russia, Belarus, Kazakhstan, Armenia and Kyrgyzstan<sup>26</sup>, the internal structure of the Russian customs service has not been affected. Moreover, in 2012 Russia joined the World Trade Organization (WTO) and as a result its custom valuation techniques have to comply with the WTO rules and principles<sup>27</sup>. For instance, as at 2017 the average bound tariff was lowered to 7.8% in comparison with 10% in 2011<sup>28</sup>.

The pre-emptive right of the FCS is to implement collection of Russia's custom tax and ensure that the exporters and importers are in conformity with restrictions and embargoes concerning those goods which are transported across the borders of the Russian Federation.

The information concerning the import duty rates can be found on the official website of the Eurasian Economic Commission<sup>29</sup>. The custom duties rates on import of goods are stated in the Unified Customs Tariff of the Eurasian Economic Union. Generally, it is updated regularly in concordance with the Eurasian Economic Union's Single Commodity Nomenclature of Foreign Economic Activities which is also based on the Harmonized System of the WTO. As per information provided by the Observatory of Economic Complexity (OEC), Russia primarily imports inventory and electronical machines, machinery for gases, apparatus for TV, radio, broadcasting equipment, computers, telephones and many other devises from China. The import duty rates for these goods are mentioned in the section XVI (so-called "Machines, equipment and machineries, electrotechnical equipment ...") under the groups 84-85 where harmonized system codes, precise description of the items, units and import rate customs duties are stated<sup>30</sup>.

The Value Added Tax (VAT) which is generally charged on goods and services produced in Russia or imports to the country, in most of the cases equals to 18%. The reduced rate of 10% refers to the limited categories of products like food and children's products whereas medications, medical devises and equipment are exempt from VAT if they are supported by the

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<sup>24</sup> Federal Customs Service (2018). General Department of Organization and Inspection. Federal Customs Service. [online] Available at [http://eng.customs.ru/index.php?option=com\\_content&view=article&id=1697&Itemid=1938](http://eng.customs.ru/index.php?option=com_content&view=article&id=1697&Itemid=1938) [cit. 23 October 2017]

<sup>25</sup> Ministry of Economic Development of the Russian Federation (2018). Trade Missions of the Russian Federation. [online] Available at <http://economy.gov.ru/en/home/activity/sections/trademissions/index> [cit. 23 October 2017]

<sup>26</sup> Eurasian Economic Union (2018). General information. EEU. [online] Available at <http://www.eaeunion.org/?lang=en#about> [cit. 24 October 2017]

<sup>27</sup> World Trade Organization (2018). Accessions: Russian Federation. WTO. [online] Available at [https://www.wto.org/english/thewto\\_e/acc\\_e/a1\\_russie\\_e.htm](https://www.wto.org/english/thewto_e/acc_e/a1_russie_e.htm) [cit. 25 October 2017]

<sup>28</sup> World Trade Organization (2018). Tariff Download Facility. WTO. [online] Available at <http://tariffdata.wto.org/ReportersAndProducts.aspx> [cit. 25 October 2017]

<sup>29</sup> Eurasian Economic Commission (2018). The Common Customs of the Eurasian Economic Union. EEC. [online] Available at <http://www.eurasiancommission.org/en/act/trade/catr/ett/Pages/default.aspx> [cit. 30 October 2017]

<sup>30</sup> OEC (2016). What does Russia import from China? (2016). The Observatory of Economic Complexity. [online] Available at [https://atlas.media.mit.edu/en/visualize/tree\\_map/hs92/import/rus/chn/show/2016/](https://atlas.media.mit.edu/en/visualize/tree_map/hs92/import/rus/chn/show/2016/) [cit. 29 October 2017]

Russian government. The products such as alcohol, tobacco, luxury goods, cars and some other categories of commodities are subject to import excise taxes<sup>31</sup>, which are in the range of 20 % to 570 %.

The majority of products imported from China are bought via internet shops. In accordance with the Federal Customs Service, there is a limit of duty-free importation of goods to Russia: when receiving goods ordered from abroad and which are sent in international postal items to the address of one recipient within one month it is a must to pay a custom duty of 30% of the price of the imported good (but not less than EUR 4 per 1 kilo) if the custom value of goods exceeds EUR 1000 and/or its weight is more than 31 kilos<sup>32</sup>. As was stated in the domestic Russian newspaper GAZETA.ru<sup>33</sup> the government of the country plans to increase the budget from the middle of 2018 by imposing the tax on the merchandises bought from foreign online shops if the price surpasses EUR 20. Despite that, they are also ready to lower the limit of duty-free imports to EUR 500 in 2019 and then to EUR 200 in 2020 instead of EUR 1000 as at 2018.

The official procedure for goods import to Russia requires the company to provide a freight declaration. The package of documents also includes contracts, commercial invoices, transport documents, packing list and certificates of conformity<sup>34</sup>. In some cases certificates of origin, import licenses or sanitary certificates might be needed.

## 1.6. Government Subsidies and Guaranties

Before starting a trade with a foreign country, it is important to consider all possible risks on the way. Subsidies can be a reason of serious barriers for doing business between countries. In trade with China, it is necessary to pay attention on how government support home companies in its country and what harm it can cause to a foreign company.

As it is known, in 2001 China became an official member of the WTO and this meant that the country was obliged to follow the rules and agreements of the organization. During the negotiations China had to refuse many subsidies but some of them the WTO allowed to remain. For instance, logistics centers, industrial zones, economic and technological regions of China exist and live only thanks to government subsidies, and if they are refused at once, this can lead to serious problems in the Chinese economy. Therefore, a risk of facing an export subsidy in

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<sup>31</sup> Patrick W. Nee (2014). How to Get Rich Doing Business in Russia: Russia Business Guide and Contacts. The Internationalist, pp. 137. [online] Available from ProQuest Ebook Central [cit. 29 October 2017]

<sup>32</sup> Federal Customs Service (2016). Customs declaration of international postal items and customs duties, taxes. Federal Customs Service. [online] Available at [http://fl.customs.ru/index.php?option=com\\_content&view=article&id=21](http://fl.customs.ru/index.php?option=com_content&view=article&id=21) [cit. 02 November 2017]

<sup>33</sup> Eremina, N. (2017). With the new tax: how to force to buy Russian goods. Gazeta.ru [online] Available at <https://www.gazeta.ru/business/2017/10/13/10934324.shtml?updated> [cit. 04 November 2017]

<sup>34</sup> Export Entreprises SA (2018). Custom procedures: Import customs procedures in Russia. Santander Trade Portal. [online] Available at <https://en.portal.santandertrade.com/international-shipments/russia/customs-procedures> [cit. 10 November 2017]

China is quite huge and it is necessary to know how this problem can be resolved through the WTO agreements.

In the event of contradictions or non-compliance with the agreements of the organization, there is the Agreement on Subsidies and Countervailing Measures (“SCM Agreement”)<sup>35</sup> which tells what kind of actions the affected importing country can take in the case its faced with prohibited subsidies.

In our case, the Russian company buys goods from China and it may face with some barriers on its way. Since Russia and China are part of the WTO, any problem of a trade barrier between countries will be solved through this international organization.

Compensation of damage from export subsidies can be viewed as a collision with “prohibited subsidies” that were given by the state to an individual enterprise to promote exports in another country. If this subsidy is “prohibited”, it means damage to the economy of the importer’s country. In this situation, the affected state has an opportunity to apply to a special body (Dispute Settlement Body), where the subsidy will be considered from the trade disruption point of view. Therefore, if this fact is confirmed by the collecting reports, the subsidy is recognized as “banned” and will be withdrawn within a specified period of time<sup>36</sup>.

