“CHINESE FDI IN THE RUSSIAN ECONOMY: OPPORTUNITIES AND PROSPECTS”

Thesis submitted in partial fulfillment of the requirements for the degree of Master of arts 38.04.01 “Economics”
Russia and China in International Finance and Trade

I hereby certify that this is entirely my own work unless otherwise stated

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2023
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INRODUCTION

Currently Russian-Chinese relationship development is one of the major topics in the context of the further mutual interaction. Especially nowadays, when the situation around the world stays quite unstable and difficult for predictions, a range of possible paths regarding the future growth is addressed to Asia Pacific region, namely, to China. As we may see from the agenda, due to the sanctions imposed on Russian economy by western countries, some of the experts are claiming that nowadays we may see some of the signs of the so-called “Turn to the East”. Consequentially, it is quite important to estimate and evaluate the possible threats, scenarios and solutions of the developing economic situation.

Relations between Russia and China, according to official formulations, are relations of comprehensive partnership and strategic interaction entering a new era. As the leaders of the two countries constantly emphasize, they are developing on the principles of equality, consideration of each other's interests, freedom from political and ideological conjuncture. In this regard, there is a need to understand the place and role of the Russian Federation and China in the new geopolitical and economic situation and possible prospects for the development of their investment relations in the context of globalization.

Currently, Russian politicians are increasingly making statements about a "Turn to the East" - the reorientation of economic activity from the predominance of the western region to the eastern regions. Strategic objectives to increase trade, investment and other forms of economic interaction with China are highlighted as one of the directions of the "Turn to the East".

As one of the most recent example of mutual interaction on the highest levels between the two great powers, president of the People’s Republic of China Xi Jinping, at the invitation of President of the Russian Federation Vladimir Putin, made a state visit to the Russian Federation on March 20-22, 2023. The heads of state held talks in Moscow. The leaders signed the Joint Statement of the Russian Federation and the People's Republic of China on deepening comprehensive partnership and strategic cooperation entering a new Era, which included an agreement on various issues of cooperation. Furthermore, the document defined the pathway for further cooperation development which, as it is supposed, should become the driving force for the multipolar world order reforming and preserving.¹

As the Minister of Economic Development of Russia Maxim Reshetnikov, who took part in the meeting, noted, the high level of the event and the detailed elaboration of an extensive list of issues for discussion confirm that relations between Russia and China are entering a new stage. He noted, "there are more and more projects when Russian and Chinese enterprises start producing together. More and more Chinese companies are investing in Russia. The joint package of investment projects amounts to $165 billion – about 80 serious projects in gas chemistry, transport, woodworking, which are actively developing".²

The research is devoted to the topic of Chinese investors’ place in Russian economy. The relevance of the research can be seen in the fact that the question of the place of Chinese partners in

¹ Совместное заявление Российской Федерации и Китайской Народной Республики об углублении отношений всеобъемлющего партнёрства и стратегического взаимодействия, вступающих в новую эпоху. URL: http://kremlin.ru/supplement/5920 (Accessed: 24/03/2024)
Russian economy and in the market as a whole has been arisen recently. The master thesis is sufficiently concentrated on the problem of investment climate of Russian Federation, Chinese investments in Russian economy, its distribution and possible prospects of FDI from China to Russian Federation.

The aim of the master thesis is to research the current situation in the sphere of Chinese foreign investments in Russian economy, to determine the place of Chinese FDI in Russian market, define the main challenges and opportunities for Chinese investors and, subsequently, to describe the further prospects of its development in Russian Federation.

Based on the specified aim of the research, the following objectives are set:

- To determine the nature and subject of the FDI phenomenon, to research the main theories of FDI and its interpretation;
- To define the importance of mutual investment interaction between Russia and China;
- To clarify the role of FDI inflow from China in Russian economy;
- To determine the current situation regarding Chinese FDI in Russian market and its role;
- To identify the peculiarities and problems of investment climate in Russia;
- To research the strategy of Chinese investors abroad, particularly to the Russian Federation;
- Considering various sources of data including articles, monographs, statistical resources of national, international resources, define the prospects of further development of Chinese FDI in Russian economy.

The object of the research is bilateral economic interaction in the context of Sino-Russian relationship; the subject of the research is the FDI from China to Russia, its role and the future of Russia and China investment interaction.

The theoretical and methodological basis of the research is the articles and publications of domestic and foreign researchers on the role of FDI in economic growth as a whole, role of Chinese FDI in Russian market, role of state in this sphere, legal documents, as well as government programs.

The degree of scientific development. The theoretical aspects of investment as a foreign economic activity of actors in international relations are considered by representatives of various schools of international relations. Many researchers, studying the phenomenon of foreign investment, turned to the analysis of their causes, the main factors affecting the flows of foreign direct investment and growth drivers. Among them there are many famous scientists, namely Vernon R³, Sophie Th.

Schneider ⁴, Hymer S.H.⁵, Buckley P.J.⁶, Dunning, J.⁷, Kojima, K, Osawa, T.⁸, Pinheiro-Alves⁹, Golubeva E.I.¹⁰

Most of the studies devoted to the problems of foreign direct investment turn their attention to the problem of investing in emerging markets. These include the Russian Federation and its investment relations with the People's Republic of China. These research papers investigate the problem from different points of view and adjust numerous areas of knowledge to enable scientists and policy makers to look at the problem from different perspectives. Among those scientists whose scientific work was devoted to the topic of Sino-Russian cooperation and interaction in economic and investment spheres are Wang Yi Nan¹¹, Davydenko E.V.¹², L. Song¹³, Sizykh E.Y¹⁴, Liu Chaonan¹⁵, Wang Yin¹⁶.

When writing this dissertation, an important issue was the study of the national investment climate of the Russian Federation, as well as the main problems and threats to its further development. In this area, it is important to mention the work of the following scientists: Oveshnikova L.V., Sibirskaya E.V.¹⁷, Borisova O.V.¹⁸ etc.

Furthermore, while conducting the research, an attention was also paid to some legal documents and reports of international institutions and organizations. Among them there are the World Investment Reports by UNCTAD, Federal Law No. 160-FZ of 09.07.1999 (as amended on 14.07.2022) "On Foreign Investments in the Russian Federation", Statistical Bulletin of China’s Outward Foreign Direct Investment, China Statistical Yearbook, Report on Development of China’s

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¹⁰ Golubeva E.I. The concept of investment: evolution and improvement of its application // Scientific and practical Alley of Science. 2018. No. 5(21). pp. 582-584
¹¹ Wang Yi Nan, Romanova Varvara. PRELIMINARY RESEARCH ON THE ISSUES OF ATTRACTING CHINESE INVESTMENTS TO RUSSIA’S FAR EAST INFRASTRUCTURE. URL: https://doi.org/10.29013/EJEMS-20-2-38-48
¹³ L. Song. China’s foreign direct investment in Russia under the “belt and road” initiative.
Outward Investment and Economic Cooperation and statistical data from the official resources of the Bank of Russia and The General Administration of Customs of the People's Republic of China.

**Methods:** when conducting the qualitative research, the author used a number of scientific approaches, that is, such techniques and methods of solving the problem as a comprehensive analysis, a systematic approach.

The **practical significance** of this work is in the fact that knowledge gained during the study process can be used in various ways, such as the elaborating of complex investment policies which could in turn attract FDI and allow foreign investors (namely, Chinese) to expand their sphere of interests and include Russian market there. In addition, the third chapter of this work identifies and explains the main opportunities and growth points in attracting foreign, namely Chinese, direct investment. The problems that increase the distrust of Russia as a recipient of foreign direct investment, which could later be completely or solved, are also identified.

Quite important point revised and investigated is the studying of the impact of the COVID-19 pandemic on the investment dynamics of the Russian Federation, which could be a starting point for further research in this area.

The **approbation** of this master's thesis was a number of reports prepared by the author. Among them are a report at the conference "Russia and China: a look into the future" (MGIMO, Moscow) and the subsequent publication in the collection following the results of the conference of an article on the topic "Prospects for the development of investment cooperation between the Russian Federation and China", as well as an article co-authored with the scientific supervisor Navrotskaya N.A., on the topic "Chinese direct investments in the Russian economy: features and prospects". This report was also presented at the scientific conference "New trajectories of economic development in conditions of global uncertainty" at the Russian state university for the humanities.

The thesis structure consists of three chapters. The first one researches the main theoretical framework of the FDI, its definition and subject. Moreover, the main theories of its appearing and growth drivers of FDI are identified. Furthermore, a great part was devoted to the issue of investment climate of Russia, the problems of its attractiveness.

The next part reveals the numbers and figures in the context of foreign direct investment cooperation between Russia and China at the current stage. A special role was for the COVID-19 influence over the FDI dynamics, its significance and consequences. The last but not the least part of the second chapter included the discussion on the issue of One Belt – One Road importance of interaction in case of Russia. The economic content of the project is usually associated with investment, trade policy, construction of infrastructure projects.

The third chapter is devoted to the investment strategy of Chinese investors abroad and specifically in Russia, identifies the main factors which could influence the choice of Chinese investors concerning the point of investing into one or another economy. The last article includes the main findings on the research topic, namely it implies to image the future prospects for Chinese FDI in Russian economy, main challenges and opportunities.
CHAPTER 1. RUSSIAN-CHINESE ECONOMIC RELATIONS IN THE CONTEXT OF INTERNATIONAL GLOBAL PROCESS.

Over the last century, the world economy and international relations have been dynamically developing and changing. Modern international economic relations are characterized by an increase in the processes of globalization, an increase in the dependence of national economies on each other, thereby foreign economic relations of the state acquire great importance for the development of the country's economy.

Foreign capital is a factor of economic growth and an additional source of capital investment in the national production of goods and services. The process of infusion of foreign capital is accompanied by the transfer of new technologies and the latest management methods. It is under their influence that the economy of the host country is transformed: its structure is changing and development is accelerating. The steady growth of Russia and the transformation of its economy into an innovative one presupposes the active attraction of foreign investment.

At the present stage, Russia is faced by a great number of difficulties on the international stage due to sanctions and political situation worldwide. At the moment, the structure of foreign investment in Russia is unfavorable. Foreign direct investment, which is typical for most developed and actively developing economies, is insignificant. Formerly Russia's foreign economic activity was aimed at interaction and economic and political cooperation with other politically and economically friendly countries. An important task for Russia nowadays is to catch up with highly developed countries in terms of the standard of living of the population and macroeconomic indicators.

1.1. Theories and Approaches to the Definition of FDI, its Subject and Role in International Economical Mutually Beneficial Interaction.

The world economic relations are included in a strong and steady system whose aim can be defined as the creation of interaction, interconnection and interdependence within the framework of the system of international economic relations.

World economic relations originate in world trade, which has gone from single foreign trade transactions to long-term large-scale trade and economic cooperation. Having arisen at the manufacturing stage of the development of social production (XVI century), the world market was actively formed under the influence of the movement of trade capital, economically and politically established in most European countries.

The specifics of the later stages of the development of the world market are associated with the industrial revolution of the XVIII-XIX centuries, which made large-scale industry more dependent on international exchange. The final stage of the formation of the world market, which dates back to the end of the XIX - beginning of the XX century, meant an increase in the volume of international trade, a change in the structure of commodity flows, which led to the mutual interweaving of national economies.

The global market of goods, services, labor and capital is the evolutionary highest point of the development and the result of the world interaction of prices, demand, supply, production and operating in the condition of cyclical development of monopolies and competition.
In order to define the maturity of world economic relations, the ratio of growth rates of trade turnover and material production should be used. All the evolutionary changes which happened in the economic relations worldwide are the consequences of the transactions made in both capital and labor markets, the evidence of the dynamics in the international movement of capital, goods and services, and, obviously, the changes in world prices.

When it comes to the characteristics of the current stage of the world economic relations development, there must be highlighted the next few points. Global dependence which took place due to the transferring of the production to different place all over the world. The peculiarity of this process is that it is happening with the information technologies predominance. Consequently, the new processes were started: 1) integration which is characterized by the process of integration of one economy to another; and 2) transnationalization, the creation of complexes of production in different economies combined in one system of production.

