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International Business

Business, trade and investment relations between China and Russian Federation

Author: Ekaterina Efremova

Thesis instructor: doc. Ing. Ludmila Štěrbová, CSc.

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Declaration:

I hereby declare that I am the sole author of the thesis entitled "Business, trade and investment relations between China and Russian Federation." I duly marked out all quotations. The used literature and sources are stated in the attached list of references.

In Prague on ....

Ekaterina Efremova

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Content

Introduction

The modern world is the network of economic relations between developed and developing countries. It is hard to imagine prosperous economy, which doesn't cooperate with other nations and is isolated from the trade or investment relations. The Economic world is full of opportunities and challenges for the leaders as well as for the followers. Moreover, emerging economies are growing at a high pace, so "yesterday followers" may become leaders shortly as well as the alignment of forces and priorities of the leaders may also change fast under different circumstances. More and more often such determinants of success and profitability of the economy as natural and human resources are substituted with technologies, innovations, infrastructure capacity, adaptability to constant changes and mutually beneficial strategically made connections. Countries are seeking for partners, agreements and alliances to survive under pressure of competitors for leading positions in different industries. It is becoming crucial not just to be as productive as possible but also to discover new markets for selling all the produced goods and services under the favorable conditions. Carrying out deeper research of home economy's needs with the focus on overcoming new challenges and taking advantages of new possibilities and risks brought by the latest economic trends have also become an integral part of success.

The world market is open to the new entrants and for the new products, but first of all, it is a network of established and sustainable channels of cooperation, trade, investment and business relations between countries. It is necessary to understand what countries are at what stage of relations and how much different economies are connected and relied on one another at the current period and later on through forecasting and actual data analysis.

The world economy has a cyclical type of development, so the crisis in one leading economy will affect other connected economies but most likely in different degree, depending on what place one country is taken in trade and investment activities of another country. Moreover, sometimes difficult economic situation or even crisis in trade relations with some countries may lead to new opportunities for penalized economy and new directions of its economic development. This is the case of Russia, which under the pressure of sanctions, decrease in oil and raw materials prices, exchange rates volatility has felt strong dependency on the European energy and financial markets. That is why, the

Russian government has decided to change its economic program on import substitution and to strive for even closer cooperation with Asian countries with the primary focus on China, further looking for new trade and investment partners to strengthen its international status and compensate the damage caused by Western economic sanctions.

The relevance of the analysis of Chinese-Russian business, trade and investment relations in 2016 is indubitable, because the future of the whole world depends on the biggest and the most influential countries' political and economic decisions, while China and Russia are considered as ones of those countries.

The relations between Russian Federation and The People's Republic of China, considering Russia as a separate country from the former Soviet Union, were formalized and put in the working framework in 2001 through signing The Treaty of Good-Neighborliness and Friendly Cooperation. This 20-year strategic treaty serves as a foundation for the following development of countries' cooperation. In 2013, the next 4-years plan for 2013-2016 was confirmed and now is at the stage of realization. In general, there are more than 300 operating inter-governmental agreements and treaties between Russia and China.[1] Moreover, with the Russia' new "Turn to the East" official strategy and the 21st century's foreign relations policy prioritizing China, the significance of the Sino-Russian relations should not be underestimated.

I have chosen this topic for various reasons. First of all, because of my personal interest in Russia as my home country and in China, considering this country as one of the most perspective for my future career and studies under the conditions of fast Chinese firms strengthening and expanding activities on the Russian market and vice versa. Second, from my point of view, as globalization is affecting all countries around the globe and young generations are becoming more internationalized and mobile, being aware of the key players of the world economy as well as their bilateral cooperation and main problems is an inalienable condition to become a broad-minded and successful global citizen.

[1] Fmprc.gov.cn. (2016). *Treaty of Good-Neighborliness and Friendly Cooperation Between the People's Republic of China and the Russian Federation*. [online] Available at: http://www.fmprc.gov.cn/mfa_eng/wjdt_665385/2649_665393/t15771.shtml

The aim of the thesis is to analyze the economic relations between the selected countries regarding trade and investment activities as well as mutual dependence and to identify new opportunities and goals of both countries, which may be achieved through collaborative projects in the most prioritized areas of cooperation.

This aim is realized through analyzing both countries economic environments separately and later through identifying their mutual trade and investment relations with the focus on already started projects and the largest planned ones. I will try to highlight some opportunities and threats of further cooperation between both countries in the period of unstable and sometimes unpredictable world economic development.

1st part of my thesis is an overview of Chinese economy supported by the latest reports and analyses to show China's position on the global market, its performance in trade and investments, its changes in strategy and newly settled economic goals.

In the 2nd part, I will consider Russian economy also regarding trade and foreign direct investments development and will highlight the main features of the economy.

3rd part of the thesis is China and Russia bilateral trade and investment relations, in which I will try to see prospects and threats of future relations and projects based on the current economic cooperation.

1. Chinese Economy

1.1. Main features of the economy

The openness of the economy is one of the crucial factors necessary for the healthy and sustainable development of a country striving to become a world's economic leader. The People's Republic of China is a great proof of it. Before the reforms started in 1978 later called "Socialism with Chinese characteristics"[2] introduced by Deng Xiaoping, the Chinese economy was closed to the foreign firms and investors. The centrally planned model was the only possible way of organizing all economic activities in the country. However, as soon as market reforms were introduced year-by-year China has been becoming more and more open to the Western world, improving not only its economic but also social conditions. The transition from planned to the socialist-market economy was steady and well organized. The Chinese government didn't give up all its control to introduce market economy but in contrary kept all leading industries, firms, and corporations under strict supervision, guiding the economy through 5-years plans. Chinese economy cannot be equally compared to the Western free-market economic model. However, a successful combination of government control with market freedoms let China experience the fastest in the world history of major economies expansion which resulted in taking over by China the leading positions in the global arena in a relatively short period. From the year 1978 till the year 2007 Chinese average annual GDP growth was more than three times bigger than the world economic growth, resulting in 9,8%.[3] After the year 2007 Chinese growth has slowed down. However, it didn't affect China's ability to achieve all the Millennium Development Goals of the United Nations and contribute to the other countries achievements of these goals by the year 2015.[4]

China was perceived as a global merchandise producer with cheap labor and high productivity later referred as "factory of the world" after the release of the documentary film of the same name. Even though, China has managed to decrease the number of people

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[2] Goodman, M., Goldman, M. and Meisner, M. (1997). The Deng Xiaoping Era: An Inquiry into the Fate of Chinese Socialism, 1978- 1994. *The American Historical Review*, [online] 102(5), p.1551. Available at: http://archive.wilsonquarterly.com/sites/default/files/articles/WQ_VOL21_W_1997_Review_09.pdf

[3] Berger, I. (2009). *Ekonomicheskaia strategiia Kitaia*. 1st ed. Moskva: Forum, pp.18-25. Available at: http://www.abirus.ru/user/files/Polit/berger17.pdf

[4] Worldbank.org. (2016). *China Overview*. [online] Available at: http://www.worldbank.org/en/country/china/overview

in poverty by 800 million[5], has raised industrial and manufacturing development as well as urbanization it is still referred as a developing country. The standards of living and GDP per capita because of its large population are still low in comparison to the developed economies. Rapid economic growth could not but affected the environment, increased inequality and strengthened the pressure of such global problems as population aging, migration and further green and sustainable development.

In the year 2015, China has completed its 12th Five-Year Plan (2011-2015) and introduced 13th Five-Year Plan (2016-2020) with significant adjustments in the government's policies. With this plan, China is supposed to face all its problematic issues and reached the new level. Chinese President Xi Jinping has introduced the concept of "New normal" for the economy's growth and underlined the new goals and directions for creating China's "moderately prosperous society"[6] through structural economic reforms. During the 13th plan, the Chinese economy is supposed to keep and acquire features of the innovation-driven economy with advanced manufacturing using the latest technologies; services are expected to be the economic priority, and the whole economy must serve for the consumption-oriented society. The main principles of a new plan are "medium-high GDP growth of 6.5%; increased transparency in the investment field; full Yuan convertibility by the year 2020; urbanization rate must reach 60% by the year 2020; reduction of emissions and green development; social welfare improvement and anti-corruption campaign"[7]. Moreover, the Chinese government is trying to promote participation of the private sector in the economy, while reforming state-owned enterprises (SOEs). Even though public ownership is still going to be the predominant one, huge debts of SOEs have raised the Chinese government's anxiety. As a result, private capital participation in the economy, especially in the banking sector, is becoming more frequent and significant. Financial services are getting more market oriented. Furthermore, China is striving for competition promotion among the domestic companies as well as foreign enterprises presented on the Chinese market using better and clearer competition policies and laws.

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[5] Worldbank.org. (2016). *China Overview*. [online] Available at: http://www.worldbank.org/en/country/china/overview

[6] Oecd.org. (2016). *Enabling China's Transition towards a Knowledge-based Economy - en - OECD*. [online] Available at: http://www.oecd.org/about/sge/enabling-china-s-transition-towards-a-knowledge-based-economy-9789264266841-en.htm

[7] The 13th five-year plan for economic and social development of the People's Republic of China 2016–2020. (2016). [online] Beijing, China: Central Committee of the Communist Party of China. Available at: http://en.ndrc.gov.cn/newsrelease/201612/P020161207645765233498.pdf

1.2. Economic environment

1.2.1. Macroeconomic development

Macroeconomic analysis broadly focuses on three main things: National output measured by gross domestic product, including Nominal GDP, Real GDP, GDP per capita, Real GDP Growth, etc.; Inflation; Unemployment.

There are lots of other macroeconomic indicators, however, for the purpose of analyzing the current macro situation in China, only three main categories will be used.

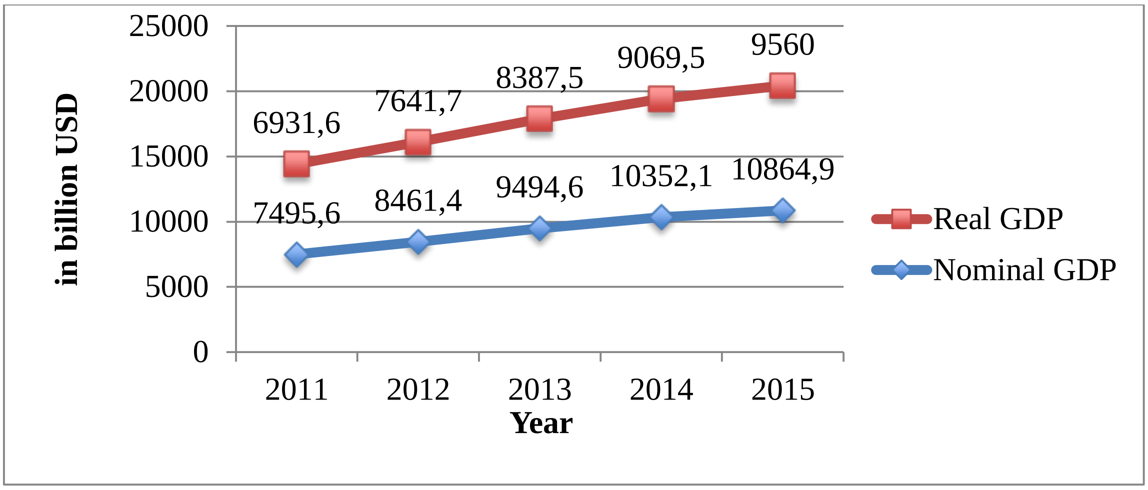
In 2015 by the nominal GDP China was second after the United States, resulting in 10,864.9 billion USD. For different predictions, China is going to outperform the current leader already by the end of the current five years plan. However, when a country's Nominal GDP is growing, it is important to take into account inflation, as the output may grow due to the increase in prices not an increase in production. The Chart 1 presents the China's Real and Nominal GDP development over time. Real GDP values the production at constant prices of the year 2010. Both indicators have a positive tendency of increasing over time, which means that inflation is not the decisive factor in ascending GDP but some other factors such as positive GDP growth, increased production, investments or consumption, government spending or increase net export may be more important. However, from the same graph, the decline in the pace of GDP increase may be noticed. From the year 2014 to the year 2015, real GDP has changed for about 5%, the smallest change in comparison to previous four years.[8]

In the year 2015 GDP growth has reached only 6.9% of GDP, the lowest recorded growth from the year 2010 when Chinese economy has recovered from the global financial crisis of the year 2008.[9] This decline may be explained not as a mere decrease in China's outputs, exports, investments and spending but as a consequence of China's new transformation from the export-led and investment-intensive model China to innovation and consumption oriented economy, which cannot be achieved without sacrificing some economic growth in heavy industries and traditional manufacturing.