According to the European Commission's Annual Report on Trade and Investment Barriers<sup>37</sup>, the WTO indicators report that majority of G20 organization has filed for anti-dumping barriers in China’s relations only for the period from 2017-2018 years. This tells us that in doing business with China we may consider a risk to face with government support in the form of subsidies.

Since guarantees are the legal form of financial support from the state that a company can use, government guarantees are important and useful tools for developing and starting a business.

China has three institutions which help to finance projects:

- The Chinese Development Bank (the “CDB”) - This is an external development bank in China that helps foreign projects to obtain credits for purchasing services and goods from major Chinese firms;
- C-EXIM is an agency, which specializes in the provision of traditional export credits for foreign trade to both Chinese representatives and foreign representatives;
- Sinosure provides foreign investment insurance.

To attract and secure Chinese exports, the government has a number of proposals for companies in the Chinese market. The China's financing of the foreign economy, get insurance of export

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<sup>35</sup> WTO. Agreement on Subsidies and Countervailing Measures (“SCM Agreement”). [online] Available at [https://www.wto.org/ENGLISH/TRATOP\\_E/scm\\_e/subs\\_e.htm](https://www.wto.org/ENGLISH/TRATOP_E/scm_e/subs_e.htm) [cit. 25 November 2017]

<sup>36</sup> WTO Center. Agreement subsidies and countervailing measures. [online] Available at <http://wtocenter.vn/wto/legal-documents/agreement-subsidies-and-countervailing-measures> [cit. 11 December 2017]

<sup>37</sup> BOFIT (2018). China and Russia impose most trade and investment barriers on European firms. BOFIT VIIKKOKATSAUS. [online] Available at [https://www.bofit.fi/en/monitoring/weekly/2018/vw201828\\_5/](https://www.bofit.fi/en/monitoring/weekly/2018/vw201828_5/) [cit. 03 September 2018]

credits and in order to create infrastructure to attract Chinese companies. These concessional loans are designed to obtain export and construction contracts for Chinese companies. In this way, CDB can provide a loan to a foreign country. Therefore, a foreign company can make contact and trade with a particular Chinese company. Under the terms of the loan, 50 percent of the funds should be directed to the acquisition of Chinese goods and services. This way of supporting domestic companies in a foreign market is carried out in order to develop the country's exports.

The project “One belt – One Road” is the establishment of the Silk Road Fund of China. The government financed \$ 40 billion in the project “One belt - One road”. The goal of this project was to shorten the way of delivery of Chinese goods to different parts of the world. In this project, China planned to build new logistics and shopping centers as well as water and air ports. Thus, the idea of the Silk Road was supported by many countries but due to the fact that the project is so large and need cooperation with other countries, China encountered many problems in negotiation with states. The main issues were the possibility of corruption and the conflict of capital loss in some countries. According to the American Enterprise Institute, during the period between 2005 and 2014 a quarter of the Chinese investments abroad were not accomplished so that it caused a loss of USD 246 billion. The transport and energy sectors comprised around a half of these investments which are also the priorities of the project “one belt – One road” initiative<sup>38</sup>. Thus, we can conclude that “One Belt - One Road” is a major economic project that can take China to a new world level or not.

In contrast to the Chinese system of state financing, the Russian system has one state support body and recently was subject to several amendments.

There was no convenient system for obtaining the state support in Russia before the year 2016. Due to the fact that the old system was complex and not productive, the Russian government created one unified system of state support for export in 2017 which was called the Russian Economic Center (REC). Even now the REC plans to spend about 2 trillion rubles for 6 years supporting the national project<sup>39</sup> "International Cooperation and Export in Industry".

The terms of assistance of the REC include such services as: Analysis of external markets, customs and logistics support for exports, insurance of commercial and political risks, training on different issues of export activities and so on.

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<sup>38</sup> Janisius, G. (2016). China took the largest economic project. InoSmi.ru [online] Available at <https://inosmi.ru/politic/20161010/237998422.html> [cit. 04 September 2018]

<sup>39</sup> Alt-invest. How does the state support Russian exports today? Alt-invest. [online] Available at <https://www.alt-invest.ru/index.php/ru/biblioteka/tematicheskie-stati/analiticheskie-obzory/4671-kak-gosudarstvo-podderzhivaet-rossijskij-eksport-segodnya> [cit. 05 September 2018]

One of the main Russian projects, financed by the REC, is the "Made in Russia" project. In this project, the REC helps the best Russian companies to enter the international market and succeed in it. In order to be part of this program, a company needs to go through two stages of selection. At the first stage the company is evaluated by its experience, at the second - products are checked for the quality. If the company meets the needed criteria, it gets the right to use the logo of the Made in Russia project plus the opportunity to be registered on the project site which provides its information in eight different languages<sup>40</sup>.

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<sup>40</sup> Made in Russia. Export brand of Russia: Modern image of Russian non-primary export. [online] Available at <https://www.madeinrussia.com/ru/about/> [cit. 04 September 2018]



## 2. Import of Chinese Goods to Russia

### 2.1. Assortment. Prices. Distribution

#### **Assortment**

One of the main reasons for the business success is choosing the right product for sale. Since there are many companies selling Chinese goods on the Russian market, beginning from Chinese souvenirs to Chinese smartphones, it makes sense to consider the products of competitors and make the right choice for the business segment of company. Since China holds 40% of share in the economy from world production, this fact tells about the country's numerous and varied assortment of goods<sup>41</sup>. To know which Chinese products are popular and which of them have a certain approval among people, it is easy to find out in the Chinese online store by using the section "popular products."

The following information contains a list of popular Chinese products that are in demand every year in Russia. Products like electric devices, electric motors such as bicycles and motorcycles are very famous among Russian buyers. The higher attention is also paid on electronic devices, accurately the wireless technologies such as a phone charger or wireless headphones. The goods like cosmetics, accessories, for example bags, hats are purchased in large quantities in China. The textile industry of China always had special demand for foreign consumers. Clothing for men, women and children has an extensive variety with different range of prices. It is very common that the prohibited copies of famous brands tend to be very attractive goods for consumers because not everyone can afford the purchasing of something from a fancy brand where the price is extremely high and expensive. What is more, the merchandises like cars, spare parts, toys, furniture, and of course, lighting devices such as flashlights, light bulbs that can change their colour are in demand<sup>42</sup>.

It is also important to notice that there are some goods that are prohibited to export from the Chinese country. For instance: jewellery, weapons, food products, some animals and plants<sup>43</sup>.

The attractiveness of the Chinese range of products lies in their price which is lower than the market prices.

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<sup>41</sup> Fadeev, M. Business with China on the resale of goods - where to start, how to find and check out wholesale suppliers + TOP-15 sought-after goods from China and a list of popular Internet sites in China. RichPro.ru. [online] Available at <https://richpro.ru/biznes/biznes-s-kitaem-na-pereprodazhe-tovarov-bez-vlozhenij-s-chego-nachat.html> [cit. 15 September 2018]

<sup>42</sup> Fastimport limited. What will be profitable to export from China? [online] Available at <http://fastimport.ru/infocenter/chto-vygodno-vozit-iz-kitaya/> [cit. 15 September 2018]

<sup>43</sup> Fialan (2017). How to trade from China? [online] Available at <https://fialan.ru/news/vagno-znat/vygodno-vozit-iz-kitaya/#> [cit. 16 September 2018]

For example, the popular Xiaomi Fitness Bracelets can be purchased in China for 780 rubles but in Russia it costs 4,000 rubles. Or the X-Trim Electric Shaver can be bought in China for 650 rubles and sold in Russia for 2000 rubles<sup>44</sup>.

The company which is considered in my bachelor thesis is “EVOKS” company. EVOKS sells products and provides services with Chinese goods like lamps, LEDs, flashlights and many other electronics.