It should be noted that the development of trade between countries, the formation of the world market based on the deepening of the international division of labor, the intensification of world economic relations due to the integration of economies and the formation of TNCs, contributed to the strengthening of the world economy, increasing the dependence of the growth of national production on the stability of the world economy.

The formation and development of world economic relations are determined by the strengthening of the interconnection and interdependence of the economies of individual countries. The deepening and development of the international division of labor, and hence the IEO, depend on natural (natural, geographical, demographic, etc.) and acquired (production, technological) factors, as well as social, national, ethnic, political and moral and legal conditions. The above-mentioned practical component directions and forms of economic relations cover a number of areas of world economic activity:

- international trade;
- international specialization of production and scientific and technical works;
- exchange of scientific and technical results;
- information, monetary, financial and credit relations between countries;
- movement of capital and labor;
- activities of international economic organizations, economic cooperation in solving global problems.
- international information communications, the formation and increasing role of the Internet, the implementation of commercial transactions using computers.

In this research investigation it is vital to understand the main theoretical aspects, definitions and its practical usage in the economic processes before passing to a more sophisticated part of the thesis.

Since the issue of the FDI nature is respectively young, the discussions on understanding of the definition is still developing. In the table below there are some definitions of the main institutions presented.
Table 1. The definitions of FDI.

<table>
<thead>
<tr>
<th>Organization</th>
<th>Definition</th>
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<tbody>
<tr>
<td>Organization for Economic Co-operation and Development (OECD)</td>
<td>FDI is a category of cross-border investment in which an investor resident in one economy establishes a lasting interest in and a significant degree of influence over an enterprise resident in another economy. 19</td>
</tr>
<tr>
<td>World Trade Organization</td>
<td>Foreign direct investment is the category of international investment that reflects the objective of a resident entity in one economy (&quot;direct investor&quot;) obtaining a lasting interest in an enterprise resident in another economy (&quot;direct investment enterprise&quot;). 20</td>
</tr>
<tr>
<td>UNCTAD</td>
<td>Foreign direct investment is an investment that implies a long-term relationship and reflects the long-term interest and control of a resident unit in one country over an enterprise in another country. 21</td>
</tr>
<tr>
<td>Federal Law of Russian Federation</td>
<td>Foreign direct investment - acquisition by a foreign investor of at least 10 percent of the share, shares (contribution) in the authorized (pooled) capital of a commercial organization established or newly created on the territory of the Russian Federation in the form of a business partnership or company in accordance with the civil legislation of the Russian Federation; investment of capital in the fixed assets of a branch of a foreign legal entity established on the territory of the Russian Federation territories of the Russian Federation; implementation on the territory of the Russian Federation by a foreign investor as a lessor of financial lease (leasing) of equipment specified in Sections XVI and XVII of the unified Commodity Nomenclature of Foreign economic activity of the Customs Union within the framework of the EurAsEC (hereinafter referred to as the Customs Union), with a customs value of at least 1 million rubles. 22</td>
</tr>
</tbody>
</table>

Source: created by author.

19 Foreign direct investment (FDI). OECD. URL: https://doi.org/10.1787/9a523b18-en (accessed 25/06/2022)
20 Trade and Foreign Direct Investment. 9/10/1996. URL: https://www.wto.org/english/news_e/pres96_e/pr057_e.htm (accessed 05/09/2022)
Consequently, we may obtain the term and define it as following: foreign direct investment (FDI) is a category of international investment that reflects the goal of obtaining long-term investor interest in one economy to a resident enterprise in another economy. Long-term interest implies that there is a long-term relationship between the investor and the enterprise and that the investor has a significant influence on the way the company is managed.

The results of foreign studies indicate that FDI is a mechanism that has a positive impact on economic growth in industrialized countries. Direct investments serve as a source of capital gains, both in production and in the service sector. There are many theories in the economic literature explaining the motives of the international movement of capital. Their main task is to identify and study the reasons that prompted companies to export capital beyond national borders.

Japanese researcher Kojima has developed the theory of FDI, according to which there is a relationship between international trade and foreign direct investment. Based on this model, direct investment and trade complement each other and contribute to the economic growth of countries. He identified resource, labor and market orientation as the three main motives for foreign investment by corporations. Thus, companies invest abroad in order to gain advantages in the form of lower production costs, new technologies, internationalization of markets and favorable geographical location.

The theories of emergence of the phenomenon of FDI present themselves a range of the determinants of the investor’s behavior, the reasons of choosing one or another form of investments, and it helps in the context of the process of determination in case of the influence of FDI over the dynamics of economic relations development in different countries. Using all the theories, the states are able to elaborate their own investment strategy and implement in in the system of world economic relations in order to stimulate the inflows of FDI and adapt its use in the most efficient way. It is assumed by economists that studying for these theories that are designed to provide a theoretical basis for the development of a national investment strategy should be a pivotal thing while creating the policy for attracting the FDI.

All the theories can be divided into several groups, including theories based on imperfect competition, theories based on perfect competition, theories based on the strength of currency, theories considered world trade. All of the mentioned ones are outlined the following way (Table 2. The main theories of FDI).

- Theories of FDI based on perfect competition. One of the earliest works dedicated to the FDI theories in the perfect competition market is the work by MacDougall (1958), whose theory was modified later by Kemp in 1964. The scientists stated a two-country model and prices of capital which are equal to the marginal productivity. Therefore both scientists claimed that when there was free movement of capital from an investing country to a host country, the marginal productivity of capital tended to be equalized between the two countries. They found that after investment, the output of the investing country fell without any decrease in the

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national income of the country. This is because in the long term the investing country gets higher income from its investment abroad.

- Theories of FDI based on imperfect competition include Vernon’s cycle of international producing, industrial approach, monopolistic power of FDI approach, internalization explanation of FDI, oligopolistic approach to the understanding of FDI and eclectic paradigm of FDI.

**Table 2. The main theories of FDI.**

<table>
<thead>
<tr>
<th>Theory</th>
<th>Author</th>
<th>Description</th>
</tr>
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<tbody>
<tr>
<td>Production Cycle Theory</td>
<td>Vernon (1966)</td>
<td>Stated 4 stages of production process: innovation, growth, maturity and decline. Vernon paid attention to the dynamics of interaction between world trade and FDI. The theory explained the investments received by manufacturing companies in Western Europe from the USA after World War II. 26</td>
</tr>
<tr>
<td>Industrial approach, TNC and Imperfect market theory</td>
<td>Hymer (1960)</td>
<td>The work is based on the idea that foreign investors tend to use the imperfection of country-beneficiary market. Due to the costs (risks and additional expenditures) related to the international investment, the investing foreign country should play a monopolistic role in order to make it profitable.27</td>
</tr>
<tr>
<td>Monopolistic power approach</td>
<td>Kindleberger (1969)</td>
<td>On the basis of Hymer’s work determined 4 key factors of imperfection market leading to TNC success abroad: 1) Firms’ trade policy imperfections (marketing, an image of a brand); 2) Factors of production (proprietary technology, personnel qualification etc.); 3) Internal and external economy of scale; 4) an intervention into foreign markets government policy.</td>
</tr>
<tr>
<td>Oligopolistic theory</td>
<td>Knickerbocker (1973)</td>
<td>Cited that the leader’s behavior defines the rivals’ process of transnationalization in oligopolistic industries. This model does not explain the first order motives of FDI.</td>
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</table>

<table>
<thead>
<tr>
<th>Theory</th>
<th>Author</th>
<th>Description</th>
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</thead>
<tbody>
<tr>
<td>Internationalization theory</td>
<td>Buckley and Casson (1976)</td>
<td>The theory defines a link which connects between TNC’s FDI and their internal organization, which shows the hierarchical system integration of business functions. In terms of more detailed approach to explanation, according to this theory big enterprises are able to increase its activities only in presence of a strong internal company’s structure. The companies gain their competitive advantage not because of the use of a single specific factor in one particular functional area, but because of their ability to internalize their technology instead of transferring it to other (external) organizations. As for one of the main disadvantage of the theory, it worth mentioning that in some cases internationalization of a technology may be too high-costed or it may face the risk of host-country government’s intervention in various industries (for instance, telecommunication industry).&lt;sup&gt;28&lt;/sup&gt;</td>
</tr>
<tr>
<td>Theory of Trade With Multinational Corporations</td>
<td>Helpman (1984)</td>
<td>E. Helpman was one of the first scientists who suggested the linkage between international trade and “vertical” and “horizontal” FDI. According to his model, international corporations have a positive impact on the development of trade between countries.&lt;sup&gt;29&lt;/sup&gt;</td>
</tr>
<tr>
<td>Eclectic Paradigm of Dunning (O-L-I)</td>
<td>Dunning (1993)</td>
<td>This theory explains all the types of companies’ internalization in accordance with the advantages for foreign investors. FDI volume is defined by 3 factors: - specific special competitive advantages of foreign investors (TNCs) over local companies (Ownership advantages); - advantageous local factors offered by the host countries for TNCs and allowing them to best reveal their competitive advantages in the local markets of these countries (Location advantages); - the degree of possible internalization, that is the ability to leave their know-how inside the corporation without transferring them to foreign partners (Internationalization advantages).&lt;sup&gt;30&lt;/sup&gt;</td>
</tr>
<tr>
<td>Theory of Flying Geese</td>
<td>Kojima (1973, 1975, and 1985)</td>
<td>As Helpman, professor Kojima also tried to explain FDI subject through trade. He developed the theory of flying geese.</td>
</tr>
</tbody>
</table>


geese, which helps to see the linkage of FDI and international trade.

As claimed by the theory, direct investments and trade can be considered as complementary phenomenon which in turn contributes to the countries-participants’ economic growth. In this case the main motives for FDI are resources, labor and market orientation. In addition, some other motives are defined: possible lower production costs, new technologies, internationalization of markets and favorable geographical location.  

Thus, we must take into consideration the fact that this theory mainly contributed to the explanation of Japanese experience. Therefore, we cannot generalize this approach and use it while explaining the subject of Chinese FDI.

<table>
<thead>
<tr>
<th>Behavioral theory</th>
<th>Heiner, 1983</th>
</tr>
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</table>

The focus of behavioural theory is based on the uncertainty of an investor, the model of behavioral prediction. The main idea of the model is that if the uncertainty is increasing, the use of methods related to the behavioral finance should be increasing too.

Source: created by author.

Over the past decades the world development was mostly characterized as a process of interaction and globalization which meant to strength the ties of cooperation. The trend of further strengthening of the economic ties between the economies has been increasing recently. The main reasons of this process are illustrated through the need to solve the global problems and threats related to various spheres such as global poverty, healthcare, humanity, environmental issues. There are no countries which can claim themselves as full-fledged without any interactions with other economies and participation in world economic relations. Despite the attempts of some states to live in conditions of national economic self-sufficiency (“autarky”), the movement of goods, services, and monetary payments is stronger than the barriers erected.

Hence, there may be a question related to the importance of foreign direct investment and its benefits for all the participants. Here it is important to outline that there is a common opinion that it allows capital to accumulate and seek out the highest rate of return. Therefore, the flow from international interaction may reduce the risk rate which is faced by those who are investing their

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capital. The reason for it is quite clear: it will lead to allowing the investors to diversify their lending and investment.\(^3^4\)

FDI contributes to attracting advanced technologies and modern business methods. Long-term direct investments do not increase the external debt of the state. FDI provides the most effective integration of the national economy into the global one. In this regard, most countries of the world are interested in attracting foreign direct investment.

It is worth mentioning that the free movement of capital contributes to the development and the spread of the best practices in terms of accounting rules, state regulation traditions and the legal rules of governance. The last but not the least point here is that the global trade interaction reduces the chances of implying the inefficient policies by state.