[8] Wto.org. (2016). *WTO | Trade policy review - China 2016*. [online] Available at: https://www.wto.org/english/tratop_e/tpr_e/tp442_e.htm

[9] Imf.org. (2016). *The People's Republic of China : 2016 Article IV Consultation-Press Release; Staff Report; and Statement by the Executive Director for The People's Republic of China*. [online] Available at: http://www.imf.org/external/pubs/cat/longres.aspx?sk=44181

Chart 1: China's Nominal and Real GDP 2011-2015



Own elaboration of data from the source: Wto.org. (2016). *WTO | Trade policy review - China 2016*. [online] Available at: https://www.wto.org/english/tratop_e/tpr_e/s342_e.pdf

Nevertheless, even with the decline in Real GDP growth China still has the highest growth among developed economic leaders, but China is still considered as a developing country, and GDP growth rate is usually higher in the developing countries in comparison with the developed ones mainly because in the developed economies domestic markets are already saturated, and supply and demand are in the balance, which has small growth potential. China has a lot of space for the increase in consumption, especially services related and its living standards are still in comparison to the developed economies.

Inflation as one more important macroeconomic indicator is not the biggest issue for the Chinese economy. Moreover, it has been declining over the last five years, reaching 1,4% in the year 2015, but the official statistics of Chinese government significantly vary from the world statistic agencies, which causes lots of doubts about the reliability of the data provided from China.

The level of unemployment in China for years 2012-2015 was stable about 4,01%.[10] The official estimates for China's unemployment situation appear to be promising, but while determining the unemployment rates, the government only includes individuals who were registered with the Chinese Ministry of Labor, which takes into consideration only the urban regions.

[10] Wto.org. (2016). *WTO | Trade policy review - China 2016*, p.15.[online] Available at: https://www.wto.org/english/tratop_e/tpr_e/s342_e.pdf

1.2.2. Fiscal and Monetary policy

Monetary and Fiscal policy of any country are closely related and cannot function separately. In the case of China, the primary objectives of policies are stabilizing the economic growth, stimulate consumption, reduce corporate costs and control fiscal deficits as well as debt. Debt is becoming a serious problem, which is costly to serve in China. In the year 2015 total debt has reached 246,8% of GDP. However, there is a significant difference between national debt and local debts. While central government debt is still about 22,9% of GDP in the year 2015, local debts that include SOEs and corporations' obligations are reaching 165.1 % of GDP in the same year.[11] Banks have to support growing local government debts as well as deal with non-performing loans. Even though households' debt is not yet a big issue as households' savings are two times larger than debt, investors are getting less confident about the Chinese economy. That is the reason for «proactive fiscal policy accompanied by a prudent monetary policy for the last years“[12].

The whole banking system in China is rather complicated and yet cannot be qualified as well functioning. Lowering credit costs regarding interest rates reduction and improving the accessibility to banks and loans as well as reducing the reserve requirement ratios for the banks are the most commonly used actions of monetary policy of China.[13] From the business perspective, tax rates reduction and tax reform of 2016, as one of the fiscal instruments are more important. The tax reform introduced the Value added tax instead of business tax in four industries, including finance, consumer services, construction, and property. This system is going to provide businesses with the ability to get back input VAT and will stimulate research and development activities with the possibility of tax credits and exemptions. However, there are lots of challenges in this area, mainly because of the complexity of the system and variation of tax rates and rules among industries. [14]

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[11]Bloomberg.com. (2016). *China's Growing Debt Problem Isn't Quite What It Seems*. [online] Available at: https://www.bloomberg.com/graphics/2016-china-debt/

[12] English.mofcom.gov.cn. (2016). *MINISTRY OF COMMERCE PEOPLE'S REPUBLIC OF CHINA*. [online] Available at: http://english.mofcom.gov.cn/article/newsrelease/counselorsoffice/westernasiaandafricareport/201403/20140300509311.shtml.

[13] Economic-research.bnpparibas.com. (2016). *National People's Congress - Fiscal policy - Monetary policy - Growth - Five-Year Plan - China - Economic Research - BNP Paribas*. [online] Available at: http://economic-research.bnpparibas.com/html/en-US/Priority-stabilising-growth-3/18/2016,27596 [Accessed 19 Nov. 2016].

[14] Bloomberg.com. (2016). *China's About to Start Its Biggest Tax Overhaul in Two Decades*. [online] Available at: https://www.bloomberg.com/news/articles/2016-04-21/china-s-biggest-tax-reform-in-two-decades-aims-to-boost-growth

1.2.3. Exchange rate policy and related issues

Chinese currency (Yuan) fluctuations impact the whole global financial system, because of the size of the Chinese economy. China is striving to strengthen its currency and to ensure its importance in international transactions. However, China's exchange rate policy is stricter in comparison to its major trading partners, which allow their currencies freely float. Exchange rate regime used in China is managed floating based on the basket of currencies as a reference. All trading activities and Yuan movements on exchange markets are highly controlled. To stabilize its economy, China has chosen fixed exchange rate of Yuan at the end of the 20th century and has been liberalizing its exchange rate policy since that time. The authorities have been setting the trading band for Yuan until the year 2015 but from that time market influences started to be taken into account. Nevertheless, Chinese Yuan is still not a fully convertible currency. All exchanges of Yuan must be carried out with the participation of the People's Bank of China, which complicates investment and business activities.[15] To support economic growth, China is launching direct trading of Yuan with some currencies if not in a full range of transactions but at least in some fields or commercial activities. For example, in the year 2014, Central Bank of China and Moscow Exchange have expanded the ability to settle international transactions in national currencies by signing the agreement, but in the same year, only 10% of total turnover was settled in national currencies. Nevertheless, both countries are interested in strengthening and expanding the number of such transactions.[16]

For many years, Chinese Yuan is considered as the undervalued currency and China was blamed for devaluating its currency for getting a better position it terms of export. However, with the new Chinese Economic policy oriented on domestic consumption and services, the Yuan started to appreciate under the influence of Chinese Central Bank that was selling foreign currency reserves. Market forces have also influenced the Yuan and how the central parity for the currency is set. The key further recommendations from the OECD are complying with the Chinese economic policy objectives and include further liberalization of the exchange rate regime and transparency of the exchange rate policy.[17]

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[15] FXCM, H. (2016). *How Does China Control Exchange Rates? - FXCM*. [online] FXCM Insights. Available at: https://www.fxcm.com/insights/how-does-china-control-exchange-rates/

[16] RT International. (2016). *Moscow Exchange to start ruble-yuan futures trading next week*. [online] Available at: https://www.rt.com/business/240137-ruble-yuan-currency-pair/

[17] OECD (2016), *Policies for Sound and Effective Investment in China*, OECD Publishing, Paris. DOI: http://dx.doi.org/10.1787/9789264254985-en

1.3. Trade development

1.3.1. Trade policy

Acquiring a World Trade Organization (WTO) membership in 2001 has obliged China to review and modify its trading standards and institutions. WTO regularly initiates Chinese trade policy studies, underlying the importance of reforms and encouragement of transparency. The latest trade policy review of the year 2016 has shown the active participation of China in the global trading system as well as in regional economic integration. Moreover, during the period 2014-2016, free-trade zones, investment promotion and opening to the market initiatives have become integral parts of the whole Chinese business activities. Raising concerns about environmental issues and energy conservation has also been reflected in the latest trade policy modification. With the institutional reform, National Leading Group for Comprehensive Deepening Reform was established. This group helps to create detailed plans for improvements and watch out for their implementation.

However, despite the progress in some areas of trade policy, there are still lots of challenges for China such as licensing mechanism, trade defense mechanism against some trading partners, prices control and governmental subsidies. Also, Intellectual Property Rights protection law still doesn't guarantee protection to businesses, which significantly reduces the trust of potential investors and new entrants to the Chinese market.[18]

1.3.2. Merchandise trade

China is the leader of the world's merchandise trading. It is a huge part of the Chinese economy and is more developed than services. In the year 2015, merchandise trade has reached 2.27 trillion USD in exports and 1.68 trillion USD in imports. Net merchandise trade was in surplus at 5.5% of GDP.[19] Merchandise trade includes manufacturing, chemicals, agriculture, electrical and non-electrical machinery, office, telecom, and transport equipment, fuels, etc. Manufacturing is still accounting for the biggest part of both export and import of China. In the year 2015, in exports, manufactured products

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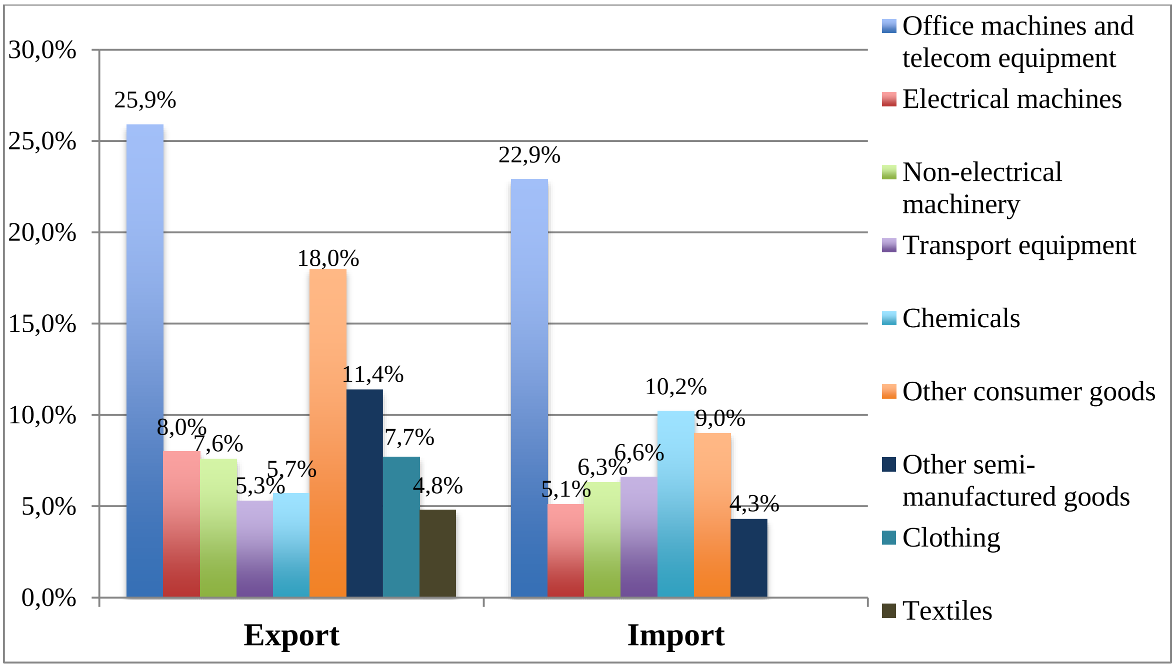
[18] Cibel.unsw.edu.au. (2016). *China's WTO Trade Policy Review | CIBEL*. [online] Available at: http://www.cibel.unsw.edu.au/content/china%E2%80%99s-wto-trade-policy-review