Thus, it can be said that buying goods from China is really profitable and interesting because the country is sometimes surprised its trade partners by the unusual goods and the cheap price. The advantage of Chinese assortment is that if to buy an unusual and interesting Chinese assortment that will be popular among buyers, it will give a big profit to business from such trading.

### **Prices**

China is one of the leading economies in the world and has attractiveness because of the cheapest products on the market that the country produces quickly and in large quantities. Before considering the situation with prices of products in China, it is necessary to find the reasons for the peculiarity of low prices in the country.

The first reason is that Chinese companies use cheap, often unskilled labour to produce goods. Chinese villages are the labour force suppliers in the country. Despite the fact that China has overtaken many developed countries the population of China has an income below the subsistence minimum. The second reason is in the developed regions of production of the country such as Ningbo which is specialized in rubber and plastics production; Guangzhou is specialized in light industry and building materials while Shanghai is focused on metal and engineering production.

The third reason of the low prices in the country is the financial policy of the country. China provides concessional lending programs for companies that export and import goods<sup>45</sup>.

The concept of the price of a product in relation to the quality of a product in China is perceived differently than in Russia, Europe or America. The price in relation to the quality of goods in China is perceived as the result of business, not like the opinion of Western countries. The Chinese view on the ratio of price to quality of goods is that the price of goods in the process of trade and negotiations may change but the quality will remain the same. It is difficult for Chinese partners to understand how to produce a cheap good with a high quality. In Western countries, most often the product is selected according to its quality, and in China, quality does not have a

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<sup>44</sup> Malyar, E. (2017). What to import from China to Russia. Delen.ru. [online] Available at <https://delen.ru/biznes-s-kitaem/chto-importirovat-iz-kitaya.html> [cit. 16 September 2018]

<sup>45</sup> Silver Dragon (2016). Why are Chinese products cheaper? CJSC Silver Dragon. [online] Available at [http://sdlc.ru/article/pochemu\\_kitayskiye\\_tovary\\_deshevle/](http://sdlc.ru/article/pochemu_kitayskiye_tovary_deshevle/) [cit. 18 September 2018]

special priority for the buyer<sup>46</sup>. Despite the fact that nowadays the stereotype regarding the quality of Chinese goods has changed and expensive products with good quality have appeared, the main task of China's production remains the same: to produce large quantities goods with not very good quality and make a profit from such business.

Russian businessmen are attracted and interested to the business with China due to the reason to get high profits from sales of Chinese goods in Russia. Most often, the mark-up on Chinese goods in Russia ranges from 150 to 600%. And the income from sales of goods ranges from 100 to 300%<sup>47</sup>.

In order to see the difference in prices between countries, it is possible to compare the cost of popular smartphones between China and Russia. Thus, a cheap smartphone OUKITEL U7 Plus in China costs 3,500 rubles while in Russia it sells for 6,240 rubles. An expensive Chinese smartphone ZTE Nubia Z11 Mini S 64Gb in China is sold for 15,700 rubles although in Russia its price reaches 19,000 rubles<sup>48</sup>.

By using the table provided by the company "EVOKS", we can consider the profitability of sales of Chinese goods on the Russian market.

**Table 4. The EVOKS's profitability of sales of Chinese goods on the Russian market**

Product	Quantity of goods	Cost for the products with delivery	Cost of sales	Profit	Profitability of product (%)
Panel LED LPU-eco PRISM 36W 4000K	1 435,00	933 130,21	1 577 803,17	644 672,96	69,087
Lamp G13 T8 STANDARD 18W / 6500K	4 108,00	585 555,14	1 050 648,00	465 092,86	79,428
Lamp LED SSP-456 T8R / G13 IP65 1200mm 456	1 114,00	610 043,06	1 000 905,21	390 862,15	64,071
Cable VVGNG -LS-p 3x2.5	16 899,70	459 274,21	777 437,19	318 162,98	69,275
Wire 2x0,75	26 616,00	207 059,34	370 411,89	163 352,55	78,892
Spotlight LMS 3-150-150W	49,00	188 735,69	322 112,50	133 376,81	70,669
Counter Mercury 201.5	279,00	167 756,49	290 717,80	122 961,31	73,297
Lamp E-27 A60-standard / 20W	823,00	93 686,06	207 817,15	114 131,09	121,823

Source: Anastasia Tolstykh. Own Research, 2018

The table shows the most popular products that the company sells on the Russian market. The column quantity of goods contains the information about the number of goods purchased by the

<sup>46</sup> Savkin, K. (2016). Business with China - Typical Issues of Importer from China. SavkinKS. [online] Available at <https://www.savkins.ru/import-china.htm> [cit. 19 September 2018]

<sup>47</sup> Vernikova, K. (2015). Business idea: selling goods from China with a markup of 200% and above. Businessmens. [online] Available at <http://businessmens.ru/article/idei/ideya-biznesa-prodaem-tovar-iz-kitaya-s-nacenkoy-v-200-i-vyshe> [cit. 19 September 2018]

<sup>48</sup> Malyar, E. (2017). What to import from China to Russia. Delen.ru. [online] Available at <https://delen.ru/biznes-s-kitaem/chto-importirovat-iz-kitaya.html> [cit. 16 September 2018]

company. Cost for the products with delivery contains the price for the goods and the delivery of these products that the company purchased in China. Cost of sales contains information about how much of goods consignment was sold on the Russian market. The following table provides the information about how much the profit was for each product and the percentage mark-up on the product.

Thus, if to consider the cost of the mark-up on a product LED Panel LPU-eco PRISM 36W 4000K lpu, then it is possible to see that the mark-up for this product is 69, 087%.

If to compare the Chinese and German price for the goods then we can see a significant difference in price for one similar product. For example, the famous and inexpensive German Gauss light bulb costs 3.64 EUR<sup>49</sup> but the Chinese price for a similar light bulb will be 0.86 EUR<sup>50</sup>. It is important to notice that according to the information of the EVOKS company, German light bulbs have a shelf life more than a year while Chinese light bulbs have been working maximum for a year and have a defect ratio more than German ones.

Thus, we can conclude that Chinese goods are worse in quality compared with the Western goods but, indeed, Chinese goods surpass German in the price affordability. In my opinion, most people do not want to spend a lot of money on such little thing as a light bulb so the quality of a light bulb is not so important for the buyer. Therefore, a Chinese light bulb will be more demanded among consumers than a German light bulb.

## **Distribution**

In Russia the most part of goods is purchased from the Chinese online store suppliers. It is very comfortable because you do not need to spend time and money on the road to China since all the goods with photos and customer reviews are presented on the store's website. According to the fact, the majority of purchases from China is made by both, retail stores and buyers, via the online orders of the different Chinese stores. The online Chinese stores can be divided in two types of stores that work with different clients. For instance, AliExpress send its goods directly to a consumer but Alibaba send the goods in a large quantity mostly to different companies and businessmen that have the interest to sell it further.

When goods from supplier stores come to Russia, they can be found in two places.