Thus, as it was previously mentioned in a number of works dedicated to this issue, investments by international companies significantly increase innovation in local companies, and productivity growth occurs due to innovation both directly in production processes and in business organization. An additional advantage of foreign direct investment is that due to the flow of knowledge, they can increase the productivity not only of companies receiving these investments, but also of other firms in the same country.

Despite the importance of foreign direct investment, the issue of attracting them has practically dropped off the agenda in recent years as irrelevant. Their sharp decline is habitually attributed to geopolitical, primarily sanctions, risks, and these restrictions are perceived as a given, with which nothing can be done. But this approach is fundamentally wrong.

Internal problems that restrict foreign investment play no less important role than external restrictions: This includes unjustified criminal prosecution of investors, direct restrictions on the participation of foreign investors in an increasing number of strategic assets, and the unpredictability of domestic economic policy, when the market may be unexpectedly blessed with regular measures to support domestic producers (including those opposed even by these very domestic producers).

Most of these problems are solvable – but it is necessary at least to set such a goal, and for this to realize that economic growth requires not just increased investment, but the attraction of smart money, which is primarily abroad. And it is precisely the topic of attracting foreign direct investment, that should be the key on the agenda. Unless, of course, the goal is economic growth, and not total control over the economy.

While considering the advantages discussed previously, it is worth mentioning the notation of Feldstein (2000) and Razin and Sadka who explained the main gains by host countries receiving FDI as following:

- **FDI allows the transfer of technology**—particularly in the form of new varieties of capital inputs—that cannot be achieved through financial investments or trade in goods and services. FDI can also promote competition in the domestic input market.\(^3^5\)
- **Recipients of FDI often gain employee training** in the course of operating the new businesses, which contributes to human capital development in the host country.


● Profits generated by FDI contribute to corporate tax revenues in the host country.\textsuperscript{36}

It is widely accepted that FDI generates both direct and indirect benefits in the host countries. Indirect benefits, popularly known as spillover benefits, include greater efficiency of domestic firms as a result of an increase in competition from the entry of foreign firms. Other economic benefits are faster adoption of new technologies by domestic firms and increase in the mobility of domestic resources—financial capital, improvement in the management structure of the domestic economy, net skilled labour migration as a result of centralization of substantive managerial decision making in the parent firm, etc.

In a recent study, Dhrifi examined the contributions of FDI to an economy by examining the interaction focusing on the role of technological innovation using a simultaneous equation model describing the interrelationship between foreign direct investment, technological innovation and economic growth for 83 developed and developing countries estimated over the period 1990–2012. Their empirical results show that there is a positive and significant effect of foreign direct investment on economic growth only for middle- and high-income countries, whereas for low-income countries foreign direct investment does not have a positive impact on these economies. Their findings clearly reveal that technological innovation plays an important role in determining the foreign direct investment–economic growth relationship.\textsuperscript{37}

Lew and Liu (2016) in the regional context of China examine the extent to which absorptive capacity (ABC) contributes to the host country’s utilization of inward foreign direct investment (IFDI) knowledge spillover and innovation. The findings, unlike the other studies, suggest that the presence of IFDI per se exercises a ‘crowding-out’ effect on local firms’ innovation. The absorptive capacity has a significantly robust moderating effect on innovation so that host country firms’ gains from IFDI knowledge spillover depend on whether their ABC offsets the negative impact of the IFDI. Such effects are more evident in coastal areas of China, where the economic mode permits more IFDI and also higher levels of ABC, thereby demonstrating the role of absorptive capacity as a moderator of knowledge spillover.\textsuperscript{38}

The brief analysis of advantages and disadvantages of FDI is presented in the table below (Table 3). While considering the positive sides of it, we should keep in mind that those are ambiguous. For example, transferring of technologies may contribute to the technological progress and the development of less developed FDI recipients. However, at the same time, if we take the case of FDI into Chinese economy, we may see that transferring of technologies revealed into the violation of intellectual property rights of foreign investors.

Table 3. FDI advantages and disadvantages.

<table>
<thead>
<tr>
<th>FDI advantages</th>
<th>FDI disadvantages</th>
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<tbody>
<tr>
<td>Transferring of capital to less developed countries</td>
<td>High risk for investors in less developed countries due to the lack of investors’ right protection policy</td>
</tr>
<tr>
<td>Transferring of technologies</td>
<td>Violation of intellectual property rights</td>
</tr>
<tr>
<td>Development of the industries where the capital is invested</td>
<td>Strategically important industries are highly protected / fully prohibited for FDI</td>
</tr>
<tr>
<td>Entering the market by foreign companies leads to the rise in employment</td>
<td>Increase in competition creates some difficulties for domestic companies</td>
</tr>
<tr>
<td>Foreign large scale firms contribute to the economic development</td>
<td>Dependence of the country-recipient on the decision makers from other countries</td>
</tr>
</tbody>
</table>

Source: created by the author.

Thus, we can conclude that the role of FDI in the economy is significant, therefore, when forming a foreign policy in the field of attracting FDI, it is important to take into account all factors affecting investor preferences, the distribution of funds received from foreign investors. The theories described in this paragraph allow us to form a basis for further study of investment motives, highlighting the main drivers of investment flows growth. All the theories mentioned above paint a clear picture of the fact that the economy as a whole needs to increase the volume of FDI in order to prolong further economic development in a qualitative sense. In the next part, we are going to discuss the topic of Chinese FDI in the Russian economy.

1.2. Russia and China’s place in the investment market and the importance of interaction.

Within the framework of the partnership, Russia and China are pursuing a certain policy designed for a long-term period. The parties invariably set themselves the goals of raising the level and expanding the spheres of Russian-Chinese economic cooperation. Namely, the following steps can be noted:

- strengthening ties in the financial sector, including increasing the volume of direct settlements in the national currencies of Russia and China in trade, investment and lending;
- improving the structure of mutual trade, stimulating a significant increase in mutual investments, and as a result, an increase in the volume of bilateral trade;
- strengthening the comprehensive Russian-Chinese energy partnership, contributing to the further deepening of comprehensive cooperation in the oil and coal sectors;
- increasing the effectiveness of cooperation in the field of science and technology, primarily through joint promising developments that could make an equivalent financial and scientific and technical contribution;
expansion of cooperation in the field of agriculture by improving conditions for trade in agricultural products and investments in the field of agro-industrial complex. 

Foreign investments, as it is known, are a factor of economic growth of the economy, an additional source of capital investments in the national production of goods and services. China is considered to be one of the biggest host country in terms of outward FDI amount. In the graph below the share of global outward FDI flows is presented (Graph 1). Therefore, we may conclude that Chinese investors occupy a large part of the whole volume of outward FDI worldwide. While analyzing the graph, we also may point out that the trend is rising. However, there was a decline in 2021 which can be explained by the consequences of COVID-19.

While investigating the topic of Chinese outbound foreign direct investment, it is also worth looking at the dynamics of the most popular recipient countries in terms of accumulated Chinese FDI. The composition of Chinese outward FDI stock by economies is characterized by dominating of developing countries: in 2019, according to the 2019 Statistical Bulletin of Outbound Direct Investment, its percentage reached 87,3%, while developed economies accumulated 11,4% by the end of 2019; transition economies – 1,3%. In 2021 the numbers insignificantly changed: developing countries accumulated 89,7%, developed – 10,3%. It can be explained by the Chinese focus on countries with abundant natural resources and undeveloped technology, implying that investment in volatile and non-volatile natural resources can ensure China’s energy security through investment,

Graph 1. Chinese share of global outward FDI flows in the period of 2010-2021 (%)
Source: created by the author on the basis of 2021 Statistical Bulletin of Outbound Direct Investment

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39 Совместное заявление Российской Федерации и Китайской Народной Республики об углублении отношений всеобъемлющего партнёрства и стратегического взаимодействия, вступающих в новую эпоху. URL: http://kremlin.ru/supplement/5920 (Accessed: 12/03/2023)
When it comes to the main host countries for Chinese FDI by the end of 2021, the distribution of those is illustrated on the diagram below (Graph 2).

**Graph 2. Top destinations for Chinese OFDI by stock by the end of 2021**

*Source: created by the author on the basis of 2021 Statistical Bulletin of Outbound Direct Investment*

The share of the stock FDI received by Russia by 2021 was relatively small – 0.4% of the whole volume. However, the top destinations are Hong Kong (55.6%), British Virgin Islands (16.1%) and Cayman Islands (8.2%) which are considered as offshore regions. As it is seen, Russian Federation took only 0.4% of the overall amount of the outflow of foreign direct investment which, on one hand, can be characterized as rather low number. However, on the other hand, Russia has a strategically important place in foreign economic, financial, political area.

Chinese exports of goods to Russia increased by 12.8%, to $76.1 billion, and imports from Russia — by 43.4%, to $114.1 billion. The trade turnover between China and Russia in 2022 increased by 29.3% compared to the previous year and reached a record $190.3 billion. This situation can be explained by the increasing of the prices for Russian raw materials in previous years. Last year’s growth in bilateral trade is the most significant among all of China’s major trading partners, statistics showed (for comparison, China’s turnover with Singapore increased by 23%, with Canada — by 17%). As for the end of 2022, Russia accounts for 3% of China’s total trade turnover with all countries. Chinese customs has not yet disclosed the details of the turnover.

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The problem of attracting foreign investment into the Russian economy has existed for many decades and continues to retain its scientific and practical significance to the present. Over the past decades, the Government of the Russian Federation has been talking about attracting investments. It is believed that foreign capital is a driver capable of contributing to modernization, enriching experience and increasing employment.

The main purpose of which was to investigate the aims of Russia in terms of FDI attraction in the economy, for Russia, the issue of upgrading production facilities is particularly important. Most of them were inherited from the Soviet era, and decades later enterprises need modernization. The current owners do not have enough funds to restart production. In addition, a number of companies are in a deplorable state after the crises of recent years. Therefore, the Russian side is interested in all levels of financial investments, including:

- initial investments (venture projects, launch of new companies and enterprises);
- reinvestment (re-investment in the business of the profit received from it);
- investments for business expansion (development of new and related areas in addition to the achieved milestones);
- investments for partial business change (modernization, reorganization and diversification of existing companies).

China and Russia are neighboring countries, and one of the largest powers in the world. Russia and China are actively deepening cooperation in many areas, constantly expanding trade and economic cooperation and its scope, improving the quality and level of interaction. Despite several financial crises in recent years, China and Russia continue to cooperate and deepen bilateral relations. At the moment, there is a shortage of industries in Russia to attract Chinese direct investment. The mining, oil and gas industries in Russia is the most developed industry, but Russia does not provide a great number of opportunities to attract foreign investment in this industry. If foreign investors want to start a new business in Russia, they will face too many obstacles, so the period for creating a business will be relatively long.

Russia's accession to the World Trade Organization on August 22, 2012 contributed to the improvement of its economic situation. More and more foreign funds began to arrive in Russia, and the attractiveness of this industry gradually strengthened. Introduction Russia's WTO membership is a solution that allows Russian industry to attract more foreign investment, which in turn contributes to rapid economic development. Russian economists note a significant increase in foreign investment. Thus, according to the Rosstat statistics, the volume of foreign investments in 2002 reached 97.9 billion US dollars, and in 2010 - 114.8 billion US dollars.

The volume of foreign direct investment in 2005 amounted to about 155.2 billion US dollars, and in 2012 - 231.2 billion US dollars, which indicates an increase in the volume of foreign direct investment attracted by Russia. In Russian Federation, the volume of foreign direct investment has gradually increased, and the volume of foreign direct investment in 2014 reached $ 228.2 billion.

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43 Investment in Russian Economy: official statistics. URL: https://rosstat.gov.ru/folder/210/document/13238 (accessed 05.03.22)
There the question of the main sources of FDI into Russian economy arises. In the last decade, FDI into Russia has seen a medium-high degree of volatility, in line with a tumultuous macroeconomic environment. The Bank of Russia has published some detailed statistics on the movement of foreign direct investment (FDI) in 2020. By the beginning of 2021, $446.7 billion of FDI was accumulated in the Russian Federation, 9% less than a year ago, and investments coming from the country abroad — $379.6 billion, 7% less.