[19] Wto.org. (2016). *WTO | Trade policy review - China 2016*, p.26. [online] Available at: https://www.wto.org/english/tratop_e/tpr_e/tp442_e.htm

accounted for 94,3% and in imports for 64,4%. The Chart 2 represents the percentage ratio of manufacturing branches in Chinese export and import for the year 2015. Office machines and telecom equipment accounts for the largest percentage of total manufacturing. Clothing and textile are only exported. Country's prosperity depends on the volume and quality of manufacturing production. In comparison to developed countries, this sector in China is big but is not innovative enough. The resources are not always used efficiently, and infrastructure needs improvements.

Chart 2: Structure of Manufacturing in 2015



Own elaboration of data from the Source: Wto.org. (2016). *WTO | Trade policy review - China 2016, p.27.* [online] Available at: https://www.wto.org/english/tratop_e/tpr_e/s342_e.pdf

Besides manufacturing, Chinese merchandise trade also includes agriculture, mining, fuels and some other products. A small part of agriculture and mining is exported from China. However, bigger percentages of them are imported. Fuels are only imported and account for 11,8% of total imports. Chinese principal trading partners are the United States, Hong Kong, EU, Japan, South Korea, Taiwan, Vietnam, and others. Russian Federation is not in the top-10 Chinese trading partners and accounts only for 1,5% of China's total merchandise exports and for 2% of imports, while China is one of the most important trading partners of Russia.[20]

[20] Wto.org. (2016). *WTO | Trade policy review - China 2016*, p.28. [online] Available at: https://www.wto.org/english/tratop_e/tpr_e/s342_e.pdf

1.3.3. Trade in services

China's trade policy in both merchandise and services is oriented on the expanding middle class. It creates new opportunities for different types of services, especially those for improving social standards of living and satisfying growing consumers' demand. Moreover, Global problems, also concerning China such as population aging problem and environmental pollution provide producers with new potential and higher demand in the fields of healthcare, cosmetics, recreational services, healthy nutrition, environmentally friendly and energy saving technologies. Both Chinese, as well as foreign companies, are considering new opportunities and by recognizing among the first ones some leaks in technologies and capital in some fields may acquire comparative advantages quickly.

Growth based on services is the top priority for China. In all developed economies services account for 65-75% of total GDP, but in China, services are only 50.5% in the year 2015[21], and it is already a significant progress for the Chinese economy. There is a positive trend in increasing percentage of services in both export and import activities. For example, in the year 2014 service imports were 222 billion USD and export 382 billion USD, but in the year 2015 imports have reached 288 billion USD, which represents 22,9% of total Chinese imports while exports have reached 425 billion USD, which is approximately 12,3%[22]. The last trends of the year 2015 were increasing the export share of such services as traveling, construction, financial and telecommunication services. In imports, traveling services account for the biggest part, while transportation services are in the second position. Service sector needs development and better infrastructure.

Main China's trading partners in services are Hong Kong and Macau as a Special Administrative Regions, Taiwan, Japan, Republic of Korea, Singapore, The United States of America and Vietnam. The service sector in China is getting more investments, which indicates that finally investors are starting to see China not just as a provider of cheap labor but as an „end-destination" market with a large number of potential consumers. [23]

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[21] Wto.org. (2016). *WTO | Trade policy review - China 2016, p.17*. [online] Available at: https://www.wto.org/english/tratop_e/tpr_e/s342_e.pdf
[22] Stats.gov.cn. (2017). *China Statistical Yearbook-2016*. [online] Available at: http://www.stats.gov.cn/tjsj/ndsj/2016/indexeh.htm
http://www.stats.gov.cn/tjsj/ndsj/2016/html/1111EN.jpg
[23] Wto.org. (2016). *WTO | Trade policy review - China 2016*. [online] Available at: https://www.wto.org/english/tratop_e/tpr_e/tp442_e.htm

1.4. Foreign Direct Investments

China's economic transformation started in 1970th would not be possible without investments, which served as a stimulus for further development and improvements. Nevertheless, years of the rapid economic growth led to the necessity of changes in the approach to investments. The quality of investments not quantity is the decisive factor now. Environmental and social issues require more productivity and responsibility in the investment sector. Being considered as on of the leaders in attracting investments from all over the globe as well as being on of the biggest investors, China is carefully examining each investment project. The latest trend in FDI of China was giving more freedom to the foreign investors and attempt to regularize its legal and judicial system for creating a pleasant investment environment. Such industries and sectors as high tech, recycling, clean energy production, environmental protection, development of renewables usage, equipment or new materials production and services sector are the most important for investment encouragement for the Chinese government. On the other hand, investments in the already robust and technically advanced sectors and productions will not be encouraged. Investments related to seeking profit through speculations, for example, real estate, assets or currencies speculations, or related to high usage of natural resources will be restricted. In addition, China is protecting some domestic corporations and sectors that are essential for social stability or that are trying to become globally competitive. There are also some sectors under Chinese government monopolistic control such as telecommunications, energy, weapons, defense, electricity distribution, water supply, shipping, aviation, coal, oil and others in which investment opportunities are limited.

To simplify investment process, China is singing Bilateral investment agreements with different countries. By the year 2016, China has signed 145 agreements, but not all of them are enforced. There are some tax advantages for the foreign investors such as tax exemptions on repatriation of dividends and corporate tax reductions. Some funding of start-ups and some priorities in infrastructure access are also available for the investors in the sectors with the Chinese government vital interest. [24] [25]

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[24] Investmentpolicyhub.unctad.org. (2013). *China | Bilateral Investment Treaties (BITs)*. [online] Available at: http://investmentpolicyhub.unctad.org/IIA/CountryBits/42?lien_externe_oui=Continue

[25] Fdi.gov.cn. (2016). *HOME-EN*. [online] Available at: http://www.fdi.gov.cn/1800000121_49_4279_0_7.html?lien_externe_oui=Continue

1.4.1. Inward

In the year 2015 China has reached the 3rd place in the FDI inflows with the result of $136 billion, improving its position in quantitative terms in comparison to the year 2014 ($129 billion), but at the same time losing its leadership as compared to the year 2014, when China was in the first place overtaking the USA and Hong Kong positions. However, China was the leader recipient of investments in the year 2014 mainly due to the fall in the investments into the U.S. but not due to the significant increase in investments in China. China attracts FDI inflows first of all because it is perceived as the biggest world market with a large population and new opportunities. Despite its economic slowdown it is still growing and acquiring features of a more developed market. However, legal uncertainty and governmental control diminish investments. A bureaucratic regime with administrative complexities, weak judicial system, protecting mainly domestic investors, and IPRs protection issues raise investors' caution and concerns. China's leading investor partners are Hong Kong, Singapore, Taiwan, S. Korea, Japan, the U.S., Germany, and France.[26]

1.4.2. Outward

In the FDI outflows, China has invested $128 billion in the other countries, taking the 3rd position in 2015, which shows the slight increase from the year 2014, when the total China's FDI outflows have reached $123 billion. Investment flows from China are mainly directed to the technologically advanced sectors and strategic industries as well as to the natural resources and infrastructure development projects.[27] Over the last several years Chinese FDIs were concentrated in Asian countries, leading by Hong Kong. There is an increase in China's investments into Africa and Latin America. However, official data from China shows only the original Chinese investments destinations, but Chinese investors are using some tax havens such as the Cayman Islands. Hong Kong is also considered as a tax-heaven, that is the reason for its leadership in the list of Chinese destinations. The money from China is often being reinvested in the other countries afterward, so the real investments outflows in African and Latin American countries might be higher.[28]

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[26] Fdi.gov.cn. (2016). *HOME-EN*. [online] Available at: http://www.fdi.gov.cn/1800000121_49_4279_0_7.html?lien_externe_oui=Continue

[27] KI-MOON, BAN. PREFACE. World Investment Report (UNCTAD) [online]. 2016, , iii [cit. 2016-10-04]. ISSN 10202218. Available at: http://unctad.org/en/PublicationsLibrary/wir2016_en.pdf

[28] Wri.org. (2016). *China's Overseas Investments, Explained in 10 Graphics | World Resources Institute*. [online] Available at: http://www.wri.org/blog/2015/01/china%E2%80%99s-overseas-investments-explained-10-graphics

2. Overview of Russian economy

2.1. Main features of the economy

Russian current economic environment was highly influenced by more than 70 years of socialistic development with a centrally planned economy and centralized government. After the Soviet Union, transformation reforms have followed, and Russian economy started to be outward and market-oriented. Liberalization of industries and trade has encouraged investments and further development of trade relations with different countries. Joining the WTO in the year 2012 has brought new adjustments and new regulations aiming at liberalization of the economy.

The Russian Federation is the largest country from the territorial perspective with the various relief forms and abundant natural resources, such as mineral, forest, water, and energy resources. However, the most vital parts of the economy are still gas and oil productions, which significantly contribute to the federal budget and account for the biggest part of all exports. Being considered as the base for the whole economy gas and oil as well as other natural resources are mainly under the governmental control. There are still a lot of state-owned enterprises in Russia, especially in such sectors as transportation, national defense, banking, and energy production. Despite the tendency of privatization, which is leading to the higher productivity and competitiveness, there are still many natural monopolies in different fields. The Russian economy is highly dependable on exports of raw materials and therefore is largely affected by oil price fluctuation. All economic crises affecting Russia were mainly caused by the decline in oil prices and therefore fall in Russia’s exports. Western economic sanctions have also negatively influenced Russian economic development of the last three years. However, the biggest problem for the modern Russian economy is the need for structural reforms, innovations, and increase in capital investments. It should overcome the dependency of natural resources through changing focus from raw materials exporter to the producer of final goods in the field of natural resources and the provider of quality products for the local markets. The policy of import substitution has increased the domestic production in different industries but this increase was not sufficient enough to fully satisfy the demand of consumers previously buying foreign goods. Under these conditions, there is a big challenge for the Russian economy to produce greater volumes of high-quality goods needed.