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<sup>49</sup> Amazon. Gauss A + Plastic LED Lamp 6 W E27 White EB102002106 [Energy Class A+]. Amazon. [online] Available at [https://www.amazon.de/GAUSS-Lampe-Plastik-wei%C3%9F-%D0%95%D0%92102002106/dp/B01AXP5DIK/ref=sr\\_1\\_fkmr1\\_2?ie=UTF8&qid=154220591717%20=%208-2-fkmr1%20&%20keywords%20=%20Gauss%20+%20LED%20+%20Light%20+%20Bulb](https://www.amazon.de/GAUSS-Lampe-Plastik-wei%C3%9F-%D0%95%D0%92102002106/dp/B01AXP5DIK/ref=sr_1_fkmr1_2?ie=UTF8&qid=154220591717%20=%208-2-fkmr1%20&%20keywords%20=%20Gauss%20+%20LED%20+%20Light%20+%20Bulb) [cit. 20 September 2018]

<sup>50</sup> AliExpress. Gauss A + Plastic LED Lamp 6 W E27 White EB102002106 [Energy Class A+]. AliExpress. [online] Available at [https://ru.aliexpress.com/item/110-V-220-V-E27-3-5-7-9-12-15-/32867665737.html?spm=a2g0v.search0104.3.2.7d41738dNIOvx2&ws\\_ab\\_test=searchweb0\\_0%2Csearchweb201602\\_3\\_10065\\_10068\\_319\\_317\\_10696\\_10084\\_453\\_10924\\_454\\_10083\\_10618\\_10920\\_10921\\_10304\\_10307\\_10922\\_10820\\_10821\\_537\\_10302\\_536\\_10059\\_10884\\_10887\\_100031\\_321\\_322\\_10103%2Csearchweb201603\\_51%2CppcSwitch\\_0&algo\\_pvid=7d434a22-ed17-4904-8be8-42478f839017&algo\\_expid=7d434a22-ed17-4904-8be8-42478f839017-0](https://ru.aliexpress.com/item/110-V-220-V-E27-3-5-7-9-12-15-/32867665737.html?spm=a2g0v.search0104.3.2.7d41738dNIOvx2&ws_ab_test=searchweb0_0%2Csearchweb201602_3_10065_10068_319_317_10696_10084_453_10924_454_10083_10618_10920_10921_10304_10307_10922_10820_10821_537_10302_536_10059_10884_10887_100031_321_322_10103%2Csearchweb201603_51%2CppcSwitch_0&algo_pvid=7d434a22-ed17-4904-8be8-42478f839017&algo_expid=7d434a22-ed17-4904-8be8-42478f839017-0) [cit. 20 September 2018]

There are Russian retail stores that buy their goods from China and sell them in their stores in Russia, so called B2C (business to consumer) system. Among Russian entrepreneurs the most popular Chinese internet websites are *taobao*, *1688.com* and *jd.com*<sup>51</sup>. For many years the Alibaba site has been popular in Russia. However, due to the fact of the high prices for the goods on this site, it became not so popular among regular internet traders with China. In spite of this, other websites are offering their services much better. For example, *1688.com* provides their services only to Chinese buyers, so in the trade with this store it is important to have a Chinese intermediary. But in spite of this disadvantage, *1688.com* offers products that are much cheaper than offers from Alibaba and AliExpress, and the quality of the products without defects in *1688.com* are much better<sup>52</sup>.

This business works in the following way: when a Russian company is interested in a product from a Chinese partner, it must be satisfied with the reputation of a business partner, price and reviews of products. Then, the Russian company contacts the Chinese side and through negotiations both parties decide the conditions for the delivery of goods and all other issues<sup>53</sup>.

The second way to buy goods in China is to go to the Chinese market, such as, for example, Hui Mei and Jun Shan Ba Lu. Before starting a trade on the Chinese market, it is necessary to find a Chinese translator because the suppliers of goods speak only Chinese. Since Chinese sellers work for a factory of their products, there is a chance to easily contact the factory and apply for goods in there. But the disadvantage is that the factory does not bargain with small businesses. The factory will be interested only in a trade with large companies where the wholesale purchase of goods amounts to 100 kg of weight or at least 1000 units of goods. Business between Chinese factory and Russian company that buy the goods from this factory is called B2B (business to business) system. The Chinese market has the opportunity to bargain for the price of the goods. A large number of sellers compete on the market so the product can be repeated and it is better not to hurry with the purchase. There is a possibility to take business cards of different suppliers because typical Chinese seller has his own personal business card with the contact phone number and the name of the seller<sup>54</sup>. Before cooperating with a Chinese supplier of goods, it is important to examine its reputation carefully and all the documents provided by the Chinese side. Also, in order to avoid problems in business with Chinese partner, it is necessary to contact entrepreneurs who conducted trade with this Chinese representative in order to reduce risks in business.

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<sup>51</sup> Shmidt, N.(2016). Where to buy any goods from China in bulk. Kakzarabativat.ru [online] Available at <https://kakzarabativat.ru/biznes-s-kitaem/gde-kupit-lyubye-tovary-optom-iz-kitaya/> [cit. 23 September 2018]

<sup>52</sup> Business s Kitaem (2017). Where to buy cheap goods in bulk in China? NZ.ru. [online] Available at <http://na4emzarabativat.ru/poleznoe/gde-zakupat-deshevyj-tovar-optom-v-kitae/> [cit. 23 September 2018]

<sup>53</sup> Fadeev, M. Business with China on the resale of goods - where to start, how to find and check out wholesale suppliers + TOP-15 sought-after goods from China and a list of popular Internet sites in China. RichPro.ru. [online] Available at <https://richpro.ru/biznes/biznes-s-kitaem-na-pereprodazhe-tovarov-bez-vlozhenij-s-chego-nachat.html> [cit. 15 September 2018]

<sup>54</sup> Zhabchuk, A. (2017). How to organize the delivery of goods from China for your store? Biz360. [online] Available at <https://biz360.ru/materials/kak-organizovat-postavki-tovarov-iz-kitaya-dlya-svoego-magazina/> [cit. 23 September 2018]

As it was mentioned before, Chinese goods in Russia can be found in two places: in private retail stores and in special Chinese markets, which are called "Pavilions" in the far east of Russia.

Prices on the Chinese market in Russia are much lower than in private Russian stores. The reason for this is that the imported goods by the Russian entrepreneur cost them much more and the goods are most often exclusive at the request of the consumer. It is very often possible to see the situation in the Far East when a customer comes to the store and asks the Russian owner of a retail store to bring certain goods from China which he, in turns, will gladly purchase.

On the example of retail store "Profelectic" of the Russian company "EVOKS", goods are bought from China in bulk through the online store and later are sold in the store "Profelectic". It is necessary to mention that company is engaged not only in goods but also in electrical installation services; it uses the Chinese goods which the company buys from China in its services.

Based on the above information, it can be concluded that in order to purchase and deliver Chinese goods it is not necessary to go to China. After all, there are many logistics companies, couriers and representatives who are ready to provide their services and to save the time of your business.

## 2.2. Promotion of Chinese Goods in Russian market

As it was mentioned before, the Russian company "EVOKS", with which the interview was conducted (see **Annexes 1**), is presented in this thesis in order to shows the real example of how Russian company cooperates with China. Therefore, since this company is located in the Petropavlovsk-Kamchatsky city of the Russian Federation in the Far East, we will discuss and analyse these particular city and region. First of all, we will consider the PEST analysis of this Russian region as well as the SWOT analysis of the Chinese company which trades with EVOKS. Finally, it will be shown a special company's analysis of advertising promotion of Chinese products in Petropavlovsk-Kamchatsky.

**Figure 4. Petropavlovsk-Kamchatsky, Russia**



## PEST analysis

To determine the risks for Chinese consumer goods, entering the Russian market, the PEST analysis was created in order to assess the situation in this region. According to the PEST analysis, we will consider the Far East region of Russia based on political, economic, social and technological criteria.

### Political

The distance between the central part of Russia and the Far East is measured in 9 time zones. It causes some problems for the state of Russia because when there is the night in Moscow, the day begins in the Far East. Due to the fact that the Far East is quite far from the central part of Russia, it is not that easy to keep control over this far region. Despite that, the Russian Far East is rich in resources. This region has serious problems with population outflow. Due to the fact that roads are not developed in the region, there is bad education system, poor infrastructure and many other issues people simply leave this part of the country<sup>55</sup>. The state considers the Far East to be a strategically important region so it is trying to improve the situation and attract more investment. The state is financing the development fund for the Far East in the sphere of raw material industry and such projects as tourism. In the Far East there are many international meetings of Northeast Asian countries and the creation of international projects takes place as well<sup>56</sup>.