In the figure below you may see the amount of FDI accumulated by Russia from different countries. The leader in 2021 in the list is Cyprus with 181.5 billion of dollars. It may be explained by an attractive tax regime, Cyprus' membership in the EU and a favorable investment environment, including a friendly attitude towards Russians. China’s investment stands for only 3 billion of dollars.

![Graph 3. Accumulated volume of FDI in Russia by countries, millions of dollars. Source: created by author on basis of data from Central Bank of Russia.](image)

The factors influencing the inflow of FDI in Russian economy are related to the Russian investment climate, investment project future possibilities and its profitability. Furthermore, we most mention that the real volume of FDI from China is quite difficult to estimate since more than 80% of Chinese outflow is performed through the offshores (Bahamian, Virginian islands, Netherlands etc.).

According to the statistics of the Central Bank of the Russian Federation (CBR), Chinese direct investments of all types in Russia in 2016 amounted to $350 million. According to the Report on the Development of Economic Cooperation and Chinese Investments abroad, in 2015 direct investments in the Russian economy amounted to about 2.96 billion US dollars. At the same time, their accumulated volume by the end of 2015 was US$ 14.02 billion. Thus, Russia ranks third in terms of accumulated investment in Europe after the Netherlands and the UK and second (after the Netherlands)

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in terms of attracting them for the year.\textsuperscript{45} It is obvious that the statistics of the Chinese and Russian sides differ significantly, which means that Chinese statistics take into account the role of offshore companies in their investment routes. Chinese statisticians try to take this factor into consideration as they analyze outgoing investment, but they are not very efficient in this regard.

Recently, the discussion regarding Chinese FDI in Russia has been conducted in several aspects: firstly, there is an increase in the role of the PRC as a global investor. Since 2012, China has been consistently among the top three global FDI donor countries, and since 2015 it has been a net exporter of capital. In this regard, the question of Russia's place in the large-scale flow of Chinese investments naturally arises.

Hence, according to the current political situation and in general, we have to identify the reasons why Russian companies need to receive and increase the amount of FDI from China attracted. Firstly, according to the current situation, Russian policy makers have to keep in mind that the amount of foreign direct investment from European countries may be reduced due to political reasons and the instability of world economy. Filling the voids formed as a result of the partial loss of investment from Western countries could be an excellent option for China. In a sense, we can say that this would help entrepreneurs and large companies in the Russian Federation to avoid the strongest and most painful consequences of sanctions imposed by Western countries on the Russian economy.

Furthermore, Beijing and Moscow see a mutually beneficial partnership in the area and China’s State Council has described the Far East as a driver of regional growth, citing a direct link between the northeastern province of Heilongjiang and Russia’s Jewish Autonomous Oblast and Amur region.

It is also a part of the Polar Silk Road and there are expectations that port development along the Arctic coastline will unleash the economic potential of Northeast Asia. In 2018, Chinese President Xi Jinping visited the Far Eastern port of Vladivostok. Russia and China signed a six-year cooperation road map with a list of recommended investment projects in areas such as agriculture, tourism, and transport infrastructure.\textsuperscript{46}

To overcome the problems and challenges in the bilateral mutual relations, it is not so much necessary to improve the investment climate or grant special preferences to Chinese investors (although it is this that China will always insist on), as it is for Russia to understand the specifics of the Chinese investment model as well as its constraints and shortcomings.

It is difficult to overestimate the importance of further development of bilateral cooperation and increasing the attractiveness of Russian business for subsequent Chinese investments. It is also important to mention that, of course, we cannot talk about total isolation or the final withdrawal of Western investors from the Russian market, but we can note the interest of entrepreneurs from China in the investment development of the Russian Federation.


\textsuperscript{46} Kandy Wong. Will China’s investment in Russia’s Far East help an increasingly isolated Moscow? China Macro Economy. URL: https://www.scmp.com/economy/china-economy/article/3171265/will-chinas-investment-russias-far-east-help-increasingly (accessed 05/04/2022)
1.3. The problem of the investment attractiveness level in Russia.

In recent years the problem of investment attractiveness of Russian economy has been arising more and more frequent. While considering the foreign direct investment and its prospects for the recipient, it is important to investigate the attractiveness of its regions and destinations and to identify its peculiarities. In this case it is pivotal to determine the terms ‘investment climate’ and ‘investment attractiveness’.

The investment climate is a very complex multidimensional concept. In the process of assessing the various components of the investment climate, the investment risk that both the investor and the recipient of the investment may incur, the expediency and attractiveness of the investment is determined.

The current trends in the development of regional centers have created new conditions for the formation of fundamental changes in the formation of an investment fund and factors affecting the choice and preferences of investors. An important factor that influenced this process is the global financial crisis, which forced investors to rethink priorities both from the point of view of risk assessment and from the point of view of the potential of the regions. For example, today regions with low "humanitarian" risks – criminal, managerial, social – have great potential in attracting investments, unlike more developed regions, but one of the main factors of investment preferences – investment potential – is no longer so relevant. However, the level of infrastructure development still plays a decisive role in the process of choosing the direction of investment.

There are plenty of factors which are relevant for Russian investment climate formation: macroeconomic, geographical, entrepreneurship and legal. The extension of this theory is presented below.

![Diagram showing factors influencing the investment climate in Russia](image.png)

**Picture 1. The factors influencing the formation of the investment climate of the Russian Federation**

Source: created by author.

The first group is rather broad as it involves and touches global and international interaction between the participants of trade and investment relations. The following factors are emphasized here: 1) the size of the market, its accessibility or openness of the economy, 2) the level of political risk, 3) the level of economic integration, which can play a decisive role for the investor in the process of determining the direction of investment, 4) the volatility of the currency, since its fluctuations in a
situation where they are constant and changeable, can affect the confidence of investor behavior in one way or another.

The second group was built according to the geographical aspect. It involves: climate risk, infrastructure development and the level of urbanization. They are especially important when it comes to the investing in extractive industries (such as mining, gas, oil and energy sector) and agriculture.

The third group of factors reflects the business climate of the country. For the activities of foreign investors, such components of the business climate as the level of costs, the specifics of the tax system and the amount of tax rates, the system of financial benefits, the cost and level of qualification of labor, the level of infrastructure development, the amount of rent and utilities, administrative procedures, assistance from local authorities in the selection of personnel, etc. are important. 47

The fourth group is, at first sight, not as important and influential as the other ones. However, according to the behavioral approach of FDI, these factors can become the decisive argument. According to Eitemen, social factors such as the same language, mentality and cultural habits become quite important for predicting the investors’ decisions and for formation of a national investment climate. In his analysis one of the main conclusion was that MNE preferred to invest into countries which are located near in geographical aspect and quite resembling in cognitive aspect. The example which was used to illustrate was about Swedish companies choosing neighboring countries like Finland, Denmark, Germany etc. for their investment destinations.

The problem of heterogeneity of the investment space of Russia and rational differentiation of the investment climate of Russian regions has increased in the current due to the lack of an effective plan for the use of the investment potential of each subject of the Russian Federation. However, with centralized regulation of financing from the federal budget, it becomes possible to implement effective and sustained economic growth in the investment business.

It is important to mention that when studying the investment climate of Russian regions, there is clearly a trend for its constant changes in one direction or another. Quantitative characteristics of the investment climate of Russian regions structurally reflect the integral level of investment attractiveness as a factor feature, investment risks, investment potential and investment activity as a productive feature. Consequently, the investment climate of a country, a particular region, industry or enterprise is a collective concept that combines factors such as investment attractiveness and investment activity.

There is the following system of indicators for assessing the investment climate of Russian regions: 48

- maximum potential – minimum risk (1A)
- average potential – minimum risk (2A)
- reduced potential – minimum risk (3A1)
- insignificant potential – minimal risk (3A2)
- high potential – moderate risk (1B)
- medium potential – moderate risk (2B)
- reduced potential – moderate risk (3B1)
- low potential – moderate risk (3IN2)
- maximum potential – high risk (1C)
- medium potential – high risk (2C)

47 Инвестиции: учебник для вузов / под ред. Л.И. Юзович, С.А. Дегтярева, Е.Г. Князевой. – Екатеринбург: Изд-во Урал. ун-та, 2016. – 543 с
48 Инвестиции: учебник для вузов / под ред. Л.И. Юзович, С.А. Дегтярева, Е.Г. Князевой. – Екатеринбург: Изд-во Урал. ун-та, 2016. – 543 с
Thanks to the study and subsequent assessment of the investment climate and its components, it is possible to determine the level of investment risk that can be used: 1) investors for the subsequent formation of an investment strategy and 2) recipients of investments for the subsequent formation of an investment policy aimed at reducing risk and increasing investment attractiveness. Accordingly, it is important to determine the methods of assessing the investment climate. However, they are extremely different and vary depending on the specifics of the national economic system and the main guidelines for the economic development of the economy.

Currently, comprehensive ratings of the investment climate of the countries of the world are periodically published by the leading economic journals of the world. Nearby the results assessed by The European House are presented. The table illustrates the changes in the attractiveness index (Global Attractiveness Index) of Russia during the period of 2018-2022.

**Table 4. Russia’s attractiveness development**

<table>
<thead>
<tr>
<th>GAI Rank</th>
<th>GAI Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>33</td>
</tr>
<tr>
<td>2019</td>
<td>28</td>
</tr>
<tr>
<td>2020</td>
<td>23</td>
</tr>
<tr>
<td>2021</td>
<td>33</td>
</tr>
<tr>
<td>2022</td>
<td>22</td>
</tr>
</tbody>
</table>

*Source: Global Attractiveness Index 2022*

Based on the data given above, it can be noted that the investment attractiveness of the Russian Federation increased in 2022, however, according to other indices, investor confidence in the Russian economy, on the contrary, is falling. According to many analysts, the investment climate in Russia deteriorated in the 2010s, especially during the last crisis that arose in our country in conditions when the world economy is not in recession. Russia’s unenviable position in foreign investment climate assessment ratings has been established. This situation may be explained through some of the problems which will be described following.

The main problems identified and based on the literature were:

1) Non-efficient tax policy in the sphere of investment;
2) The lack of efficient preference mechanisms which could in perspective lead to the increasing of the attractiveness of Russian market;
3) The negative influence of sanctions imposed by West countries;
4) Infrastructure problems;
5) Uneven distribution of FDI by industries;
6) Competitiveness of the enterprises themselves;
7) Low purchasing power of the population in regions except Moscow, Saint Petersburg and Far East;
8) Corruption.

Since all of the main causes promoting reducing the attractiveness of Russian market for FDI are named, we may pass to its explanation and description. The first point there was non-efficient tax policy in the sphere of investment. Tax policy is a special type of state legal policy in the tax sphere, which consists in developing strategic goals for the formation of the country's tax system corresponding to market relations, in the formation of the necessary regulatory framework, as well as in creating conditions for its implementation to achieve the goals of optimal and effective taxation as the main source of the country's budget formation. Tax policy towards foreign investors should have a stimulating effect on investment processes.

In order to create a favorable investment climate, it is necessary to eliminate the contradictions of federal tax and investment legislation with regional legislation that developed in the 1990s of the XX century, as well as contradictions between regions in the legislative regulation of the investment sphere and taxation of foreign investors.

In recent years, although the Russian government has implemented a series of tax reforms and achieved some interim results, the tax burden on enterprises is still relatively high. Taxation is the main factor limiting income generation by enterprises, as well as one of the main factors of investment confidence of foreign investors.

Thus, the budget deficit caused by the fall in oil prices and the COVID-19 pandemic forced the government of the Russian Federation to reconsider tax benefits for oil production. As a result of the reforms, a number of incentives were abolished, and in return, companies were given the opportunity to switch to a new tax regime, the tax on additional income.