2.2. Economic environment

2.2.1. Macroeconomic development

For the purpose of short macroeconomic analysis of the current situation in Russia, only three main macroeconomic indicators, the same ones that were previously used for China (GDP, inflation, and unemployment) will be overviewed.

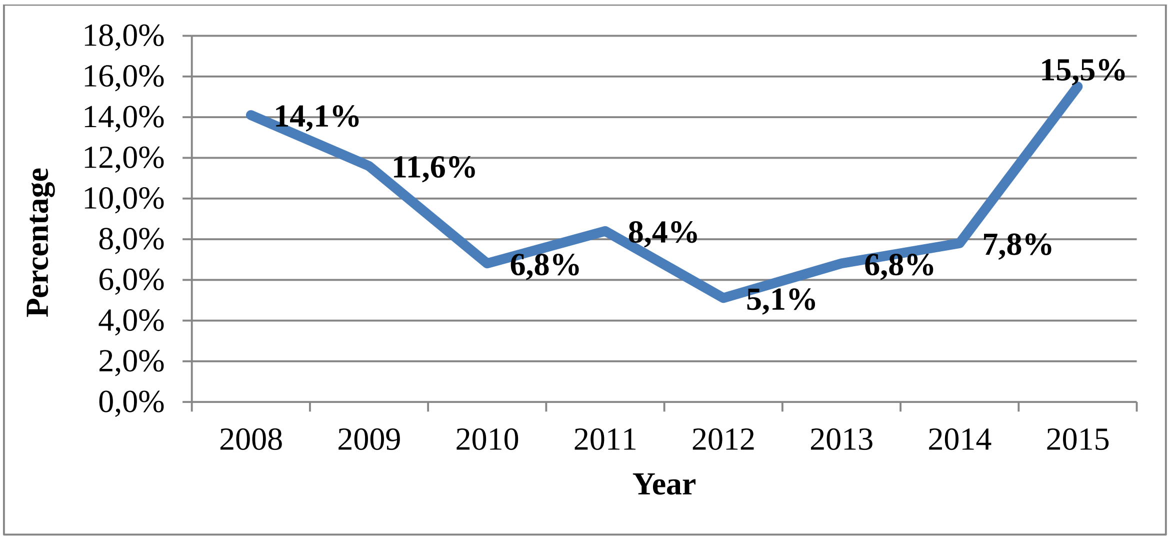
Firstly, GDP indicator in Russia in contrary to China is much smaller and has resulted in $1,326 billion USD in the year 2015. However, there was a significant downfall in the GDP level in the year 2015 in comparison to the year 2014, when the total nominal GDP has resulted in $2,029 billion USD. Real GDP growth has been slowing from the year 2012 and has resulted in -3.7% in the year 2015. The main reason for such change was oil prices decrease from over $100 USD per barrel to $34 USD per barrel at the end of 2015. Moreover, weak investment initiatives and limitations to some Russian individuals as well as entities on the world capital markets due to the economic sanctions have also contributed to the growth rate fall. Even though services have accounted for more than 60% of total Russian GDP, while oil-related activities for 20% in the year 2015, there is still great dependency between Russian macroeconomic indicators and oil prices.[29][30]

Second macroeconomic indicator – inflation, has always been an issue for the Russian economy, especially during crises. Even though the government has been trying to control it, in the year 2015, it has reached 15,5%. Chart 3 shows the inflation level averages for the period 2008-2015. While there were some increases and decreases in the inflation levels during the observed period, in the year 2015 inflation has reached its maximum as the result of rubble depreciation as well as sanctions, countersanctions and oil price fluctuations. In this regard, the anti-crisis plan has been adopted by the Russian government, covering banking system stabilization, fiscal stimulus, the program of import substitution as well as floating exchange-rate regime acceleration.[31] All these measures, as well as oil prices increase, have helped to reduce inflation down to almost 5% at the end of the year 2016. Nevertheless, to keep the inflation stable on the relatively low level the

[29] Wto.org. (2016). WTO | Trade policy review – Russian Federation 2016. [online] Available at: https://www.wto.org/english/tratop_e/tpr_e/s345_e.pdf
[30] World Bank. (2016). Russia Monthly Economic Developments. [online] Available at: http://www.worldbank.org/en/country/russia/brief/monthly-economic-developments
[31] Wto.org. (2016). WTO | Trade policy review – Russian Federation 2016. [online] Available at: https://www.wto.org/english/tratop_e/tpr_e/s345_e.pdf

country needs to implement coordinated and effective fiscal and monetary policy as well as support structural reforms and promote investments to save competitiveness rather than merely compensating falls in revenues with the price, increasing exportation in volume terms instead of value terms.[32]

Chart 3: Inflation level for the period 2012-2015.



Own elaboration of data from the Source: Oecd-ilibrary.org. (2016). *Country statistical profile: Russian Federation 2017/1 - Country statistical profile: Russian Federation - OECD iLibrary*. [online]

Third macroeconomic indicator – unemployment, despite the decline in GDP and rise in inflation has been stable for the last four years and has been at the level of about 5%. In the year 2015, it has reached 5.6%. However, relatively low and stable level of unemployment was mainly possible due to the decrease in real wages by 9% in the year 2015, which has negatively affected consumer buying power and small businesses, as there was a shift of the national income to the corporates' favor.[33] Moreover, the unemployment rate in Russia widely varies between regions, with the lowest level in Moscow. In comparison to China, Russian unemployment rate is a little bit higher, but the statistics are not always accurate due to complications in acquiring the data. Nevertheless, in both countries regarding the countries' sizes and populations, unemployment is not the biggest issue, but the population aging, low minimum wages in comparison to the developed countries and distribution of income among the populations are remaining the problem for both economies.

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[32] Tradingeconomics.com. (2016). *Russia Inflation Rate Forecast 2016-2020*. [online] Available at: http://www.tradingeconomics.com/russia/inflation-cpi/forecast
[33] Imf.org. (2016). Russian Federation : Staff Report for the 2016 Article IV Consultation-Press Release; and Staff Report. [online] Available at: https://www.imf.org/external/pubs/cat/longres.aspx?sk=44083.0

2.2.2. Fiscal and Monetary policy

Being an oil-exporting country, Russian Fiscal Policy has always been adjusted for the different periods of oil price volatility. Surpluses of the national budget from the previous years of high oil prices have been accumulated into funds and reserves aiming at supporting the economy during slowdowns or crisis. These funds were enough for overcoming the world economic crisis of 2008. However, Russian economic downturn together with the latest bad economic conditions has resulted in the deficit of the Russian Federal budget from the year 2012 till now. Moreover, in the year 2015 budget deficit was almost six times bigger than in the previous year, which has led to the Russian national debt increase.[34] Nevertheless, Russian External debt as well as government debt are still relatively small and were 31,8% and 16,8% of GDP respectively in the year 2015.[35] It had significantly increased in 2014, that's why Russian authorities have changed a fiscal program and are currently trying to reduce spending and at the same time increase savings for the better budget balance. However, for the Russian economy, not the size of the debt but the tendency of quick increase matters the most. Under the conditions of limited access to the world capital markets and the recent decline in the investments, borrowing has become more expensive for the Russian entities as well as for the Russian government.

The Russian Central Bank, which priority is the national currency - Rubble stability, implements Russian Monetary policy. This goal has been realizing through the control of price volatility in the sense of targeting a lower inflation level and supporting sustainable economic growth. Setting and regulating the key interest rates is also an important tool of monetary policy. Depreciation of the national currency by means of quantitative easing and low-interest rates in order to support economic growth during the hard period for the Russian economy over the last years and falling oil prices have caused rapid inflation growth. From August 2015 Russian Central Bank is trying to normalize policy rates. However, there was one more lowering in the discount rate to an average of 10% throughout the year 2016. It was done in order tot promote credit growth for businesses. After the year 2015 inflation has started to decrease but yet not enough, as there is still a committed goal of reaching the price level of 4% by the end of the year 2017.[36][37]

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[34] Minfin.ru. (2016). *Минфин России :: Федеральный бюджет*. [online] Available at: http://minfin.ru/ru/statistics/fedbud/

[35] Imf.org. (2016). Russian Federation : Staff Report for the 2016 Article IV Consultation-Press Release; and Staff Report. [online] Available at: https://www.imf.org/external/pubs/cat/longres.aspx?sk=44083.0

[36] Cbr.ru. (2016). *Bank of Russia*. [online] Available at: http://www.cbr.ru/eng/

2.2.3. Exchange rate policy and related issues

The most important change in the Russian monetary policy was switching to the free-floating exchange rate in the year 2014. After the two decades of control over the exchange rate and several years of managed floating exchange rate regime accepted by the Russian Central Bank after the world economic crisis of 2008, the exchange rate for rubble is finally started to be set by the supply and demand for the currency on the global financial markets. Central Bank's involvement in the internal currency market has been reducing in order to minimize the losses and fluctuations for the money market participants. Stability of the national currency is supported not by the fixed exchange rate against the foreign currencies but by means of keeping the buying power of money strong enough relying on the low inflation level. Nevertheless, even though Russian Central Bank is not intervening in the exchange rate settlements, it observes the current situation and can take some actions with the foreign currencies to protect financial stability during hard periods.

The floating exchange rate regime is a necessary condition for the monetary policy efficiency and works as a good stabilizer for the whole economy as it helps to reduce the negative impact of external factors. For example, when the oil prices are increasing, rubble is appreciating, which reduces the threat of economy's overheating, but during the oil prices decrease, rubble is depreciating which serves as a support to the Russian producers as exports are increasing. In the recent years, import substitution initiative was backed by the rubble depreciation. Moreover, Russian Central Bank conducts some operations to replenish reserves in foreign currency and to maintain enough of gold reserves. Sufficient reserves help to keep the financial stability and to serve the debt. Nevertheless, such interventions may be carried out in small amounts and may not affect the exchange rate.