### Economic

The trading partners of the Far East region are China, Japan and the Republic of Korea. The share in trade with the Far East of these countries is 70%. In the Far East, many private shops and enterprises, which deliver goods from various countries, have been formed and have popularity among the local population. The products from abroad are so popular in this region of Russia because the products in this part of the country are almost not produced in local places because of climate, geographically uncomfortable reasons and the lack of infrastructure<sup>57</sup>.

China is number one in the rank of Russia's trading partners in the Far East. Trade with China in this region was increased by 30.6% in 2017<sup>58</sup>.

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<sup>55</sup> Stronski, P. (2016). Cooperation and Competition: Russia and China in Central Asia, the Russian Far East, and the Arctic. Carnegie Endowment For International Peace. [online] Available at <https://carnegieendowment.org/2018/02/28/cooperation-and-competition-russia-and-china-in-central-asia-russian-far-east-and-arctic-pub-75673> [cit. 24 September 2018]

<sup>56</sup> Turovskiy, R. (2016). The Far East: a strategic priority of the Russian state. Izvestiya. [online] Available at <https://iz.ru/news/654018> [cit. 30 September 2018]

<sup>57</sup> Popov, A. (2017). Far East: stable, expensive, little. East Russia. [online] Available at <https://www.eastrussia.ru/material/dalniy-vostok-stabilno-dorogo-malo/> [cit. 02 October 2018]

<sup>58</sup> Drobysheva, I. (2017). From local projects to cross-border cooperation. Rossiyskaya Gazeta. [online] Available at <https://rg.ru/2017/12/29/kitaj-realizuet-na-dalnem-vostoke-28-proektov-na-4-mlrd-dollarov.html> [cit. 30 September 2018]



Chinese representatives feel pretty comfortable themselves in the Far East since the distance between the countries is not large and the competition with European companies is relatively low due to the long-distance location of the Far East region and Europe.

Retail trade in the Far East is quite developed. According to statistics, the turnover in retail trade is estimated at approximately 1.2 trillion rubles **per year** in comparison with the central part of Russia (North-West), where this indicator reaches 1.2 trillion rubles **per month**. This is a pretty good result notwithstanding the fact that about 6 million people live in the Far East, which is only a third part of Moscow. Also, it is important to mention that the Far East is the most expensive area of Russia, among all the others, in consumer goods and services. High prices for goods in the Far East are a fairly common phenomenon since many products are imported from abroad and the price of them is much higher than in the central part of Russia<sup>59</sup>.

### **Social**

Despite the well-known fact about Chinese quality, people are ready to sacrifice quality for a reasonable price. Chinese goods are in good demand among local people because the goods are delivered fairly quickly and they are not as expensive as goods transported from Europe.

In accordance with the date of the Far East, specialists in such areas like sales banks, and manufacturing are quite in demand. As long as the state has not been developing the infrastructure in this region for a long time, people have adapted to imported goods<sup>60</sup>.

### **Technological**

Since technologies and infrastructure in the Far East are not developed, the state decided to attract foreign investors to the region. In 2018, Russia and China created a new project for the development of infrastructure and technologies of the Far Eastern region of Russia at the expense of benefits, resources and removal of barriers to trade. The new program, signed by Russian president Vladimir Putin and PRC Chairman Xi Jinping, promises to attract high-tech Chinese companies to the Far East and about 32 new projects for infrastructure development in the Far East<sup>61</sup>.

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<sup>59</sup> Kondratyuk, K (2017). Foreign trade of the Far Eastern Federal District. Young Scientist, pp. 444-447. [online] Available at <https://moluch.ru/archive/136/37987/> [cit. 01 October 2018]

<sup>60</sup> Velanskaya, I. (2018). Earnings difficulties – Far East. TASS: DV. [online] Available at <https://dv.land/economics/trudnosti-zarabotka> [cit. 01 October 2018]

<sup>61</sup> EurAsia Daily, (2018). Russia and China revised cooperation program in the Far East. EurAsia Daily. [online] Available at <https://eadaily.com/en/news/2018/09/13/rossiya-i-kitay-peresmotreli-programmu-sotrudnichestva-na-dalnem-vostoke> [cit. 03 October 2018]



## Conclusion

According to the PEST analysis, we can conclude that the Far East of Russia is a favorable territory for China's trade due to the proximity of the region, the supply of rich resources, good demand for Chinese products by the local population and the inflow of investment from the state.

## SWOT analysis

As for the volume of industrial production in the Far East, the following productions are prevailing: the extraction of natural gas, coal, non-ferrous metals and electric power industry. Since the company "EVOKS" is dealing with electric power industry I will talk about this company in more details.

To begin with, the Limited Liability Company "EVOKS" was established in 2002 in Petropavlovsk-Kamchatsky in order to provide high-quality services for the installation of engineering systems and the provision of a wide range of goods on the Kamchatka market<sup>62</sup>.

### Figure 5. Logo of the EVOKS Company



Source: EVOKS Company. [online] Available at <http://evoks41.ru/>

The company buys its goods by bulk purchases from China in stores such as *Made-in-China.com*. The company was created in 1996 with the aim of reducing costs and in order to help clients to increase sales and profits.

*Made-in-China.com* provides the most comprehensive, accurate and up-to-date information concerning Chinese products and suppliers. Nowadays, *Made-in-China.com* is a leading global B2B portal specializing in cooperation between global customers and Chinese suppliers<sup>63</sup>.

To describe the cooperation of Chinese company with Russian market the below SWOT analysis of *Made-in-China.com* was created in order to consider the company's strengths, weaknesses, as well as risks, threats and opportunities in the Russian market.

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<sup>62</sup> EVOKS COMPANY. [online] Available at <http://evoks41.ru/> [cit. 10 October 2018]

<sup>63</sup> Made-in-China.com. [online] Available at <https://www.made-in-china.com/products-search/hot-china-products/Bulb.html> [cit. 10 October 2018]

**Table 5. SWOT analysis of Made-in-China.com**

<b>Strengths</b>	<b>Weaknesses</b>
<ul style="list-style-type: none"> <li>• Modern device</li> <li>• Diversity of foreign languages</li> <li>• Low prices</li> </ul>	<ul style="list-style-type: none"> <li>• Low quality</li> <li>• Dilution of control</li> <li>• Licensing of knowledge</li> </ul>
<b>Opportunities</b>	<b>Threats</b>
<ul style="list-style-type: none"> <li>• Access to local customers</li> <li>• Usage of built-up reputation</li> <li>• Fast delivery</li> </ul>	<ul style="list-style-type: none"> <li>• Protectionism and preference for Russian goods</li> <li>• High competitiveness due to the large number of Chinese importers on the Russian market</li> <li>• Corruption in developing countries</li> </ul>

Source: Anastasia Tolstykh. Own Research, 2018

### Strengths

Strong qualities of the company are the modern convenient profile of the web site due to which consumer can quickly find a suitable product. The seller's website also has many foreign languages for the comfort of foreign buyers. Low prices for products and good reputation are a leading factor in choosing this buyer.

### Weaknesses

In general, the weakness of Chinese products is in its low quality and short durability of product. Also, quite often there are problems with the delivery of goods. The products may not reach the destination or can reach to destination very late. Moreover, one of the weaknesses of these Chinese products is the deficiency of a license for the goods and products they use.

### Opportunities

China has developed logistics centers, a good geographical location to access the Russian market. The Chinese delivery to Russia works quite fast in comparison with other countries. Additionally, a Chinese company has a possibility to use the already existing reputation of "fast delivery and low price" of a Chinese supplier in trade with other countries. One of the privileges for the Chinese company is the interest of the local Russian population to buy products that were made in China.