The second point is based on the efficient preference mechanisms which could in perspective lead to the increasing of the attractiveness of Russian market. According to the Federal Law "On Foreign Investments in the Russian Federation"\(^\text{49}\), when foreign investors invest in particularly important investment projects (mainly related to the production sector, construction of transport facilities or infrastructure construction projects) determined by the Government of the Russian Federation, and the total investment exceeds RUB 1 billion, then, according to the "Customs Code of the Russian Federation" and "Tax Code of the Russian Federation", foreign investors will be provided with appropriate benefits for import customs duties and value-added taxes. Technical equipment and spare parts imported by foreign investors as fixed assets are exempt from import duties.

In 2009, the leaders of China and Russia ratified the Agreement between the Government of the Russian Federation and the Government of the People's Republic of China on the Promotion and Mutual Protection of Investments\(^\text{50}\). The agreement is aimed at facilitating investments by Chinese companies in Russia and improving the security protection of the entire investment process, as well

\(^{49}\) Federal Law on Foreign Investments. Law No. N 160-FZ (as amended by the Federal laws from 21.03.2002 N 31-FZ) // Consultant.ru

as providing many amenities to Chinese citizens in Russia related to obtaining visas or work permits, etc. The agreement is also aimed at ensuring that investments by Chinese companies in Russia are fair and equitable, without any either obstacles or discrimination. However, the actual process of its implementation is unsatisfactory, and justice cannot be achieved. In particular, there are barriers to land purchase and taxation, restrictions on labor quotas and obstacles to visa approval.

In the case of sanctions imposed by Western countries against Russia, they obviously had a negative impact on the country's investment climate, and, accordingly, on incoming flows and accumulated FDI. In fact, a ban was imposed on incoming investments in the Russian economy, in particular in its most important industries, as well as sanctions provide for a ban on the supply of the latest technologies to Russian companies, on the import of dual-use goods and technologies in the oil and gas, military-industrial and other industries. The investment climate, as well as the international image of the country as a recipient of foreign capital, is deteriorating significantly, which also has an impact on foreign investors who are ready to cooperate with Russian business, but they are afraid of the introduction of economic sanctions.

In these conditions, the rating of competitiveness and investment climate does not reflect the degree of their decline, it is more significant. Such large companies as Gazprom, Novatek, Lukoil, Rosneft, defense complex enterprises and other well-known corporations, as well as Sberbank, VTB, Rosselkhoznadzor, Bank of Moscow, Vnesheconombank were sanctioned.

One of the main problems of attracting foreign direct investment as one of the sources of financing for innovative development is their unsatisfactory distribution by industry. Foreign investors prefer to invest their funds in those sectors of the economy that are associated with the exploitation of natural resources and have a good export potential (metallurgy, oil and gas industry, forestry industry), although investments are also made in the food industry, as well as in the production of consumer goods.51

This distribution of foreign direct investment suggests that most of them are concentrated in those industries that, firstly, produce products that are of strategic importance to foreign investors in the long term, since their implementation is guaranteed by stable demand on the world market, and, secondly, are characterized by a rapid turnover of invested funds and maximum profitability of production. Foreign capital flows into those sectors and sectors of the economy in which there is increased domestic demand, as well as prices for goods and services that are increasing on the world market. Accordingly, less competitive industries on the world market with a long capital turnover cycle are not so attractive to foreign investors.

The biggest drawback of our economic atmosphere is that it oppresses the freedom of entrepreneurship by monopolies and the state. The public sector is continuously growing. The share of the state in state-owned companies in 2016 was, according to approximate calculations, 51%, the share of state-controlled banks accounted for more than half of the assets and over 90% of the profits of the banking sector.52 In fact, we can say that in Russia there is a process of movement towards the development of state capitalism - a system in which the largest business and state corporations play the main role, and small and medium-sized businesses play an insignificant role, which accordingly affects the further formation of the system of protection of rights in the field of protection of private

property. The main role in decision-making is played by large state corporations, which do not seek to increase efficiency due to the fact that the deficit of their funds can be covered by payments from the state budget.

It is important to note that the income of the population is the most important factor influencing the assessment of the investment climate of the country, because it is due to it that the average purchasing power of the population is formed, which in turn affects the effective demand in the market, which also affects the volume of goods and services produced, as well as employment. The growing poverty of the population reduces market demand, and consequently reduces the interest of foreign investors in the selected region of the Russian Federation. Dissatisfaction with the existing decline in the standard of living of the population is increasing. Especially clear these processes are in regions far from the main centers of FDI. However, some of the regions still have the potential for further development, increasing the level of living standards of population and increasing attractiveness for investors. For instance, Ivanovo region is famous for its textile factories and production. Currently, it takes lots of resources to rebuild the industry and to create the cluster of textile industry which would be interesting for foreign investors but still it may be a great possibility in the future.

The last but not the least point the author would like to mention in this section is corruption. According to a study conducted by Transparency International in 2020, the corruption perception index of Russia is 29 points out of 100. At the same time, Russia ranks 136th among 180 countries after the countries of Eastern Europe and Central Asia.

Bribery and corruption have always been serious problems faced by multinational companies. This is especially true for investors looking for investment opportunities in countries with a high risk of corruption. In some cases, bribery has become an unwritten practice, and investors who do not fulfill "bribery obligations" may be repressed by local authorities or other agencies. For a long time, there has been a problem of corruption in Russia, which destroys the normal competitive market environment. Many expert institutions believe that corruption is the main obstacle and the biggest risk for economic dialogue with Russia and promoting the country's own development.

The study "How does the level of corruption affect the volume of foreign direct investment?" revealed a relationship between the level of corruption in the country and the propensity of foreign investors to invest money in the country. In particular, Russia with a high level of perception of corruption is becoming less attractive to foreign investors. According to the researchers, "in the long term, it is the perception of corruption that will largely determine the dynamics of investments in the domestic economy, and hence the pace of innovative development of the oil and gas complex." The eradication of corruption or, at least, the reduction of corruption in Russia will have a positive impact on the investment climate.

In conclusion it is quite pivotal to mention that all the difficulties and challenges that the foreign investors face through the process of financing some of the projects in Russia may be solved. However, some of them require more thoughtful and deep work of rebuilding of the whole system not only of FDI sphere but the other ones.

It is worth noting that the investment climate in Russia currently contains a number of difficult problems to solve, but these problems, with proper and effective management, can become future growth points, hidden opportunities for further development. Being in the current conditions of

53 Transparency.org. – 2020. URL: https://www.transparency.org/ (accessed 06.09.2022)
54 Konoplyanik, Zhigulina. A SORE TOOTH OF THE ECONOMY. How does the level of corruption affect the volume of foreign direct investment? - "Oil and Gas Vertical" - No.17. - 2017. - pp.6-11
political and economic isolation due to sanctions imposed by Western countries, the Russian economy faces a number of major problems affecting the investment climate and investment policy, namely: limited access to the use of capital and technological resources of the world economy. Accordingly, it is necessary to form and implement a new economic strategy focused on more efficient use of national capital, scientific and human resources, on the development of the national market, on the growth of incomes of the population.

Therefore, in order to achieve these goals, the Government of the Russian Federation needs to make a number of reforms. First of all, it makes sense to reduce the role of the state apparatus in the economy, reduce its interference, strengthen the role of the market and competition in it. An important factor is also the definition and legislative consolidation of guarantees for the protection of private property.

Another problem that should be paid special attention to is the training of appropriate personnel who are able to adequately assess the economic situation in the country and prepare appropriate measures for the formation of an effective investment policy.

The next factor influencing the investor's attitude is the level of corruption and bureaucracy. Unfortunately, the Russian Federation is characterized as a country with a rather weak system of combating these two phenomena. It is also important to review the tax policy on foreign investments, provide a number of benefits for foreign investors in particularly important areas and industries, which could also help attract capital located offshore. It is necessary to move to a strategy of diversification of production, real import substitution and the creation of an innovative economy.
CHAPTER 2. THE DYNAMICS OF RUSSIAN-CHINESE DEVELOPMENT INTERACTION.

2.1. The statistics of the current situation between China and Russia in the investment area.

The United Nations Conference on Trade and Development (UNCTAD) "2022 World Investment Report" shows that China's foreign direct investment will continue to maintain double-digit growth, with a flow of US 1178.82 billion, ranking second in the world and accounting for all 10.5% of the ball share, achieving a good start in the "14th Five-Year Plan".

As of the end of 2021, the top 20 countries (regions) in terms of the number of foreign companies established by China included: Hong Kong, USA, Singapore, Germany, Russian Federation, Australia, Japan, British Virgin Islands, Vietnam, Indonesia, Canada, Cayman Islands, Malaysia, South Korea, Thailand, Laos, Cambodia, India, the United Kingdom and the United Arab Emirates. The total number of these companies exceeds 32,000, which is 73.8% of the total number of foreign Chinese enterprises.

As for the statistics concerning the outward FDI from China, we can see that the stock investments from China into Europe was 134.79 billion US dollars, accounting for 4.8%, mainly distributed in the Netherlands, the United Kingdom, Luxembourg, Sweden, Germany, the Russian Federation, Switzerland, France, Italy, Ireland, Spain, Georgia and other countries (regions). At the end of 2021, the investment stock in 17 countries in Central and Eastern Europe was US 33.02 billion, accounting for 2.2% of investment in Europe.55

The list of countries-beneficiaries is presented below. The biggest Chinese FDI volume is received by Hong Kong, Cayman and Virgin Islands, which states in total percentage 77.1%. The high positions occupied by the British Virgin Islands and the Cayman Islands are due to the high proportion of investments directed to these offshore areas.

In addition, the large share of Asian countries in China's FDI structure can be explained by their geographical location, which, in general, is characteristic of the investment strategy of Asian countries, namely China in this case. It is worth noting the fact that the overwhelming majority of this group of countries is provided with a large share of Hong Kong in the context of investment flows sent from China.

In most cases, investment flows directed to Hong Kong and offshore regions are used to create holdings, which in turn reinvest funds in third countries. The purpose of such a comprehensive capital flow system is to conceal or reduce the amount of taxes, since they are lower in these zones than in China itself. Moreover, investments in these countries may be the result of such a process as the "circular movement" of capital. This term means the process of sending investments to a foreign country in order to obtain certain privileges and advantages that are defined for foreign investors, after which they are sent back to China under the guise of foreign investment.

Table 5. Country-leaders of the total stock of Chinese FDI at the end of 2021, in billions of US dollars

<table>
<thead>
<tr>
<th>№</th>
<th>Country</th>
<th>FDI stock</th>
<th>% share of the World</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Hong Kong (China)</td>
<td>1549,66</td>
<td>55,6</td>
</tr>
<tr>
<td>2</td>
<td>British Virgin Islands</td>
<td>447,48</td>
<td>16,1</td>
</tr>
<tr>
<td>3</td>
<td>Cayman Islands</td>
<td>229,53</td>
<td>8,2</td>
</tr>
<tr>
<td>4</td>
<td>USA</td>
<td>77,17</td>
<td>2,8</td>
</tr>
<tr>
<td>5</td>
<td>Singapore</td>
<td>67,20</td>
<td>2,4</td>
</tr>
<tr>
<td>6</td>
<td>Australia</td>
<td>34,43</td>
<td>1,2</td>
</tr>
<tr>
<td>7</td>
<td>Netherlands</td>
<td>28,49</td>
<td>1,0</td>
</tr>
<tr>
<td>8</td>
<td>Indonesia</td>
<td>20,08</td>
<td>0,7</td>
</tr>
<tr>
<td>9</td>
<td>Great Britain</td>
<td>19,01</td>
<td>0,7</td>
</tr>
<tr>
<td>10</td>
<td>Luxemburg</td>
<td>18,13</td>
<td>0,6</td>
</tr>
<tr>
<td>11</td>
<td>Sweden</td>
<td>17,03</td>
<td>0,6</td>
</tr>
<tr>
<td>12</td>
<td>Germany</td>
<td>16,70</td>
<td>0,6</td>
</tr>
<tr>
<td>13</td>
<td>Canada</td>
<td>13,79</td>
<td>0,5</td>
</tr>
<tr>
<td>14</td>
<td>Macao (China)</td>
<td>11,24</td>
<td>0,4</td>
</tr>
<tr>
<td>15</td>
<td>Vietnam</td>
<td>10,85</td>
<td>0,4</td>
</tr>
<tr>
<td>16</td>
<td>Russian Federation</td>
<td>10,64</td>
<td>0,4</td>
</tr>
<tr>
<td>17</td>
<td>Malaysia</td>
<td>10,35</td>
<td>0,4</td>
</tr>
<tr>
<td>18</td>
<td>Laos</td>
<td>9,94</td>
<td>0,4</td>
</tr>
<tr>
<td>19</td>
<td>Thailand</td>
<td>9,92</td>
<td>0,4</td>
</tr>
<tr>
<td>20</td>
<td>UAE</td>
<td>9,84</td>
<td>0,4</td>
</tr>
<tr>
<td>Total</td>
<td>2611,48</td>
<td></td>
<td>94,8</td>
</tr>
</tbody>
</table>


In general, according to official statistics, China's foreign investment cooperation continued to develop steadily and healthily in 2021, and foreign investment in general increased. According to statistics from the Ministry of Commerce and the State Administration of Currency Control, China's foreign direct investment for the year amounted to $132.94 billion (equivalent to 916.97 billion yuan), an increase of 3.3% compared to the previous year. Of these investments, the volume of direct non-financial investments amounted to 110.15 billion dollars (759.77 billion yuan), which is 0.4% less than a year earlier. Approximately 301,000 workers of various categories were sent to work abroad. At the end of December, there were 623,000 various categories workers abroad.