However, Russian economy still needs time for the full adaptation to the benefits of the free-floating regime. The rapid switch to the floating exchange rate regime could not completely smooth the external damages of the economic situation in Russia prevailing in the period of 2014-2016, and there is still time needed for the full economy's adaptability and further recovery.[38]

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[37] Imf.org. (2016). Russian Federation : Staff Report for the 2016 Article IV Consultation-Press Release; and Staff Report. [online] Available at: https://www.imf.org/external/pubs/cat/longres.aspx?sk=44083.0
[38] Cbr.ru. (2016). *Monetary Policy | The Bank of Russia FX policy | Банк России*. [online] Available at: https://www.cbr.ru/eng/dkp/?PrtId=e-r_policy

2.3. Trade development

2.3.1. Trade policy

There are several institutions responsible for the trade policy in Russia. The most significant ones are The Ministry of Economic Development (MED), the Ministry of Industry and Trade (MIT) and the Ministry of Foreign Affairs (MFA). The primary functions of these three ministers are a formulation, regulation, coordination and evaluation of international treaties and agreements, tariff and non-tariff barriers, investments promotion and protection, export/import licensing, trade expansion and support of Russian business abroad. Russian participation in various Regional Trade Agreements and Arrangements, signing Treaties such as Treaty on the Establishment of the Eurasian Economic Union and joining International Organizations have significantly influenced Russian trade policy and have promoted positive changes necessary for trade liberalization and expansion. After joining the WTO in 2012, Russia has been actively carrying out reforms and adopting new regulations with the aim of reaching a transparent legal framework, sustainable economic growth and the higher standard of living. The most important objectives of Russian Trade Policy are to increase its competitiveness on the global markets with further integration into the world economy, to modernize the economy, promote stable development and to create and maintain necessary conditions for all trade participants, including Russian exporters, importers, consumers, and producers. The latest focus of Russian Trade Policy was on space and nuclear power industries development as well as on the information and medical technologies improvement, together with the promoting of energy saving. [39]

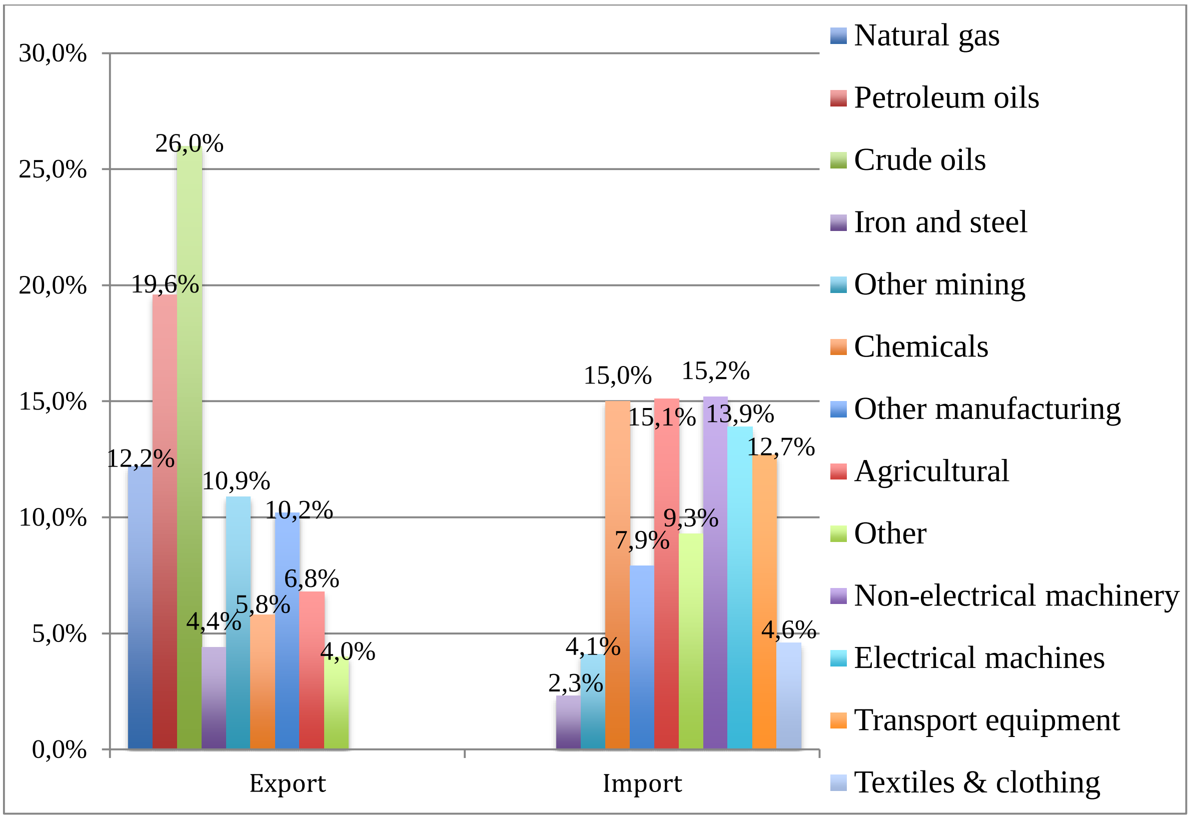
2.3.2. Trade in goods

Over the extended period, the biggest part of the Russian merchandise trade has been focused on fuels export and consumer goods import. However, there were some changes in the merchandise trade structure due to the current economic situation prevailing in Russia in the period of 2014-2016. In the year 2015, both merchandise exports and imports have decreased and accounted for US$343.9 billion and US$182.8 billion respectively. Nevertheless, Russia has started to focus on its own consumer goods production as the part

[39] Wto.org. (2016). WTO | Trade policy review – Russian Federation 2016. [online] Available at: https://www.wto.org/english/tratop_e/tpr_e/s345_e.pdf

of import substitution program and on the export of already processed raw materials. Chart 4 shows the percentage ratio of Russian exports and imports by the category of goods in the year 2015. In contrast to China, the largest part of the Russian exports of goods is the export of fuels followed by manufacturing and agricultural products. The main import categories are manufacturing, agriculture and mining.

Chart 4: Export and Import structure, 2015.



Own elaboration of data from the Source: Wto.org. (2016). WTO | Trade policy review – Russian Federation 2016. [online] Available at: https://www.wto.org/english/tratop_e/tpr_e/s345_e.pdf

The main destinations for the Russian exports in the year 2015 were Europe and Asia, with the largest percentage to the Netherlands, China, Italy, Germany, and South Korea. The leading Russian importers are China, Germany, the United States, Italy, Japan, Belarus, and Ukraine. Considering The European Union countries as a whole, the EU is still staying the largest Russian trading partner in goods despite the complex relations between Russia and some European countries because of sanctions, while China is the biggest Russian trading partner as a single country.[40]

[40] Wto.org. (2016). WTO | Trade policy review – Russian Federation 2016. [online] Available at: https://www.wto.org/english/tratop_e/tpr_e/s345_e.pdf

2.3.3. Trade in services

Services constituted 62% of Russian GDP in the year 2015. With its accession to the WTO, Russia has eliminated some barriers for the foreign capital participation in the service sector. However, there is still some percentage limitation in the banking and insurance industries for the foreign companies. Russia is the net importer of services with the relatively big difference between exports and imports of services. Nevertheless, in the year 2015, this gap has reduced to the -36,611 million USD, which is approximately 34% decrease from the previous year, but the main reason for that was rather imports' decline as exports have also fallen. This situation was a consequence of the current economic situation as well as Russian relations to its trading partners.

The main categories of Russian service exports in 2015 were transportation, traveling, technical, trade related and some other business services as well as construction, telecommunication, professional and management information consulting. The largest service imports sectors were also traveling, transportation and technical and trade-related business services. Financial services in Russia require further liberalization and the development of insurance and security markets, as currently banking activities are playing the leading role in the Russian financial sector with the dominance of state-owned banks. Such banks are sometimes closely related to the gas and oil industries. Central Bank of Russia has managed to stabilize financial market over the last several years. However, financial sector still needs some diversification in services provided and integration of different regions in the common financial system as well as the reduction of differences in involvement in the financial sector of rural and urban areas within one region.

In the year 2015, as well as for the merchandise trade, the main Russian trading partner in services is the European Union. The main destinations of Russian service export to single countries are Switzerland, Kazakhstan, the United States, Turkey, Belarus, Ukraine and China, while Russian importers are Turkey, the United States, Egypt, Switzerland, China and CIS countries. The role of China in Russian service trade is smaller than in the merchandise trade. Nevertheless, China still stays one of the leading Russian trading partners.[41]

[41] Wto.org. (2016). WTO | Trade policy review – Russian Federation 2016. [online] Available at: https://www.wto.org/english/tratop_e/tpr_e/s345_e.pdf

2.4. Foreign Direct Investments

For Russia, investments serve as a catalyst for further development and transformation from natural resources dependent economy to a more modernized and liberalized one. According to the World Bank Group's Doing Business Reports, Russia has significantly improved in the rating from 62^{nd} to the 36^{th} position from the year 2015 to the year 2016. It shows Russia's willingness to attract investments and create a pleasant environment for both inward and outward investment activities. However, in comparison to some other economies in transitions Russia wasn't getting as many investments since its economic opening to the overseas investments in 1990^{th}. Moreover, the biggest investments were and still are mainly concentrated in specific sectors and regions, especially connected with natural resources. The reason for that are the remaining obstacles for investors related to ownership rights, administrative procedures, tax collection and legal system complexities, bureaucracy, corruption, and not enough developed financial and consulting services.[42][43] Nevertheless, the situation is improving and despite the significant outflows of investments from Russia and lost trust of investors due to the hard economic situation in Russia in the years 2014-2015, drop of oil prices and economic sanctions, Russia is starting to get back lost investments and attract new projects.

The current volatile political situation in connection with the future elections in some major world economies as well as the result of the elections of the new United States president have also affected investments in Russia, as there are bets on positive changing in the economic tactics towards Russia and lifting of economic sanctions as well as some negative expectations. At the beginning of the year 2017, Russia has already taken the first position among BRICS countries and some other emerging markets regarding investment attraction. Moreover, tamed inflation and overall improvement of Russian economic conditions as well as rubble stability create a favorable investment environment.[44]

[42] Doingbusiness.org. (2016). *Doing Business 2015 - Going Beyond Efficiency - World Bank Group*. [online] Available at: http://www.doingbusiness.org/reports/global-reports/doing-business-2015

[43] Doingbusiness.org. (2016). *Doing Business in Russian Federation - World Bank Group*. [online] Available at: http://www.doingbusiness.org/data/exploreeconomies/russia

[44] Forbes.com. (2017). *Forbes Welcome*. [online] Available at: https://www.forbes.com/sites/kenrapoza/2017/01/23/russia-becomes-one-big-money-magnet/#5c236a166d72

2.4.1. Inward

In the year 2015, Russia was not recognized in the top 20 host economies of FDI in the World Investment Report by UNCTAD. Its inward FDI has dropped to 9.8 billion USD, which is a significant decrease of around 55% from the year 2014 when Russian economy has received 22 billion USD of investments. Moreover, in comparison to the year 2013, when Russian Inward FDI has reached a record level of 69 billion USD due to a significant takeover of big part of Rosneft by British Petroleum, the situation in 2015 reflects the unpleasant investment climate. New Russian anti-offshore law of 2014 has also influenced the reduction of FDI inflows, as investments from offshores have started to be removed to the third countries but not back to Russia. Additionally, there was the 50% decrease of Russian FDI flows with its principal investor and recipient of investments during 2013-2015– Cyprus. To attract more investments, Russia has to work on the financial and legal system transparency. The most popular economic sectors for the foreign investors in Russia are mining and quarrying of fuel and energy materials, and the manufacturing sector.[45] In the year 2015, leading Russian investors were Cyprus, Netherlands, Bahamas, Germany, Bermuda, Luxemburg, France, British Virgin Islands, Switzerland, and Ireland[46]

2.4.2. Outward

In the year 2014, Russia was in the top 10 countries world investors and has invested 64 billion USD, but as well as with inward investments Russian foreign direct outflows in 2015 has decreased and has reached only 27 billion USD. The main most attractive economic sectors for the Russian investments were manufacturing and the financial and insurance activities in the year 2015.The main destinations for the Russian FDI in the year 2015 were Cyprus, British Virgin Islands, Netherlands, Austria, Switzerland, Germany, United Kingdom, Spain, the US, and Turkey. However, due to geopolitical tensions and economic sanction limiting Russia's ability to participate in the world financial markets, the share in investments in some countries has significantly dropped, especially regarding European countries and the US. Nevertheless, Russia's economy is recovering, and the outward FDI are expected to grow in the next years.[47]