### Threats

In the Russian market, the Chinese company may face with problems such as corruption due to which the capital outflow can take place as well as a lack of production control may occur. Since there are many Chinese representatives on the Russian market who sell the same cheap and

varied products, this can lead to the Chinese competition on the Russian market. Due to the fact that in Russia the protectionist measures are escalating over the last years, people prefer to buy Russian goods, such as Made in Russia brand, in order to support the domestic production. These problems can lead to loss of profits of a Chinese company in the Russian market.

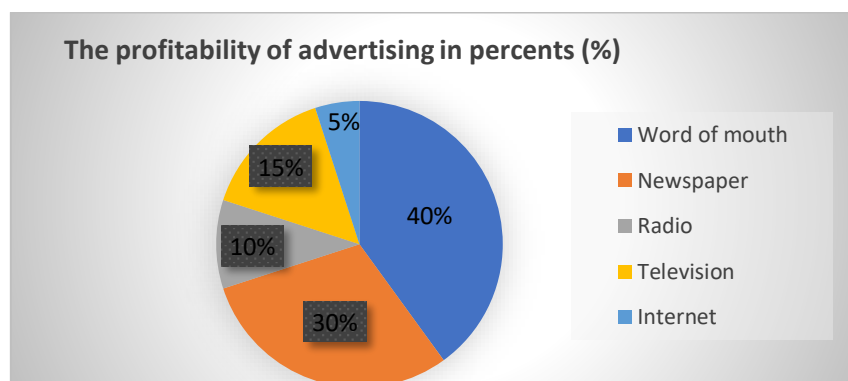
## Conclusion

To sum up, considering the above SWOT analysis it is fair to conclude that as a B2B company *Made-in-China.com* has attractive offers for a foreign buyer, but also due to the fact that this type of company cooperates with the Russian market on a distance it does not confront many threats in the Russian market.

## Advertising

As part of the study of my work, an interview was held with Dmitry Tolstykh who is the creator of the ECOKS Company. According to the data from the profitability of using EVOKS advertising in social media of Petropavlovsk-Kamchatsky (see **Figure 6**), the analysis has been conducted. The analysis showed that due to the fact that the Internet in Petropavlovsk-Kamchatsky was established only two years ago, advertising on the Internet is not profitable in this city. Nevertheless, other types of social advertising are developed in the Kamchatka region. Since Petropavlovsk-Kamchatsky, the main city of the Kamchatka Krai, has a small population, many people in this region know each other and often share the experience, advise each other where to find or to buy the needed products. Thus, because of this fact the word of mouth ranks the first place in social advertising. Newspaper takes the second place in popularity since it is quite famous in the Far East. Radio is also one of the most common used way of advertising since local radio sounds in many public places in the Far East region of Russia. As for television, it is also a good way of promoting the products, although in recent years this kind of promotion has lost its relevance.

**Figure 6. Advertising channels of EVOKS company in Petropavlovsk-Kamchatsky**



Source: Anastasia Tolstykh. Own Research, 2018

### 3. Analysis of Contracting Russian Imports from China

#### 3.1. Transportation and Logistics

Logistics and delivering of goods occupy one of the most difficult and important aspects in International trade between countries. The success of choosing the favourable way of delivery can help both parties of the deal to minimize risks, get profit and secure a reputation as a reliable partner.

The information in this subchapter includes the main options for the delivery of goods between Russia and China. I will consider all the available types and options of logistics and the successful companies which work in this particular region of Russia. Additionally, I will answer the question "How does China deliver the goods to the Far East of Russia and which way of logistics is the most successful in this case?".

In the Far East there are many companies which provide logistic services to send and deliver goods from China to Russia. For example, WENS GLOBAL SERVICES is one of the largest and the most popular international logistics center not only in the Far East, but also in the whole country. What is more, this company cooperates with such countries like South Korea, China and Indonesia. WENS GLOBAL SERVICES company has been existing on the market for already 15 years and has logistic centers in many cities such as Vladivostok, Blagoveshchensk and Nakhodka<sup>64</sup>. The company provides and offer their customers useful and comfortable services like negotiation with Chinese suppliers in China, control the quality of goods at the supplier's territory, customs clearance, certification, insurance of the goods, delivery of merchandises to the specified place agreed with a customer.

The advantages of this company are that it has inexpensive prices in relation to the quality of services provided, it has its own personal online service for tracking the location of cargo, transportation of various cargo from household appliances to machines, a database with proven Chinese suppliers<sup>65</sup>.

To begin with, there are 4 types of transportation delivery of goods in logistics: rail, air, sea and road. We can consider how each of these types works in practice between Russia and China and explain how the goods are delivered from China to the Far East region of the Russian Federation and why this type of logistics is used in this area.

Let us assume that there has been decided to transfer goods from China to Russia using rail way of delivery. This delivery method is quite comfortable for Russia and China because the goods

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<sup>64</sup> WENS GLOBAL SERVICES. About the company. [online] Available at <https://wens.global/about-us> [cit. 14 October 2018]

<sup>65</sup> WENS GLOBAL SERVICES. Delivery of goods. [online] Available at <http://wens.global/ru/dostavka-gruzov-kitay> [cit. 14 October 2018]

can be shipped from the north-east of China to Russia via the Harbin railway. Then the goods can be transported to any part of Russia, to any region through the Trans-Siberian Railway. All delivery from north of China to east of Russia by train will take about 22-33 days in general. The benefit of this type of transport is the independence from weather conditions, the load capacity of the goods, the regularity of transport, the wide choice of the geographical possibility of delivery of the goods. The disadvantage of the rail type of transport is that it takes quite a lot of time to deliver the goods<sup>66</sup>.

The air transport of delivery is suitable for products with a price above the average or goods requiring fast delivery. For example, air delivery is suitable for goods with a limited shelf life such as edible products. This delivery method is quite expensive but the benefit is that the goods will be distributed quickly. Usually air transportation of goods from China to Russia takes 3-5 days.

In case of water transport, this type of delivery is useful for the transportation of large goods such as machinery, equipment, technology and etc. Water transport is beneficial and the cheapest way to deliver the commodities. This type of transportation is supposed to deliver the goods not that quick and fast. For example, shipping by water transport to the central cities of Russia takes 40-50 days. This type of delivery has disadvantage because most often after transfer of the goods to the port of Russia, the goods must be delivered by rail to the required place.

The last way of logistics is the car transport of delivery. For example, the car type of logistics is frequently used to ship expensive goods. The whole delivery takes 18 days from China to Russia through Kazakhstan where customs clearance takes place. The benefits of this transport delivery is the ability to deliver the goods to the buyer's door; this type of delivery is faster than rail transport and cheaper than the air transportation<sup>67</sup>.

The delivery of goods takes not a lot of time because the Far East of Russia is close to China. Usually, in this situation there are two logistic types of multimodal delivery which are used together: water delivery plus the delivery by rail. The water delivery method is the most important and popular in the Far East because the ports of China and the Far East is quite well modernized and developed, the price is not expensive and this is the reason for regular shipments from Chinese cities such as Hong Kong, Shanghai to Russian cities which are Nakhodka, Vladivostok. Normally, the delivery time of water transportation to the cities of the Far East takes about 8 days. Despite the greater number of delivery days, rail transportation from China to

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<sup>66</sup> Highway Logistic Group. Shipping From China To Russia. [online] Available at <https://hl-group.ru/baza-znaniy/shipping-from-china-to-russia/> [cit. 15 October 2018]

<sup>67</sup> Komsomolskaya Pravda (2018). Ways of delivering goods from China to Russia: we are looking for the best way. Komsomolskaya Pravda. [online] Available at <https://www.kp.ru/guide/dostavka-gruzov-iz-kitaja-v-rossiju.html> [cit. 16 October 2018]

Vladivostok is rarely used because the water transportation is cheaper and more developed logistic method of delivery of goods. Also, after the main delivery by water way to the Far East, any suitable method of delivery to other regions of Russia must be used. This can be found only in the case of multi-model delivery. Multi-model delivery means transportation under one contract between the buyer and the seller, but delivery will take place at least by two means of transport. Despite the different types of transport delivery carrier still has all the obligations associated with the all means of transport in delivery.