In this part of the paper it is high time to pass to the next analysis which relates to the research on the topic of Chinese FDI volume into Russian economy. As mentioned above, the annual volume of accumulated direct investments in the Russian economy in 2020 amounted to approximately 570
million US dollars. In the graph below. It can be seen that the peak of FDI from China occurred in 2015 and amounted to almost 3 billion US dollars.\footnote{China Statistical Yearbook 2021 (中国统计年鉴). URL: \url{http://www.stats.gov.cn/tjsj/ndsj/2021/indexeh.htm} [accessed 04/18/2022]}

\begin{center}
\textbf{Graph 4. The volume of annual FDI inflows from China to Russia in 2010-2020, mil US$.}
\end{center}

\begin{itemize}
\item As of the end of 2020, China's accumulated investment fund in the Russian Federation was US$12.071 billion, accounting for 0.5\% of China's foreign direct investment and 9.9\% of its investment capital in Europe. In total, about 1,000 overseas enterprises have been established, which employ more than 22,000 foreign workers in the Russian Federation.
\item According to the data published on the website of the Central Bank of the Russian Federation, we can see that there is a trend for a decrease in the volume of FDI in stocks of banks and other sectors according to the balance of payments: for the first three quarters in 2020 – 50 million US dollars, for the same period in 2021 – 30 million US dollars.
\end{itemize}
Graph 5. Total stock of foreign direct investments from China to Russia (in billion U.S. dollars)

Source: www.statista.com

If we turn our attention to the volume of accumulated Chinese investments in the world and in Russia (Graph 6), you can see that, in general, the dynamics in the world tends to grow, while the dynamics of Chinese investments in the Russian Federation sank in 2020, which, as already noted earlier, could be a consequence of the outbreak of the crisis due to the pandemic coronavirus, which led not only to a halt in investment flows directed to the Russian Federation, but also to stimulate the withdrawal of capital.

Graph 6. Volumes of accumulated Chinese FDI in the world and in Russia, bln US$

Source: created by the author based on the materials of Bank of Russia
As for geographical distribution, the main regions receiving investments from China are Moscow, the Far East, Siberia and St. Petersburg. First of all, Moscow and St. Petersburg are attractive to investors because there is a high solvency of the population, developed infrastructure, preferential taxation. As for the regions of Siberia and the Far East, the development in the energy industry and infrastructure of the regions has been and continues to be of great interest to major Asian investors. In addition, these regions have large reserves of resources, and are also located in close proximity to the border of China and Russia.

As for the industry structure, according to the materials published by the Bank of Russia, the distribution by spheres that received the largest volume of direct investment from China in 2022 is as follows: the most part was received by the sphere related to the real estate, followed by the financial sphere. The mining sector closes the top three with 832 million US dollars.

![Graph 7. The sectoral structure of stock FDI in Russia from China, 2017-2022 years (million US dollars).](image)

Source: created by the author based on the materials of Bank of Russia

Among the largest industrial projects invested by Chinese companies, Arctic projects can be singled out. For example, about $23.4 billion was invested in a project of Novatek company related to the liquefaction of gas in the Arctic. The volume of FDI in the "Metals of Eastern Siberia" amounted to $750 million. As for forestry, it is worth highlighting the investment project, which was created with the participation of the Russian-Chinese Investment Fund GC Russia Forest Products in 2017,
the amount of investments in which amounted to 12 billion rubles. This project is related to the production of dry sawn timber from spruce and fir in the city of Amursk, Khabarovsk Krai.\footnote{Davydenko E., Kolesnikova T. Investment Cooperation Between China and Russia at The Present Stage. // TOPICAL ISSUES OF INNOVATION AND INVESTMENT DEVELOPMENT. – 2019. – 4(33). – p. 4-13.}

As for the high-tech sector, in 2020 we can note a negative sign in investment from China. Some experts believe that this is a consequence of the fact that the Russian IT market is a slowly developing sector (compared to the IT leaders). In addition, some of the most advanced technologies on the Russian market are represented in the military sphere, but it is obvious that most of these projects have a secret status. In addition, we can see that such areas as agriculture (2020-2022) and mining (2021) also show a negative sign, which can be explained by the fact that during these periods there was a withdrawal of capital due to certain phenomena. First of all, this may be due to the consequences of the post-covid crisis, which obviously affected the cash flows from China as a whole. In addition, in 2021 there was an energy crisis in China, which was also a consequence of COVID. It could also happen due to the general decline in the extractive industry market.

Economic cooperation between Russia and China is actively developing. At the same time, investment cooperation between Russia and China does not demonstrate such significant successes as the growth of mutual trade. In recent years, it has been possible to observe a very cautious attitude of Chinese investors towards the implementation of investment projects in Russia. This takes the form of delayed financing, freezing or cancellation of ongoing projects. Novoselova L.V. points out that "the most striking, although far from the only, example of this kind is the refusal of the Chinese side to participate in financing the construction of the Power of Siberia gas pipeline, despite Gazprom's attempts to receive an advance of $25 billion for these purposes. In 2016, the investment program of the Russian gas monopolist was reduced and instead of the previously planned 800 km of the gas pipeline, only 400 km were built during the year."\footnote{Новоселова Л.В. Российско-китайское деловое взаимодействие: инвестиционные перспективы / Л. В. Новоселова // Сборник конференции «13-я пятилетка (2016–2020 гг.) – важнейший этап построения в Китае общества малого благодеяния «сяокан». – М.: ИДВ РАН, 2018. С. 155.}

Currently, the governments of both countries actively support investment cooperation. In 2014, the Russian-Chinese Intergovernmental Commission on Investment Cooperation was established. The competence of the commission includes large projects with great economic potential. Since 2015, the Eastern Economic Forum has been regularly held in the Far East as an international platform for attracting investments to the Far East. Some researchers note the importance and great potential of the territories of advanced socio-economic development to attract Chinese investment.

The situation related to FDI from Hong Kong is extremely interesting. In the graph below (Graph 7) you can see the dynamics of changes in the number of accumulated FDI in Russia from China and Hong Kong. We can note that their number is not much different, and in 2020 the volume of accumulated FDI from Hong Kong exceeded the volume of accumulated FDI from China. This phenomenon can be explained by the fact that during this period there was a peak of the crisis in China caused by the coronavirus pandemic, since later the volume of Chinese accumulated FDI recovered.
Another interesting feature of FDI received by the Russian Federation from Hong Kong is their distribution. Thus, according to the Bank of Russia, the largest amount of accumulated FDI in 2022 was concentrated in the field of information activities and communications (Graph 8), while there is no data on Chinese FDI in this area. And as for the mining industry, which occupies a leading position in the distribution of Chinese FDI in the Russian Federation, there is no data on such investments from Hong Kong to Russia. Therefore, we can draw a number of conclusions. Firstly, it is not to be forgotten that at the moment Hong Kong is one of the largest offshore and financial centers in Asia, as well as the main offshore of China (which is confirmed by the volume of accumulated Chinese FDI in Hong Kong), where there are more pleasant tax conditions for investors than in mainland China. In Hong Kong, where there are more developed international stock and financial markets, Chinese firms have more opportunities to attract financing or get more favorable loan terms. Secondly, judging by the fact that the main FDI from Hong Kong is concentrated in the information sphere, we can say that the main investors are digital companies, and such a transit of capital from China-Hong Kong-Russia may be the most profitable.

One more feature which could attract the attention is the dramatic decrease in the accumulated investments in mining production in 2022. This phenomenon can be partially explained by the fact that if we compare Graph 6 (distribution of FDI from China to the Russian Federation by sectors) and Graph 8, we can see that in 2022 China increased the volume of accumulated FDI. Since we can generally assume that those PI classified as FDI from Hong Kong can be assessed as the same FDI from China, but used offshore Hong Kong as a transit country to reduce costs, then probably in 2022 Chinese investors preferred to arrange their investments as those that come directly from China. Perhaps this is due to the changed geopolitical situation and the danger of sanctions from Western powers.

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Graph 8. Dynamics of Accumulated FDI in Russia from China and Hong Kong, mln US$. Source: created by author on the basis of the materials from the Bank of Russia.

Инвестиции полезные и вредные. URL: https://www.vedomosti.ru/opinion/articles/2017/06/19/694894-investitsii-poleznne-vrednie (accessed 08/05/2023)
Graph 9. The sectoral structure of stock FDI in Russia from Hong Kong, 2019-2022 years (million US dollars).

Source: created by author on the basis of the materials from the Bank of Russia.

Of course, the potential for deepening investment cooperation is huge, although it is difficult to predict its dynamics now. The ongoing and planned projects are likely to be completed, although some changes towards a reduction in funding are already noticeable. China will retain interest in the Russian oil and gas complex and other extractive industries. At the same time, the factor of sanctions pressure on Russia from Western countries and the potential threat of secondary sanctions for Chinese investors should be taken into account. In addition, much will depend on the state of the Russian economy and the directions of transformation of economic policy.

2.2. Influence of COVID-19 on the interaction between Russia and China in the foreign direct investment area.

Currently, Russian politicians are increasingly making statements about a "turn to the East" - the reorientation of economic activity from the predominance of the western region to the eastern regions. Strategic objectives to increase trade, investment and other forms of economic interaction with China are highlighted as one of the directions of the "turn to the East".

It is pivotal to mention the processes and consequences related to COVID-19 crisis as it influenced the situation with the interaction between the two countries in the investment context. The 2019 coronavirus pandemic (COVID-19) has undoubtedly become one of the most significant global events in recent history, affecting all aspects of everyday life. COVID-19 is not only a public health crisis, it has also seriously affected the global economy and financial markets. In the international arena, the pandemic has dealt a blow to trade and capital flows. In particular, the flows of foreign direct investment (FDI) have sharply and disproportionately decreased due to a decrease in domestic economic activity and trade flows. According to the data published in the report by the international
consulting company E&Y, the total number of foreign direct investments in Europe in 2020 decreased by 13% compared to a year earlier, which also led to a reduction in projects implemented through FDI.\(^6^0\)

Taking into account the statistics reflected in the customs statistics of the People's Republic of China in 2018, we can note that the volume of trade between the two powers amounted to about 107 billion US dollars. In percentage terms, compared to the previous year, the volume of trade increased by 27.1%. As for the data on the volume of investment interaction in the period preceding the coronavirus pandemic and the crisis that followed it, if we look at the table below (Table 1), we can note a gradual decrease in the volume of foreign direct investment from China to Russia in the period from 2015-2019. In 2019, as can be seen from the table, the volume of foreign investment flow has a negative value.