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[45] Cbr.ru. (2016). *Statistics | External Sector Statistics | Bank of Russia*. [online] Available at: https://www.cbr.ru/eng/statistics/?Prtid=svs&ch=ITM_14544#CheckedItem
[46] Wto.org. (2016). WTO | Trade policy review – Russian Federation 2016. [online] Available at: https://www.wto.org/english/tratop_e/tpr_e/s345_e.pdf
[47] KI-MOON, BAN. PREFACE. World Investment Report (UNCTAD) [online]. 2016, , iii [cit. 2016-10-04]. ISSN 10202218. Available at: http://unctad.org/en/PublicationsLibrary/wir2016_en.pdf

3. China and Russia mutual trade and investment relations and prospects

Sino-Russian relations are based on countries' interests, priorities and strategic goals, which may appear the same or at least corresponding to the political ties' dedication and pro-active approach in this sphere, demonstrated by the often meetings, discussions, and promises of countries' administrations. However, despite the fact that both countries leaderships are agreed that cooperation and strong relations between countries are important and beneficial to both, the motives and final goals are completely different for the parties and the level of political relations is significantly higher than the level of economic cooperation. From Russia's perspective economic ties with China play a vital role in the whole system of Russia's foreign trade and investment activities. Under the deterioration of the Russia's relations with the West „Turn to the East" strategy gives many hopes and far-reaching plans to Russia. Both countries at the current state are solving similar problems, for Russia, it is "the transition to an innovative model of development" and for China the "creation of the state of innovative type."[48] Part of the Russia's problem may be solved with the help of the Chinese steadily increasing foreign outward investments, as for the modernization of its economy Russia needs production facilities upgrade, transport infrastructure developments, modern technologies importation with is reachable with a large-scale of FDIs. However, mutually beneficial cooperation implies both parties more or less equal contribution to the relations and mutual inter-dependency, which in the case of Russian-Chinese economic relations seems rather one-sided. From the Chinese perspective, Russia is rather considered as the political ally. From the analyses of both economies separately, it is clear that countries' positions on the global arena are completely different. The Chinese GDP is almost nine times bigger than the Russian one, and it is much stronger in terms of FDIs. Nevertheless, countries are building up the cooperation, and are making plans for the future joint projects and expect promising outcomes. Let's take a deeper look at the countries' trade, investment, and business ties.

[48] Grigorenko, O., Klyuchnikov, D., Gridchina, A., Litvinenko, I. and Kolpak, E. (2016). The Development of Russian-Chinese Relations: Prospects for Cooperation in Crisis. Interna- tional Journal of Economics and Financial Issues, [online] 6(1S), pp.256-260. Available at: http://www.econjournals.com/index.php/ijefi/article/view/2394

3.1. Trade relations

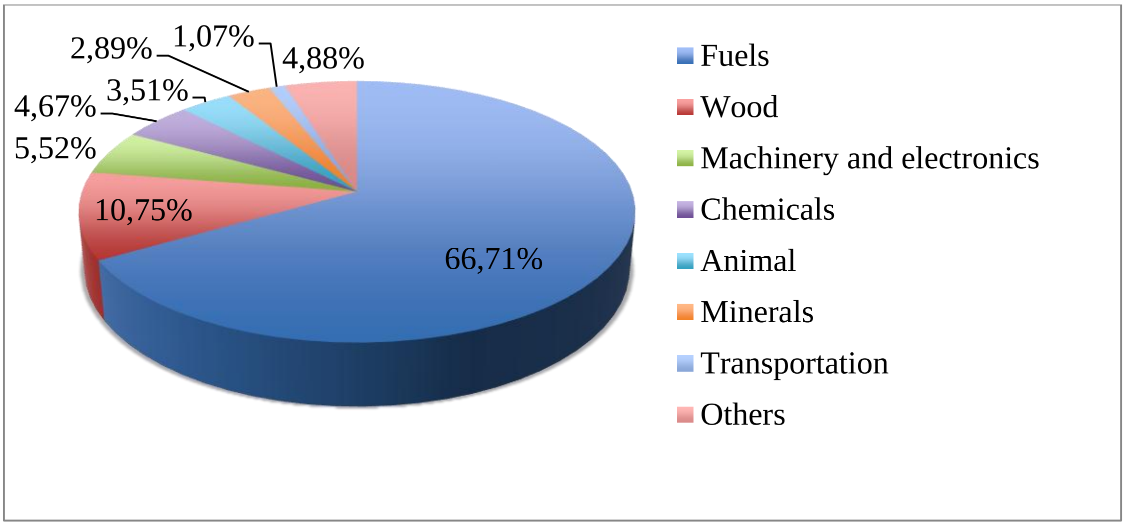
Russia and China have a long history of trade relations, however, there is still no Free Trade Agreement signed between them, which reduces the benefits from the free trade for both countries. Russian long-term goal is creating a free trade zone between the Eurasian Economic Union (EEU) and China, but the direct preferential trade agreement between Russia and China is far from being negotiated despite the active political and cultural cooperation. Countries consider all economic and trade partnership under the diplomatic, political and security terms. Moreover, the lack of motivation and caution from both countries is a big obstacle. For China, Russian manufactured goods, services or agricultural products don't represent vital interest, while technologies and know-hows are not that developed in Russia, only fuels and energy resources may be useful for China, and in this sector cooperation is already established and proved with the various trade and investment deals. From the Russian perspective Chinese cheap manufactured products pose a threat of dumping and damaging domestic industries, especially under the current program of import substitution and industrialization with the use of the latest technologies. However, even China-EAEU bilateral trade agreement is hard to negotiate and sign. The reason is the separation of influence and the competition for the leading position in the Central Asian Region as well as differences in countries' interests. China has proposed to negotiate free trade agreement within the framework of Shanghai Cooperation Organization (SCO) not China-EAEU agreement, considering cooperation of Central Asian countries separately and directly with one another not through the Eurasian Economic Union as a whole, in which Russia has significant power. However, such agreement would damage Russian interests and threatens its influence within the region, that's why the negotiations didn't take place while China started to work on Silk Road Economic Belt as a part of „One Belt, One Road (OBOR) initiative" to strengthen its influence and get economic benefits from the region. One of the main complications of the Russian-Chinese trade relations is that both countries want to keep some leadership in the region and if China is leader in the economic sphere, Russia is a strong leader in terms of politics and security. However, with the new Chinese initiative such as OBOR initiative and China's relations with countries from the region through different programs, for example Central Asia Regional Economic Cooperation Program (CAREC)[49], in which Russia is not taking part, China is gaining

[49] Carecprogram.org. (2017). Central Asia Regional Economic Cooperation (CAREC) Program. [online] Available at: http://www.carecprogram.org/index.php?page=carec-program

more power. Such division of powers and countries' geopolitical ambitions threatens Russian-Chinese friendly cooperation and slows down their trade relations' development, reducing the potential of economic gains.

Nevertheless, trade between Russian and China has been increasing in volumes over the last ten years. In the year 2011 current leaders of the countries set up goals to reach $100 billion trade in they year 2015 and $200 billion in 2020. It is already obvious that the first challenge has failed as Russian-Chinese trade in the year 2015 has reached only about 63.5 billion US dollars, which represents a decrease of 28% from the year 2014; and even though the latest data for the year 2016 shows 4% increase in the trade volume of the countries, which reached 66 billion USD, the goal of 2020 seems rather hard to achieve. [50]

Chart 5: Russian Exports to China, 2015 (in percentage)



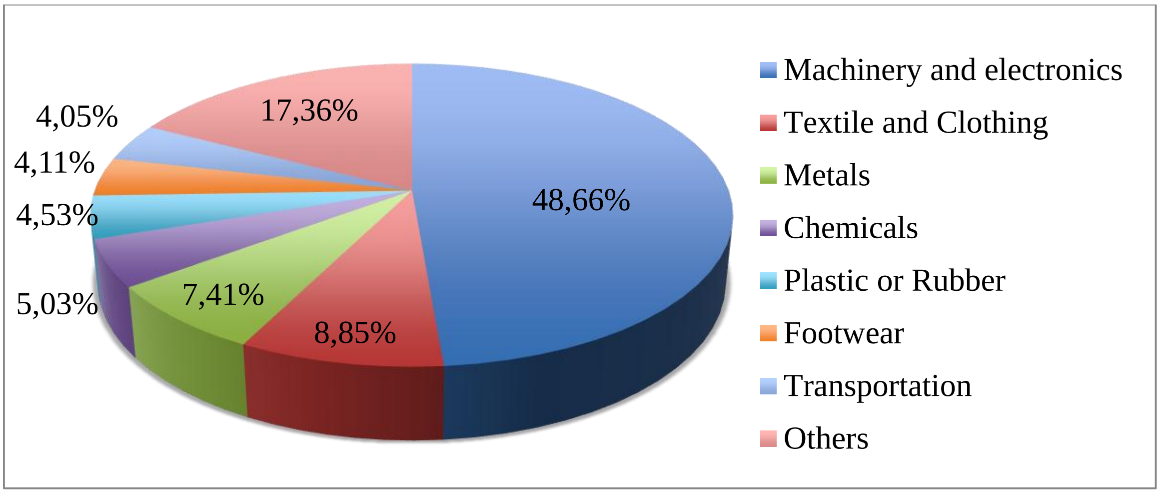
Own elaboration of data from the Source: Wits.worldbank.org. (2017). *China | Exports and Imports | by Country 2015 | WITS | Data*. [online]

Chart 5 shows that two-thirds of Russia's exports to China account for fuels. Wood and the raw materials, in general, is the second biggest part of Russian exports. Machinery also includes trade in arms. China in the year 2015 has become number three Russia's weapons importer.[51] Such export structure shows that Russia is not fully realizing the huge China's consumer market potential, while China is mainly interested only in one sector of Russia's exports.

[50] Ved.gov.ru. (2017). *Распределение по странам*. [online] Available at: http://www.ved.gov.ru/monitoring/foreign_trade_statistics/countries_breakdown/

[51] SIPRI Fact Sheet, (2017). *TRENDS IN INTERNATIONAL ARMS TRANSFERS, 2016*. [online] p.2. Available at: https://www.sipri.org/sites/default/files/Trends-in-international-arms-transfers-2016.pdf

Chart 6: Russian Imports from China, 2015 (in percentage)



Own elaboration of data from the Source: Wits.worldbank.org. (2017). *China | Exports and Imports | by Country 2015 | WITS | Data*. [online]

Chart 6 shows the biggest part of Russia's imports from China are manufactured goods, while transportation related to trade in services accounts for small part of total trade volumes in both exports and imports of two countries trade, which demonstrates that trade in services is small and under its potential.

Already from the year 2010, China has become number one Russia's trading partner as a single country and has kept the positions so far. China accounts for 19% of all Russia's imports and for 8% of exports. In China's trade partners list Russia doesn't represent that important part and accounts only for 2% of imports and 1.5% of exports. Moreover, in the year 2015, Russia took only 16th place as China's export destination and 12th as China's importer.[52] The trade data shows that Russia depends on trade with China more than China on trade with Russia. However, in some goods' categories such as energy products Russia is important China's partner and both countries benefit from trade as well as have a need in each other whether as provider or as a market. Potential benefits from trade could be much bigger and costs lower with the reduction of some trade barriers and increase of trade volumes, which is possible only by improving infrastructure between countries, facilitating trade procedures, and regulating legislation, including IPRs protection.