We are considering the company “EVOKS”, which operates in the Kamchatka region. Kamchatka is a peninsula which is geographically separated from the country. That is why it is not possible to use the land delivery method to the region. Based on this information, we will use a multi-model delivery method. We can send Chinese goods from the ports of Shanghai and Ningbo to Vladivostok by water way, which will take 5 days. In the worst case, the goods will be delivered to the port of Vladivostok in 9 days.

**Figure 7. Transit from Vladivostok to Petropavlovsk-Kamchatsky**



Source: FESCO. Petropavlovsk-Kamchatskiy Line. [online] Available at <https://www.fesco.ru/en/clients/container/line/fpkl/> [cit. 16 October 2018]

Referring to the **Figure 7**, it is possible to see that against the fact that the cities Petropavlovsk-Kamchatsky and Vladivostok are quite close to each other, the ocean separates them from each other. Therefore, in this case, from Vladivostok to Petropavlovsk-Kamchatsky there are two types of delivery by air transport and water transport. If to choose air delivery, the goods will be delivered quickly but not cheap. If to choose shipping in a container, it will take about 7 days and will not be expensive. Therefore, the choice of the final delivery to the destination city will depend on the buyer, how quickly he/she needs his/her product, in what quantity and how much he/she is willing to pay for this delivery. According to the interview with Dmitry Tolstykh, the founder of the EVOKS company, it was possible to find out that the goods are shipped in large quantities in a 20-foot container from Shanghai to Vladivostok within a week. And then, the

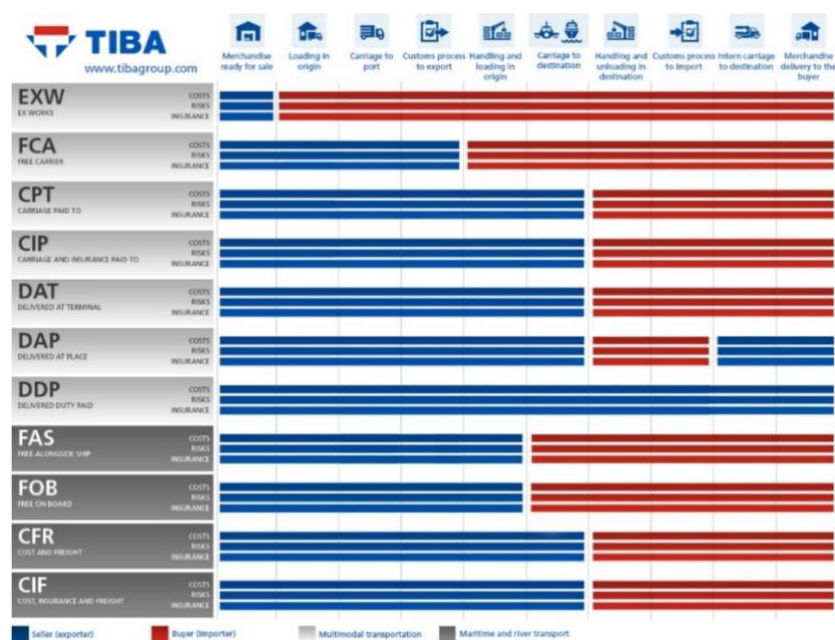
goods are shipped by water transport from Vladivostok to the port of Petropavlovsk-Kamchatsky within 8 days.

## 3.2. Delivery Conditions and Payment Conditions

This part of my thesis is devoted to information regarding delivery of goods from China to Russia. Thus, by using the data of Incoterms I will be considering the responsibilities, obligations and risk taking of each participant in the trade.

In accordance with information provided by the company 1kargo.ru, which specializes in trade and business deals such as logistic services and supply chain of goods between Russia and China, there are four types of incoterms which are commonly used between these two countries<sup>68</sup>. These types are: **EXW**, **FOB**, **CIF**, **DAP**. Therefore, the following material will be about these four types of incoterms which will be considered in order to see the main features of it which can help to choose the required type based on obligations, risk and cost.

**Figure 8. Incoterms 2010**



Source: TIBA Group (2018). Incoterms 2010. [online] Available at <https://www.tibagroup.com/es/en/incoterms> [cit. 19 October 2018]

**EXW**, in one word, can be called “self-pickup”. These are difficult conditions for transporting goods for the buyer and easy conditions for the seller because in this kind of incoterms all risks and documents such as declarations, taxes, certificates, licenses must be provided only by the buyer. Thus, the seller’s obligations end as soon as he or she gives his/her goods in his/her warehouse at the disposal of the buyer.

<sup>68</sup> 1KARGO.RU. What You Need To Know About The Terms Of Delivery. [online] Available at <https://1kargo.ru/news/chto-nuzhno-znat-ob-usloviyax-postavki-tovarov-pri-zaklyuchenii-dogovora-s-kitajskim-partnerom.html> [cit. 19 October 2018]



Out of those four types, **FOB** is the most common in business with China. This type of Incoterms is used by both water and air transport. According to the instructions of this type of Incoterms, the seller takes the goods and loads it on board of the ship where the goods will be sent to the buyer. When the goods are already on the board, further risks, expenses and documents are transferred to the buyer. It should be noted that the cost of delivery of goods on board by the seller is already included in the price of goods.

**CIF** Incoterms is most often used in the water type of delivery. This form of delivery is favorable due to the fact that it is reliable and has less risks, because the seller pays for the whole delivery of the goods to the destination place. The seller additionally must pay insurance to cover such problems and risks like loss and damage of the merchandises during the way of delivery.

Under the **DAP** conditions, the seller delivers the goods to the destination, in other words, to the agreed place with the buyer. Also, the seller bears all risks for the delivery of goods to the final destination place. In practice of delivering goods from China to Russia, in this type of incoterms the land transport like rail transport is usually used. DAP Incoterms is advantageous by the fact that the Chinese partner, as a resident of the country, pays less for the land delivery of goods than the Russian buyer if he/she decides to deliver his/her goods without any help from the Chinese side.

As it was mentioned before, in order to support this bachelor thesis and to have a real example of how goods are transported from China to the Far East of Russia in practice, there was made an interview with the founder of the EVOKS company. As a result, it was found out that the company buys goods from Chinese suppliers from the base of the site *Made-in-China.com*. The company negotiates the delivery with the Chinese suppliers, choose the type of Incoterms and come into trade deal. According to the company's statistics, the regular suppliers of the EVOKS company provide delivery of goods on the terms of CIF incoterms, by water transport of delivery from Shanghai to the of Petropavlovsk-Kamchatsky.

### 3.3. Customs Clearance and Other Certifications

To begin with, the right procedure of customs clearance is one of the most important factors which require special attention and knowledge of all subtlety and nuance. Without it the businessmen risk the goods to be forbidden to cross the border as well as challenge the further cooperation with partners in case the time of delivery has been disrupted.

Therefore, this section of the thesis will consider the questions concerning the process of customs clearance of Chinese commodities at the Russian borders, the necessary documents to be submitted to the customs authorities and many other important details.



First of all, there are two types of customs clearance<sup>69</sup>:

- 1) **General Customs Clearance.** This type is usually used in cases when the delivery of goods is performed in a large amount with intent to sell. These goods can be cleared either at the border or at the place of delivery. What is more, it is also possible to perform custom clearance remotely. For instance, when merchandises are stored in a temporary warehouse, the submission of custom declaration and other documents can take place in another place.
- 2) **Simplified Customs Clearance.** This option is possible in cases when goods are transported for personal use only and not for the purpose of sale. It is likely that many entrepreneurs prefer to deliver products partially in order to avoid general customs clearance. They just state that the imported goods are for private use but it actually breaks the law and increase risks of loss of the goods.