<table>
<thead>
<tr>
<th>Table 6. FDI dynamics from China to Russia, billion US dollar.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year</td>
</tr>
<tr>
<td>-------</td>
</tr>
<tr>
<td>2015</td>
</tr>
<tr>
<td>2016</td>
</tr>
<tr>
<td>2017</td>
</tr>
<tr>
<td>2018</td>
</tr>
<tr>
<td>2019</td>
</tr>
</tbody>
</table>


economy among the transition economies, have declined sharply – from $32 billion in 2019 to $10 billion, reflecting its significant dependence on external investment in the extractive industry.

As for the industry structure, its distribution is shown in Figure 2. As we can see, the largest amount of funds went to the sphere related to real estate transactions (28%), then, as in the previous year, the financial and insurance sector follows, accounting for (23%), the mining industry closes the top three (21%). The Russian Federation remained the largest recipient of FDI among transition economies, accounting for more than 40% of total inflows from China. However, it has decreased by 70% to $10 billion as a result of both the pandemic and very low commodity prices. The latter was exacerbated by the conflict between the Russian Federation and Saudi Arabia over oil prices in March and April 2020.63

![Graph 10. Direct investments in the Russian Federation: balances by investor countries by type of economic activity in 2020, USD million](source: created by author with the materials from Bank of Russia)

The Russian Federation remained the largest recipient of FDI among transition economies, accounting for more than 40% of total FDI inflows to transition economies. However, it decreased by 70% to $10 billion as a result of both the pandemic and the energy crisis, which triggered a drop in commodity prices. The latter was exacerbated by the conflict between the Russian Federation and Saudi Arabia over oil prices in March and April 2020.64

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The economic downturn has seriously affected foreign investment in high-tech industries. Most of the projects initiated by the Russian Direct Investment Fund (RDIF) in the development of artificial intelligence, agribusiness and renewable energy sources with foreign partners were frozen in 2020. Diversification of FDI is still at an early stage: the share of accumulated FDI in industries related to the raw materials industry is a larger percentage compared to other areas. 65

If we look in more detail at Chinese investments in 2020, we can see the following. The volume of accumulated Chinese direct investments in the Russian economy in 2020 amounted to approximately 570 million US dollars. Compared to the previous year, significant growth was demonstrated, which can be explained by the recovery of the mining sector after the recession in 2019.

According to a study and a subsequent report on the investment attractiveness of European countries compiled by the British consulting company Ernst & Young, China retains a leading position in the list of countries investing in the Russian economy. So, in 2020, the Celestial Empire took 2nd place. According to the report, the number of projects in which the People's Republic of China invested decreased by 7 projects, amounting to a total of 15 projects. It was also noted that the largest number of projects in which Chinese investors invested was carried out in the electronic industry, the second place in the number of projects was taken by the manufacturing industry. 66

Among the examples of the largest projects initiated, implemented or planned during the pandemic, the following can be distinguished: the Amur Gas Chemical Complex (the number of planned investments exceeds $10 billion; shares in terms of investments correspond to the shares in the project of SIBUR Holding (60%) and the Chinese oil company SINOPEC (40%)), a fertilizer plant in the SEZ "Alabuga" (Sichuan Golden-Elephant Sincerity Chemical company; the planned volume of investments is 330 million dollars), the development of the timber company Tomsk LPC (a joint Russian-Chinese enterprise; the volume of investments is about $2 billion). Speaking about the largest projects, it is impossible not to mention the Arctic ones aimed at the extraction of liquefied natural gas. Yamal LNG is an example of such projects.

Summing up all of the above, it is worth noting that the coronavirus pandemic has certainly hit all areas: healthcare, social, political and, of course, economic. As mentioned earlier, a decline in FDI has been noted around the world. Among the reasons, several factors can be distinguished:

- restrictions imposed in order to stop the further spread of infection have affected many areas of economic activity, which has led to a decrease in its intensity;
- decrease in trade and cash flows;
- unstable situation and investors' concerns.

However, after analyzing Chinese FDI, its structure and a number of projects in the period from 2019 to 2021, we can conclude that, despite the obvious trend towards a gradual decrease in investment flows from China to Russia, the Russian Federation still retains its position as one of the attractive investment areas.

65 Алексеев П.В. О направлениях развития Российско-Китайского инвестиционного сотрудничества // Экономические науки. 2019. № 2. С. 169-172;
2.3. Russia as a destination of OFDI from China in the framework of the initiative “One Belt – One Road”

The "One Belt, One Road" initiative, proclaimed by Chinese President Xi Jinping in 2013, has become the fundamental state prerogative to recreate a trade route that repeats the Great Silk Road connecting China, Central Asia and Europe by land and sea. The concept of the Great Silk Road itself was created in the II century BC by the Chinese Zhang Qian, who was a member of one of the detachments that crossed and explored the Tianshan mountain and nearby territories in 138 BC. Thus, at that time there were already trade routes and routes between Central Asia and Europe, which allowed Zhang Qian to continue these routes and start a trade route from China to Europe. As for the further development of relations between Europe and Asia, until the XV century there was land and sea trade between them with interruptions.

Interest in strengthening trade, economic and political ties between the two continents increased at the turn of the XX and XXI centuries, when Asia turned from the world periphery into the most important region of the world in terms of its economic importance, along with the United States and Europe. The global center, which had been located in the western hemisphere for a long time, began to shift in an easterly direction, which contributed to an increase in the economic growth rates of this region.

In fact, China was not the only country that initiated the creation of such a transport route. Russia also had the construction of the Trans-Siberian Railway in 1891, which by 1904 connected China with Europe.

Such integration projects and ideas for their creation have arisen from time to time, but most of them have not been put into practice. An example of such integration projects is the Asia-Pacific Economic Cooperation Organization (APEC), which was established in 1989 on the initiative of Australia and New Zealand, which today includes 21 states, including Russia, the United States and China. At the moment, APEC annually holds summits with the participation of the heads of the organization's member states, but it is worth recognizing that its role in integration processes is not too noticeable. The next example of integration projects is the Asia–European Forum (ASEF). Also, the Shanghai Cooperation Organization (SCO), established in 2001, which includes China, Russia, India, Pakistan, Uzbekistan, Kazakhstan, Kyrgyzstan and Tajikistan, deals with the problems of integration in Eurasia.

The Chinese initiative "New Silk Road", later renamed "One Belt, One Road", as already mentioned earlier, was officially proclaimed in September 2013 in Astana during the visit of Chinese President Xi Jinping to the countries of Central Asia. During his speech at Nazarbayev University, he expressed the idea of how important it is to take part in this integration project. As a result, already on November 12, 2013, at the third plenary session of the CPC Central Committee, it was stated that it was necessary to accelerate the creation of infrastructure linking China with neighboring countries and regions, and hard work on the creation of the Silk Road Economic Belt and the Maritime Silk Road to form new development standards.

The further development of this idea was marked by Xi Jinping's speech in November 2014 at the Central Seminar on Foreign Policy. According to him, China was in a critical phase of a long process of reforming the PRC. This process was characterized by a change in interaction with various countries of the world, namely, global ties became closer compared to previous decades. Accordingly, China's dependence and its involvement in the global system is increasing, just like its influence on
the entire world community. During this congress, an agreement was reached that joint consulting, construction and mutual action stimulate the further development of the "One Belt, One Road" initiative. This decision confirmed the nationwide nature of the program, making it a national priority.

At the moment, the project is expanding its geographical boundaries and moving from its originally conceived transport destination to multipolar economic cooperation not only in Europe and Asia, but also in Latin America and Africa. Now there has been a transformation into a project that provides for the creation of a global land and sea infrastructure with the help of attracted Chinese capital. Thanks to this, conditions will be created for trading on new routes. The ultimate goal of the project was to create a mega-market, primarily in the interests of China.

Speaking about how the Chinese leadership evaluates the project, it is important to note that it deliberately avoids a clear regulation of its geopolitical goals provided for by "One Belt, One Road". One of the reasons for the appearance of OBOR was the need to maintain high growth rates of the Chinese economy, which from 2010 to 2018 decreased from 10.6 to 6.6% per year. China has long moved away from Deng Xiaoping's concept of hiding its capabilities and remaining in the shadows and moved to an active global policy. An important reason for the further development of the project is China's desire to be the most involved in global economic relations, as well as to take a position that could allow it to influence global decisions.

The scope and scale of the Chinese project suggests that its main goal is to turn China into a center of power and a great power. Today, OBOR has become the most important tool for realizing China's geopolitical goals. In this context, the US and the EU are China's rivals, since these regions obviously do not define the project as safe for the current geopolitical system built by Western countries. In this case, Russia is considered by China as an important strategic ally of China, since the Russian Federation is in a long confrontation with Western powers.

At the moment, Russia and China are strategic partners and allies in the field of economics, international politics, culture and art. The main thing is that their visions and ideas about strategic prospects and models of transformation of the world economy, as well as international politics in general, equally correspond to the principles of multipolarity, transcendence, trust and mutual benefit.

After the initiation of the "One Belt, One Road" project by the head of China, the format of relations between China and Russia has reached a completely different qualitative level, and the prospects for mutually beneficial cooperation, especially in the economic sphere, have been given special importance, which is confirmed by a number of large-scale investment projects being jointly implemented both in China and in Russia.

In 2019, at the St. Petersburg International Economic Forum (SPIEF), Vladimir Putin expressed the general idea of cooperation between Russia and China, which consists in the purposeful implementation of large-scale projects on the principles of open and mutually beneficial cooperation, in addition, the leader of the Russian Federation stressed that he had no doubts about the success of these initiatives.

Also an important and very promising project for Russia is the "Maritime Silk Road of the XXI century." In addition, in 2017 The Northern Sea Route has been included in the supporting infrastructure system of the "One Belt, One Road" project, which opens up great opportunities for

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67 Nosov M., Russia in the Context of the Chinese “Belt and Road Initiative” Project. Современная Европа, 2020, № 5, с. 33–45
Russia to accelerate the development of the northern territories, receive revenue from cargo transit, and increase the extraction of minerals, including offshore oil.

China also receives a number of advantages in terms of optimizing and building up its trade and economic potential. For example, it participates as an economic partner in various projects for the development of new oil and gas fields. China has made major investments in Yamal LNG, and the project itself will produce more than 16.5 million tons of gas per year in nominal capacity. In addition, it is planned to seriously expand the transport infrastructure through the construction of the sea route and Sabetta Airport.69

However, if we have a look at the reports published recently (namely, made by Green Finance & Development Center, FISF Fudan University), we see that China has not concluded a single deal with Russian companies under the Belt and Road program in the first two quarters of 2022. Christophe Wang, director of the Green Finance & Development Center at the above-mentioned university, said that by slowing investment in Russia, China is simultaneously expanding ties with the Middle East.

Wang explained that the drop in investment in Russia can only be temporary, since the interaction between China and Russia is strong. After the outbreak of hostilities in Ukraine, China's purchases of hydrocarbons in Russia only increased. As for China's total obligations under the Belt and Road Initiative with all states, they have amounted to $932 billion since 2013, that is, since its announcement by Chinese President Xi Jinping. Of these, 561 billion went to construction contracts, and 371 billion went to investments. These projects cover sectors such as ports, railways, mines and the establishment of data collection centers.70

![Graph 11. China’s BRI relationship with Russia ($bn)](image)

_Source: AEI Global Investment Traker, Green Finance and Development Center FISF Fudan University_

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70 Nedopil, Christoph (January 2023): “China Belt and Road Initiative (BRI) Investment Report 2022”, Green Finance & Development Center, FISF Fudan University, Shanghai
Moreover, one of the main beneficiaries of the initiative was Saudi Arabia. Beijing made $5 billion worth of deals with the kingdom in 2021. At that time, China's overseas investments mostly slowed down, and it focused on resource-related transactions. As the South China Morning Post notes, the interests of the world's largest consumer of energy products and the world's largest exporter of oil have coincided. This was reflected in a new deal between Beijing and Riyadh in the amount of $10 billion, announced recently. In accordance with it, a modern oil refinery will be built in the Chinese province of Liaoning.71 This, according to the newspaper, happened against the background of the fact that China's influence in the Middle East has strengthened. And the influence of the United States weakened when they officially curtailed their military mission in Iraq and withdrew troops from Afghanistan.