[52] Wits.worldbank.org. (2017). *China | Exports and Imports | by Country 2015 | WITS | Data*. [online] Available at: http://wits.worldbank.org/CountryProfile/en/Country/CHN/Year/2015/TradeFlow/EXPIMP/Partner/by-country

3.2. Investment relations

Investment relations between Russia and China has started to develop relatively recently in comparison to the trade relations. Already from the sizes of the economies, it is clear that China acts as an investor in most of the projects and Russia is the recipient. Nevertheless, investment relations are more complicated than may seem. As a developing economy and the biggest energy consumer with the limited natural resources, China has been showing interest in the direct investments into Russian raw materials extraction and transportation as well as in the cooperation with big Russian energy producing companies since the beginning of Russian economic transformation. However, FDIs imply at least 10% ownership in the project, which was a significant obstacle for the Chinese investors as Russian SOE, which own most of the natural resources were against sharing its ownership.

Nevertheless, world economic crisis of 2008, depletion of own financial resources and the need for outside sources of financing pushed Russian government to change its view on Chinese investors. In 2009 Presidents of Russia and China has approved the "Program of Cooperation between the Far Eastern and Eastern Siberian Regions of the Russian Federation and the Northeastern Region of the People's Republic of China (2009-2018)"[53], creating a framework for the further Sino-Russian investment cooperation. These Russian regions are still considered the most attractive for the Chinese investments. More than 40 perspective investments projects were presented till 2015, but China was participating only in 22, which are still at the different stages of realization. All projects were mainly related to the raw materials or energy resources, such as extraction and primary processing of oil, metals, nuclear power development, and timber industry complex. Some projects were transportation, construction, and infrastructure related but mainly due to the need for improvements in these areas for better transportation of raw materials or due to the China's desire to move some parts of the production process to the Russian territory. Such proportions prove that China carefully examines all projects before investing and is mainly interested in specific economic sectors. Among the biggest investment projects on the Russian territory are the purchase of 20% stake in the Yamal-LNG from Novatek by the Chinese National Oil and Gas Corporation, estimated at 810 million USD; Purchase by the China Investment Corporation 12.5% stake in Uralkali, valued at 2 billion USD;

[53] Ved.gov.ru. (2016). *Китай - Российские инвестиционные проекты*. [online] Available at: http://www.ved.gov.ru/exportcountries/cn/cn_ru_relations/cn_rus_projects/

Investments in the "Metals of Eastern Siberia" in the amount of 750 million USD; Investments in the joint projects of the Russian Sintez Group; and the State Electric Grid Corporation of China in the amount of 1.1 billion USD, etc. China finances most of the projects, while Russia only provides some investments to the China's northeastern regions. However, this percentage is rather small and mainly includes investments in the construction of plants or factories. [54]

Another framework for the Russia-China investments relations was established in 2011 when the Russian Direct Investment Fund (RDIF) and China Investment Corporation (CIC) had created Russia-China Investment Fund with the original budget of 2 billion USD. Its primary purpose was to make profitable equity investments mainly in Russia. This fund is making some big investments, for example, investment in Russian Forest Group - 2nd largest Russian wood processing company, or the investment in building the first railway bridge on the border between China and Russia over the Amur River, or investments to the big Russian retail chains such as "Lenta or Magnit"[55]. However, even this fund's investments are mainly directed to the infrastructure and raw materials, which stresses the limited investment spectrum considered as profitable from the Chinese side and the lack of interests in the other sectors in which Russia needs capital investments such as agriculture, high-tech manufacturing, and information technologies. The enhancement of the Russia-China Strategic Partnership was noticed in 2014 with Russia's "Turn to the East Strategy", when 400 Billion USD purchase-sale 40-year gas agreement between China National Petroleum Corporation (CNPC) and Gazprom, including the "Power of Siberia" pipelines construction was signed. It is a promising project for Russia, requiring huge investments, which are hard to get from the Chinese partners.

All incoming Chinese investments to the Russian economy are carried out under specific conditions and cause lots of arguments and doubts among Russian authorities, investors as well as social disputes among citizens. First of all, Russian public is concerned with the environmental issues, because Russian lands are often leased to the Chinese companies for industrial purposes, prone to high level of emissions. Moreover, construction projects, new plants, pipelines, and extraction deplete natural resources and pollute air and water.

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[54] Ved.gov.ru. (2016). *Китай - Российские инвестиционные проекты*. [online] Available at: http://www.ved.gov.ru/exportcountries/cn/cn_ru_relations/cn_rus_projects/

[55] Rdif.ru. (2016). *Russian Direct Investment Fund*. [online] Available at: https://rdif.ru/Eng_fullNews/57/

Additionally, China is famous for making its investments with the condition of creating new jobs for its people on the territory of the investments recipients, which has already caused a lot of prejudices and fear about the "Chinese invasion" to the Russian lands among citizens. However, such arguments are often exaggerated, and the number of Chinese people on the Russian territory is counted in thousands not in hundred thousands, while environmental standards and protection need improvements and stricter regulations regarding all industrial productions not just the Chinese ones. From the Chinese side there are no such concerns due to the insignificance of Russian FDIs to the Chinese economy, but the obstacles and unstable investment climate in Russia reduce the initiative of China's investors to bring their money to Russia.

In the year 2015, China's direct investments in Russia has reached only 560 million USD and represented a one-third decrease in comparison to the year 2014. Total cumulative Chinese investments equaled to 8940 million USD in 2015. The most prioritized sector was energy, agriculture, forestry, and construction. In the same year Russia's level of direct investments has resulted only in 13 million USD and demonstrated 68% decrease from the previous year. Total cumulative Russian investments to China have reached 947 million USD.[56] These figures prove the unevenness of investments distribution between countries. Total cumulative investments of China are almost ten times exceeding the investments from Russia. However, the same proportional superiority is present in the ratio of countries nominal GDPs. In the year 2014 during the Ministers' meeting countries set the task to increase direct investments from China to Russia up to 12 billion USD by 2020. In 2014, when Russia has experienced significant increase in Chinese investments, which resulted in 4.8 billion USD, such goal seemed reasonable. However, under the current conditions current level of investment cooperation between countries, it seems rather hard to achieve.[57]

Table 1 in Annex summarizes the opportunities and threats for the Chinese investors in Russia and Russian investor to China. The list of threats is bigger for both countries, which explains relatively small volumes of Chinese investments to Russia in comparison to its

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[56] Russchinatrade.ru. (2015). *Торговое представительство России в Китае - Российско-китайское инвестиционное сотрудничество*. [online] Available at: http://www.russchinatrade.ru/ru/ru-cn-cooperation/investment
[57] Economy.gov.ru. (2016). *Объем прямых инвестиций Китая в российскую экономику вырастет в 7 раз к 2020 году*. [online] Available at: http://economy.gov.ru/minec/press/news/2014051617

main investment destinations. The main opportunities such as abundant natural resources have started to lose its importance due to China's close cooperation with other neighboring resources rich countries. For example, China is increasing the volumes of Turkmenistan's gas consumption and investing in the new pipelines, connecting the countries. Moreover, China's most ambitious project "One Belt One Road Initiative", including The Silk Road Economic Belt and Maritime Silk Road", is getting new investments and is on the stage of construction. The road is covering Asian African and European parts and the adjacent seas.[58] Russian participation in these projects is quite limited, as the main parts of the roads are not going through the Russian territory. As a result, this one project represents for China much bigger economic benefits and causes more enthusiasm from the investors' perspective than the whole range of investment projects offered from the Russian side.

The dependency in the investments field as well as in trade is rather one sided. The amount of Chinese investments to the Russian economy is incomparable to the Russian investments in China. The investment cooperation between countries is very limited and the industries specific. Russia with its "Turn to the East" strategy is considering China as the most important partner in different areas and expects new big investments and the realization of the already signed or agreed but not yet implemented projects. China, first of all, is looking for economic benefits and sees them mainly in its new initiatives outside of Russia. However, there are some successful projects and the possibility of extending the focus of cooperation, as both countries are interested in the service sector and innovation development. Their further investment relations have great potential but it can be realized only with the improvement of Russia's investment climate, increasing the trust of the worlds' investors and ensuring stable financial system. If the political cooperation continues to grow, while economic cooperation will stay relatively slow, all discussions and plans within this partnership may remain unimplemented. Chinese investors might be able to find the substitutions of the Russian natural resources in other nearby countries and all investments will be directed there. Moreover, Russia-China cooperation will be highly challenged when the One-Belt-One Road Initiative, uniting Eurasia will be fully accomplished, and may not survive without stable economic situation in Russia.

[58] English.gov.cn. (2016). *Initiative offers road map for peace, prosperity*. [online] Available at: http://english.gov.cn/archive/publications/2015/03/30/content_281475080249035.htm

3.3. New opportunities and projects

Natural resources are the most prioritized area of countries' cooperation regarding trade and investments. Nevertheless, over the last several years there is a tendency of increasing collaboration in some other areas not directly related to the production, processing or transportation of the resources. Moreover, some Sino-Russian mutual projects have started to attract not only public investors but also private capital, which demonstrates increased interest from the businesses. Both countries are interested in the development of service sector as well as try to orient on the domestic consumers, in this regard projects in financing, civil transportation, education, entertainment, or tourism may be considered as the most promising with lots of opportunities for the investors, governments, and consumers from both countries. However, such projects bring not only opportunities but also threats. Let's take a look at three most notable Russian-Chinese projects in these spheres.

In the year 2014, as the part of the aviation cooperation deal between Russian and China worth about 13 billion USD, the memorandum for creating a new airliner was signed. All technical and electronics production were supposed to be carried out by engineering center in Russia, while the assembly of the airplanes and the fuselage's construction were expected to take place in China. The first planes should be completed by the year 2023, and already in 2025, they should be presented for sale. In the year 2017, Russia's United Aircraft Corporation and Commercial Aircraft Corporation of China have officially registered a joint venture with the headquarter in Shanghai Free-Trade Zone for creating, developing, producing, and selling the long-haul wide-body aircraft. This was an official start of the projects carried out by the China-Russia Commercial Aircraft International Corporation. Russian and Chinese Corporations have equal shares in the project, which shows the importance and interest from both sides in the venture. Moreover, Russian and China have already presented the model of the new still unnamed jet at the Chinese Airshow 2016. This model was called a future rival for the Airbus and Boeing jets, but the success of the joint venture will be proved only after a long and laborious process of creating a plane. [59][60] The aircraft will be operated by Chinese and Russian airlines, and it

[59] Uacrussia.ru. (2016). *Россия и Китай подписали ряд документов о создании нового широкофюзеляжного самолета*. [online] Available at: http://www.uacrussia.ru/en/press-center/news/rossiya-i-kitay-podpisali-ryad-dokumentov-o-sozdanii-novogo-shirokofyuzelyazhnogo-samoleta

will be exported to the other countries. This project is very ambitious and may bring great opportunities and economic benefits to the both parties if engineering and construction are done at the declared high level of quality. There are currently only two big competitors on the market among such aircrafts, which almost guarantees the demand for the product, especially on Asian markets. For the Russian side, Chinese investments and huge consumer market are the decisive factors for cooperation, while China was mainly interested in know-hows and technologies. However, the project is risky, especially for the Russian side, because of the weak IPRs protection in China and not guaranteed flows of investments. For the Chinese side, there is a risk of the loss of equality in the invested resources, as Russia has much less capability of investing in such demanding project. Nevertheless, countries' cooperation in the aircraft manufacturing sector is one of the small but necessary steps towards non-resources cooperation.