Secondly, there are three ways of submission of the custom declaration. The first one is submission of the custom clearance on one's own, i.e. independently. This is frequently used by medium-sized and large companies which are specialized in import of goods. These companies tend to have a logistics expert who is perfectly aware of custom procedure and other related processes. Since this is an expensive service small firms are not able to afford this. Of course, any citizen of the Russian Federation can submit all the necessary papers but this option is not reliable. The negative aspect is possible risks related to lack of knowledge of the custom clearance. However, the major benefit of it is that the goods are under control at all steps of clearance as well as it excludes additional expenses.

Another possibility of custom declaration submission is performed via broker. The entrepreneur issues a foreign trade contract in which customs representative (broker) bares all risks and is responsible for paperwork, submission, and logistics and so on. This option is best used by small companies which are not capable to employ a logistics expert to the firm but the services of brokers are not so costly. The disadvantage of this option is that it is not easy to find a good broker who would have great experience, education and references.<sup>70</sup>

Thirdly, a businessman can sign an agency contract with a broker where the broker will deal not only with documents submission, cargo escort and etc., but also will be responsible for purchasing goods from China and delivery to Russia. In this scenario, the entrepreneur just pays for the service and does almost nothing while the major duties are forwarded to the broker.

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<sup>69</sup> Kumar, S. (2017) 'Practice of Gray Customs System between Russia and China', *Regional Formation & Development Studies*, (22), pp. 92–98. doi: 10.15181/rfds.v22i2.1480.

<sup>70</sup> VedInform. Customs clearance of goods from China: the rules, the place of customs clearance, price. [online] Available at <https://vedinform.com/business/china/rastamozhka-tovarov.html> [cit. 18 November 2018]

However, this option is pretty costly and the businessman, in other words customer, has no control under the imported goods, only when the products are delivered to him<sup>71</sup>.

The place where the custom clearance will be performed can have a significant impact on the cost of procedure as well as on the cost of delivery to the agreed location. Vladivostok and Kazakhstan are the most popular places of custom clearance. As it was mentioned before in this work, the company “EVOKS” is located in Kamchatka Peninsula so that Chinese goods undergo the process of custom clearance in Vladivostok. The procedure is quite inexpensive as the city is located close to China.

Before informing the customs about your intentions to transport the goods, it is needed to consider many things in advance. The following documents and data are required at registration as well as at the foreign exchange control: invoice, packing list, purpose of the goods, product certificate, exact name of products, name of the manufacturer of the goods and information about it, high-quality photos of products and packaging material, type and material of packaging, material from which the product is made, transportation conditions, transportation method, information about the recipient.

As for the custom declaration, this document proves the fact that goods are transported legally and can cross the borders. This document includes names of the parties who made the deal, the company which brings the merchandises and etc. Filling in the custom declaration it is necessary to state the product name, tax rate and the harmony code in accordance with the Commodity Nomenclature of Foreign Economic Activity of the Eurasian Economic Union<sup>72</sup>.

Here is the list of documents which needs to be prepared as well:

- Contact
- Passport or ID of the declarant
- Transport documents
- Payment documentation
- Certificate of origin
- Other certificates and licenses

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<sup>71</sup> The International Trade Administration (2018). Russia - Customs Regulations. Export.gov.[online] Available at <https://www.export.gov/article?id=Russia-Customs-Regulations> [cit. 19 November 2018]

<sup>72</sup> Eurasian Economic Commission. Decisions for classification of products according to the commodity nomenclature of foreign economic activity of the Customs Union taken by the Commission. [online] Available at [http://www.eurasiancommission.org/en/act/tam\\_sotr/departament/KlassPoTNVED\\_TS/Pages/solutions.aspx](http://www.eurasiancommission.org/en/act/tam_sotr/departament/KlassPoTNVED_TS/Pages/solutions.aspx) [cit. 18 November 2018]

With regard to payment of taxes and related duties, it needs to be performed within 15 days after the goods were presented otherwise the declarant will be obliged to pay a penalty. All payment must be made in Russian rubles<sup>73</sup>.

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<sup>73</sup> Biriulin, V. (2002) 'Customs on the lookout', *Managing Intellectual Property*, (122), p. 75. Available at: <http://search.ebscohost.com.zdroje.vse.cz:2048/login.aspx?direct=true&db=bsu&AN=7491042&lang=cs&site=ehost-live> [cit. 20 November 2018]

## Conclusion

The main goal of this bachelor thesis was to answer the question if it is profitable to import goods from China and sell it in the Russian market, specifically in the Far East. In order to find an answer, I was considering many factors which influence the business between these two countries, an interview with the company “EVOKS” was conducted as well as many other sources and data were read.

It is fair to claim that import of products from China to Russia is very beneficial for Russian entrepreneurs since this business with China is more profitable and convenient rather than trading with Western countries. The success is explained in low prices for imported merchandises, wide range of goods which are unusual and attractive, fast and convenient delivery of goods from China to Russia.

Based on the data provided by the company “EVOKS” which cooperates in trade with China for already 16 years, the conclusion has been made. It is fair to say that the advantages of having trade relations with China is the fact that in the Far East there are mostly imported products delivered from abroad so that they are not competing with domestic products. It is not profitable to procure goods from the central part of Russia and transport them to the Far East since there is a possibility to purchase commodities from China which are the way cheaper and closer to the region. That is why inexpensive Chinese goods can be seen as a “humanitarian assistance” to Kamchatka as it is isolated from Russia. In accordance with the information from the “EVOKS” company, the most popular and effective way of promoting goods in Kamchatka is the word of mouth since the population in this region is pretty small and people basically know each other. The company purchases electrical appliances from its Chinese suppliers with the aim of resale. This kind of Chinese products is and will remain one of the most popular and necessary consumer products since the price of Chinese goods is usually below the average price of other foreign electro brands.

Thus, before starting to import goods from China to Russia it is important to decide the exact product which will be resold in the market since demand and custom needs mainly effect the products to be proposed on the market. Then, it is necessary to find a trusted Chinese product supplier. More often it is possible to find them on special websites where you can find feedbacks about the supplier, its picture and information. The next step is to sign a contract and decide the delivery and payment conditions. Most of the time it is done by the logistic companies since it helps the company to save time and minimize risks of misunderstanding. Once product is delivered to the Russian customer, this customer can be presented as a seller of these goods on the market in some places. The product can further be supplied to retail stores or to a specific

Chinese shop. The main threat of this kind of business is the identity of Chinese goods in the Russian market, since there are so many of them.

The fact that nowadays there are many stores, businesses and centers which closely work with China simply proves that this type of business is in demand among Russian people as well as among developing Russian companies like “EVOKS”. In my opinion, the trade relations between China and Russia will be growing due to general international projects. Nowadays, there are over 70 new projects which are under consideration and which will make the trade cooperation stronger and valuable. Therefore, I strongly believe that the relation between Russia and China will be escalating and developing so that it is worth paying attention to this type of business activity.

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# Annexes

## Annex1. Interview Questions

1. How long have the company EVOKS been working with China?  
(Open question)
2. Who are the company's Chinese suppliers?  
(Open question)
3. What is the difference between German light bulb and Chinese light bulb?  
(Open question)
4. Why the Chinese goods are in higher demand than the Western products?  
(Open question)
5. What are the most popular Chinese products in Kamchatka?  
(Open question)
6. How does the company promote the Chinese products?  
(Open question)
7. What advertising channels are the most successful for the company?  
(Open question)
8. How does the company deliver goods from China to Petropavlovsk-Kamchatsky?  
(Open question)