Another Russian-Chinese project is called "Primorye Integrated Entertainment Resort."[61] It is a massive complex of casinos, hotels, and restaurants, surrounded by park zones, including sky slopes, yacht and golf clubs, amusement and aqua parks and others, which is occupying 619 hectares of land, more than third of which is related to the gambling industry facilities construction. The whole resort is planned to be completed by the end of 2022. This project is very unusual for the countries for several reasons. First of all, the field of cooperation is original by itself, as gambling industry is highly restricted and limited in both countries. Second, the project is financed by private capital and is operated by businesses. Asian investors from Hong Kong, China, South Korea, Taiwan, Cambodia, and some others finance the project. Nevertheless, the biggest investments are coming from the Hong Kong Corporation Melco International Development Limited, which is the largest in gambling industry corporation operating mainly in Hong Kong, Macau and the Philippines. The project may be rather called Russian-Asian project than Russian-Chinese, because of the origin of the capital invested. However, lots of Chinese businesspeople use tax havens of Hong Kong and Macao regions, especially in the entertainment industry. Moreover, the whole project is oriented on the Asian markets, highlighting China as the big potential consumer market, as the Entertainment Resort will be only in 2-3 hours flight. There are great opportunities for both sides – the investors and the recipient. From the

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[60] United Aircraft Corporation (UAC), (2015). *Modern Russian Aviation*. [online] UAC, Annual report. Available at: http://www.uacrussia.ru/upload/iblock/27b/27ba698afdb95ed15bda3894aa3839dd.pdf
[61] Cdprim.ru. (2016). *IEZ "Primorye"*. [online] Available at: http://www.cdprim.ru/iez-primorye

Russian perspective, such project will create new jobs, increase the attractiveness of the region for the future foreign investors, ensure the flow of tourists, improve infrastructure, and enhance tax revenues for the regional budget. From the Chinese perspective, this project promises significant returns on investments, tax holidays for businesses, and the ability to invest in the several fields at the same time for example, in infrastructure, transportation, gambling industry, hospitality and tourism within one project.[62] Moreover, a unique geographical location of the resort causes interests even from such Chinese investors as China Shipbuilding Trading Co. Ltd., as the resort is located close to the bay.[63] However, there is a threat of losing its capital invested in the case of unsuccessful project from both sides and the worsening of the reputation of the Russian business environment and its ability to work on such projects. The project is a real example of how limited is the cooperation in big projects between Chinese and Russian private sectors, but how potential it could be. If the project is successful, it has a potential of one of the biggest tourist attraction in the region similar to the Las Vegas model of development. Additionally, Russia and China trying to develop service sector and such tourism oriented project is one more step towards the expansion of the scope of cooperation areas.

Another sphere of cooperation in services between countries is education. In 2014 Moscow State University (MSU) and Beijing Institute of Technology (BIT) supported by Russia and China's Ministries of Educations signed an agreement to create a joint Russian-Chinese University as the replica of the MSU in the special economic zone of Shenzhen. This is the first large humanitarian project in countries relations. The primary goal of the join university is to educate highly qualified specialists with the knowledge of Russian, Chinese and English languages in the spheres of technology, mathematics, science, and culture. Moreover, students will be able to practice in the largest corporations in China and Russia. The constructions are supposed to be completed in 2018, while first students already can apply for some programs. This project is unique, as the aim of the project is completely different from the other mutual projects, as it is not seeking for profit but is directed to the preparation of future generations. Both countries need managers, technicians, scientists, economists, and interpreters for the future joint projects, especially

[62] IER Vladivostok, Russia, (2016). *"PRIMORYE" Integrated Entertainment Resort*. [online] Available at: http://www.cdprim.ru/images/FilePDF/CATFG_200x200_book_2016_razvoroti_sep.compressed.pdf
[63] Cdprim.ru. (2016). *The potential investors from China visited the "Primorye" gaming zone*. [online] Available at: http://www.cdprim.ru/homepage/125-the-potential-investors-from-china-visited-the-primorye-gaming-zone

in the Russian Far East, as there are already lots of initiatives and investments made, so this project may be called the foundation for the future cooperation regarding human resources and education of young businesspeople. The main opportunities for Russia within this initiative include the possibility to strengthen Russia's leading university positions in international rankings, establishing first branch-type university abroad, and cultural exchange with China. For China, the project is a significant contribution to the chain of schools with exemplary environment and infrastructure, the possibility to exchange knowledge, experience and new approaches, as a result getting advanced specialists in various fields. Moreover, MSU and Chinese leading technology company HUAWEI have signed a memorandum for the respective work of creating Chinese-Russian innovation center on the basis of the joint University, which also stimulates the development of science. In general, such project brings countries' cooperation to the new level and supports countries' strategic partnership in cultural and educational spheres. [64][65]

Russian-Chinese collaboration is not limited to the energy sector, as the examples show there are projects and investments in other fields. There are lots of risks connected to the possible failure of the joint ventures. However, there are also opportunities and big profits expectations. Countries' partnership is not limited by interstate relations, as the interaction extends to the regional level of cooperation. The tendency of participating businesses in the joint project is important. It brings stimulus to cooperative work and investments among the small and medium-sized businesses from both countries. On the current stage of cooperation, it is necessary for both countries to build trust among investors, improve the business environment and establish protection mechanism for foreign and domestic companies, guaranteeing the protection of intellectual property rights, supported by the fair judicial system, effective law enforcement, and the simplified administrative procedures. Countries may become active business partners because both have a potential for further development and the desire for modernization. Moreover, with the consumer-oriented models of economic development countries' have similar interests not only in the resources sectors but also in tourism, education, and transportation. [66]

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[64] Msuinchina.org. (2016). *Совместный Российско-Китайский Университет | О проекте*. [online] Available at: http://msuinchina.org/about/

[65] RT International. (2016). *Russia, China create joint university in Shenzhen free economic zone*. [online] Available at: https://www.rt.com/news/179536-china-russia-joint-university/

[66] Center for Political Information, (2016). *Report on the Development of Russian-Chinese Relations on the example of Global Projects*. [online] Available at: http://polit-info.ru/images/data/gallery/0_8803__muhin_na_pechat_.pdf

Conclusion

Russian-Chinese relations are often fallaciously overestimated regarding trade and investment partnership. Current economic and political situation regarding Western economic sanctions against Russia, oil-price volatility, as well as the US leadership's change of its course of action towards other countries have boosted the cooperation between Russia and China. However, mutual trade and investments statistics show that political interaction is much more advanced than the economic one. Media and frequent high-level governmental meeting create an illusion of permanent extensions and improvements in countries collaboration. There are lots of initiatives, promises, and agreements of understanding in various areas, but their implementation falls behind, lacking in real investments, and practical realization of the discussed projects. There are lots of plans and signed agreements, but it is hard to check their profitability and success because most of them are at the early stage of implementation or still just on the paper.

Both economies don't belong to the group of developed countries yet for the different reasons, and even though there are some similar problems and goals that countries face, their positions and influences on the global markets significantly vary. China is the world's manufacturer, biggest exporter and leading investments recipient and contributor, while Russia is one of the major resources-driven economy and one of the largest oil exporters. Countries have different economic models, priorities, and approaches of doing business. There are some similarities between countries such as the state ownership of the main resources and state-owned enterprises active participation in various economic sectors, high level of bureaucracy and corruption, and complicated legal system. Both countries desire for economic reforms aiming at economies' modernization, integrating the latest technologies and know-hows in all economic fields, the development of service sector with orientation on the domestic consumption and support of small and medium enterprises. However, these similarities don't ensure mutually beneficial partnership.

Russia and China sometimes called complementary economies, as one is abundant in natural resources, while other is the biggest consumer of the energy in the world. However, such dependency doesn't guarantee countries stable and long-lasting relations. China is looking for profits on the first place in all its projects and investment activities. It would easily switch to the resources from other neighbors in the region if there were good infrastructure. China's initiative "One Belt, One Road" will be a big challenge for the Russian-Chinese economic relations when fully realized. However, this initiative may also stimulate countries to develop other areas of cooperation besides resources and infrastructure sectors, as there is a predisposition to the successful economic alliance and lots of opportunities due to the countries' geographical location, big consumer markets, a potential to development in all economic sectors and the political benevolence.

Despite the one-sided dependency between countries in both trade and investments relations, as China doesn't consider Russia as one of its most important economic partners, the cooperation exists and may be improved as well as directed to the different areas, bringing benefits from the trade liberalization to both countries. For several more decades, the main cooperation areas will stay oil, gas and raw materials industries, as long-term projects in these fields are already agreed or started. However, main opportunities for both countries are in the most potential future areas of collaboration such as tourism, transportation, finance, education, space, information technologies, and high-tech engineering, as both countries are moving towards the developed countries standards of living. The success of projects in these spheres will directly dependent on the countries desire to reduce trade barriers through the realization of trade agreements or cooperation within the framework of regional organizations and alliances, facilitating the present obstacles. The examples of the already implementing projects demonstrate the importance of private sector participation, infrastructure improvements, and the alignment of the dependency. Even though, it might be hard to overcome the dependency between countries it may be possible to decrease it, changing the focus of the cooperation and improving trade and investment conditions through market openness and fair business approach to all joint activities. Competition for the political dominance in the region and possible political confrontation due to the support of different political alliances on the global stage are the undesirable impediments to the cooperation and potential threats to the success of joint projects. Strong economic relations between such significant economies may be beneficial and stability supportive not just to them but to the whole global economic system, united by the trade and investment ties, so these countries relations should be for the benefit and peace of all but not in resistance to the other countries.

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List of figures

Annex

Table 1: Opportunities and Threats for China's investments in Russia and Russian investments in China

For:	Opportunities	Threats
Chinese investments in Russia	- Abundant natural resources; - Big market; - Huge territory for the plants and production facilities construction; -Possibility to transfer some production capacities to the new territories; - Cheap credits and Preferential terms for the Chinese investments	- Bad investment climate due to the lack of transparency and administration procedures complications; - Unstable macroeconomic situation, including high inflation and exchange rate fluctuations; - Dependence of Russian economy to the oil prices fluctuations, reducing its financial capacity; - The threat of damaging country's image in relation to Russian political confrontation to the West. - Undeveloped infrastructure and transportation channels (however, it may also be an opportunity for the investments) -Unequal capital distribution in mutual projects -Lack of innovations and latest technologies
Russian investments in China	- Biggest in the world consumer market - One of the largest world economies with the high pace of development -Relatively low production costs	- Weak IPRs protection - Lack of transparency in the legal and judicial systems - Difficulties in getting credits for foreign businesses - Necessity to set up a joint venture and share know-hows -No free convertibility of the currency, participation of the China's Central Bank in all foreign currency activities. - Limited market access due to strict governmental control