From all mentioned above we may conclude that Russia is not directly involved in this initiative. The interaction is carried out on the basis of the Joint Statement of the Russian Federation and the People's Republic of China on cooperation on the conjugation of the construction of the Eurasian Economic Union and the Silk Road Economic Belt dated May 8, 2015. The Russian side considers this track as one of the important areas of work to implement the idea of forming a Large Eurasian Partnership.

However, in accordance to the new concept of foreign strategy signed by Vladimir Putin, the initiative was rather important in the combining the development plans of the EAEU and the Chinese initiative "One Belt, One Road" while maintaining the possibility of participation in this partnership of all interested states and multilateral associations of the Eurasian continent and, as a result, the formation of a network of partner organizations in Eurasia.

Talking about prospects of the initiative as one of the main sources and channels of the outward foreign direct investment from China, it should be noted that the Chinese leadership focuses on such a composition and structure of projects that could provide all participants with a positive synergistic effect. All this will make it possible to develop production and trade infrastructure, activate investment potential and attractiveness for large Asian capital, carry out high-quality diversification of export-import supply channels, as well as energy delivery schemes to the end consumer.

At the same time while estimating the attractiveness for Russia of such a global initiative, the evaluation should be based on the opportunities and risks comparing. It is important to note that participation in the new Silk Road opens up a number of opportunities and advantages for Russia. The development of the Russian Northern Sea Route within the framework of the "One Belt, One Road" initiative opens up many prospects for the Russian Federation, since it allows the formation of new trade routes for both the Russian and Chinese sides. The route will allow the Russian Federation to gain access to new markets in Asia, while for China it will be the construction of a new transit route to European countries. However, it is also important to take into account that in order to use the northern sea routes, investments in coastal transport infrastructure are necessary.

In 2017 at the international forum "One Belt, One Road", president of the Russian Federation V.V. Putin mentioned that the development of infrastructure projects announced within the framework of the One Belt, One Road initiative and the EAEU will create a completely new transport configuration of the Eurasian continent, which in turn will open up opportunities for reviving

investment activity and increasing the efficiency of the development of Arctic territories. In this case we also can talk about the OBOR as one of the main instruments of the cooperation deepening in EAEU.

Investment cooperation in the implementation of the Belt and Road is an important area of Russian-Chinese relations, since a significant share of trade routes will fall on the territory of Russia. Both sides are determined to invest in infrastructure development along transport corridors, but the priorities of the countries differ. China's economic interests cover the whole of Asia, while Russia is interested in developing its own Far East and the EAEU zone.

Within the framework of this project, it is also important to highlight the Silk Road initiative. Despite the possession of huge reserves of various minerals (hydrocarbons, gold, diamonds, rare metals) in the Arctic zone of the country, there is a clear need for the development of this territory, its infrastructure, taking into account the requirements of modernity, the development of the latest technologies. China is a strategically important partner for Russia, with great potential, which will allow it to be used as a huge sales market and increase exports. To realize this, it is important to create new production facilities, but all this requires significant financial investments. And China is ready to take part in the development of the Arctic, to finance infrastructure projects. The need for investment is compounded by financial sanctions and other restrictions. Therefore, we can conclude that the interests of Russia and China in the implementation of OPOP projects, including the NSR, coincide.

Moreover, China has already launched a number of projects related to the implementation of the NSR, in which it is directly involved, which is confirmed by investments in Yamal LNG. According to the data published in NOVATEK's annual report, it is planned to produce about 16.5 million tons of liquefied gas per year. The project also includes the construction of the necessary infrastructure, the creation of a seaport and an airport. The investors of the project are the Chinese side (29.9% belongs to Chinese investors, including 20% - CNPC, 9.9% - the Silk Road Fund), the remaining shares belong to Novatek (50.1%) and Total (20%).

The launch of the Yamal LNG project is extremely important in the context of financial sanctions, as a demonstration of the possibility of using alternative sources and Russia's capabilities in such a strategic area as energy, as well as strengthening Russia's competitive position on the world market.

It is also important to note the financial benefits of the Russian Federation associated with this project. They are possible investments of the Silk Road Fund through the purchase of 9.9% of shares for 1 billion euros, the provision of loans by Chinese banks for 13 billion dollars for 3.5-3.5% per annum. The interests of Russia are realized by the Chinese company Wuchang, which is a supplier of modules for the production of liquefied natural gas (LNG).

It is positive that this project already has results. Thus, since the end of 2017, LNG shipments on Russian tankers have begun from Sabetta. In addition, it plans to use South Korean shipyards,

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72 International Forum "One Belt, One Way" // Website of the President of Russia. URL: http://www.kremlin.ru/events/president/news/54491 (accessed: 13/04/2023)
where tankers capable of operating in an ice environment will be built. Their cost will reach $5.5 billion.

Yamal LNG has already signed contracts with foreign companies for gas transportation. Russia's interest in China's participation is also related to participation in the Arctic LNG-2 project, which requires investments of $10 billion. The NSR is a rather promising project not only for Russia, since transportation will be carried out throughout the year, the port of Sabetta will become a multifunctional node of the NSR and will allow exporting grain, metal, coal, oil. According to forecasts, transportation via the NSR should occupy about 10% of the import market from Asia to Russia, and 5% of transit from Asia to Europe. Russia can only get advantages from the latter, because a fee will be charged for the passage of ships, the escort of icebreakers can reach quite significant amounts.

According to various experts, China's interests in the NSR are not only economic, but also military-strategic in nature, which is realized by China's entry into major Russian Arctic projects. He is interested in developing new hydrocarbon deposits in the Arctic to obtain energy resources without harm to the ecology of his country. In the medium term, it plans to increase gas consumption, mainly due to imports.

It is important for the Chinese side to be able to access coastal zones, develop resources, obtain biological resources, at the same time this path is the safest. Arctic tourism is also considered promising. The most important point and conclusion of this paragraph is the fact that this area is also interesting for scientific research. At the moment, a research station has already been opened, separate scientific studies have been carried out. Consequently, the Northern Sea Route is a path that implements economic, political, environmental, scientific and other goals.

In conclusion, it is important to emphasize that the cooperation through international projects can be mutually beneficial. Furthermore, these projects can give an impulse to further development of the infrastructure, trust and cooperation between its members. Nevertheless, in 2022 the amount of Chinese FDI invested through OBOR into Russian economy has significantly reduced. It is worth noting that, despite all the obvious advantages that can be obtained by the Russian side as part of the implementation of the OBOR project, participation in it still cannot compensate for all the losses incurred due to the deterioration of relations with the West at this stage. Here it is worth paying attention to the example of China and how it manages to balance, despite obvious contradictions with Western countries, while maintaining deep integration of economic ties. However, as already mentioned earlier, this project has its own development potential, which can and should be implemented with the help of the OBOR project, since the current situation has an extremely negative impact on FDI inflows, as a result of which the Russian Federation needs to expand cooperation with so-called friendly countries.

CHAPTER 3. PROSPECTIVE OF THE DEVELOPMENT IN THE BILATERAL INVESTMENT INTERACTION.

3.1. The investment strategy of Chinese investors.

One of the main strategies used by the PRC at this stage is the "go global" strategy, which was announced in 2001. From a macroeconomic point of view, reaching the global level implies further expansion of the openness of the economy and its further integration into global economic and political processes. For a long time, the main direction of foreign policy was the principle of being in the shadow of the “Taoguang Yanhui”, which was put forward by Deng Xiaoping during the relatively weak economic and military situation of China, when the country obviously could not claim the title of leader in the world.

Subsequently, as a result of two decades of reforms carried out by Deng Xiaoping, the country received a small amount of FDI, but the situation changed greatly during and after China's accession to the WTO. At this stage, the Chinese authorities faced the problem of replacing national companies with foreign ones and the predominance of TNCs in the domestic market. In order to avoid the collapse of the national economy, the Government was forced to carry out a number of reforms aimed at strengthening the positions of national companies and stimulating their development towards transnationalization.

Moreover, the Chinese government has developed and created a number of programs that have facilitated the entry of Chinese companies into foreign markets. This strategy included the weakening of state supervision over investment flows, as well as facilitating the procedure of registration of investments abroad. This was reflected in the following actions: 1) reduction of procedural steps and bureaucracy that enterprises were required to go through to approve foreign investment projects. While some enterprises have moved to invest most of their capital abroad without bureaucratic encumbrances, large corporations, mainly state-owned enterprises that provide the bulk of outward FDI from China, cannot do this and must go through all official procedures. Key state-owned enterprises can now simply submit their documents for registration of foreign investments without having to submit them for examination and approval.

In this era, dubbed "go global" 1.0, most of the Chinese capital abroad was invested in the production of low-quality products, which demonstrated the inefficiency of the distribution of cash flows and their use.

The next stage is named accordingly "go global" 2.0., its peculiarity was that the authorities at this time directed their efforts to modernize investments sent abroad. Thus, the main industries receiving Chinese FDI are resources (oil, natural gas), as well as infrastructure projects.

Simultaneously with the "go global" strategy, new policy guidelines were announced, the purpose of which was to focus investors' attention on industries that could contribute to a breakthrough in the field of effective investment in foreign projects. These industries include the next generation of industries: information technology, energy conservation, environmental protection, new energy, biotechnology, production of high-quality equipment, new materials and new energy vehicles. We can conclude that such special attention paid to these industries means that the main goal of the PRC government was to become national companies leading TNCs around the world. This process could
occur both due to the expansion of new enterprises, and due to the shaving of new ones in different countries of the world.

After Xi Jinping becoming a leader, the whole system was changed. In 2014, the Chinese government announced its intention to increase financial support to domestic companies in order to increase foreign investment. Most likely, this step was taken to increase competitiveness of Chinese goods, as well as modernization of the structure of foreign trade. An interesting fact is that, despite the era of "go global" 3.0., when the official strategy of the state is focused on the development of services and R&D through investment, the Government of the People's Republic of China has identified a number of sectors that are paramount for investing abroad. Among them were the energy sector, the transport sector was chosen as the second most important. This choice is not accidental and can be explained by the fact that a year after the "One Belt, One Road" project announced in 2013, the authorities were determined to implement it.

At present, the era of "go global" 4.0 has come. By this time, private and state corporations have set up factories abroad, acquired foreign companies and infrastructure, China's production bases have gone beyond domestic markets, and goods labeled "made in China" have gradually conquered foreign markets. However, now the innovative development and promotion of the Chinese economy unwittingly follows private Chinese investors. It is private corporations (Alibaba, Huawei and others) that set development trends and force the authorities to change the rules of the game. Judging by the actions of the leadership of Chinese TNCs, they are not only aimed at extracting benefits, but also at restoring the role of the PRC as one of the world's sources of ideas, resources and technologies.

The main focus of China's global strategy now is the creation of national leaders - the largest state-owned enterprises - and, consequently, the dominance of state-owned companies will continue. It is also important to mention that this strategy faces a number of difficulties. For example, Chinese leaders have expressed concern about the outflow of FDI by private enterprises and individuals, as the outflow of Chinese capital from private sources increases. Consequently, the Government is concerned that it does not have access to its reserves, since they have been exported abroad, so it tried to solve this problem by regulating uncontrolled capital outflow.

Chinese investors by type of affiliation can be divided into two categories: private and public. Also, some experts divide Chinese investors by their geographical location, more often they are provinces. And if previously state-owned enterprises dominated in the field of foreign investment, recently this trend has been changing towards balancing the share of public and private companies in foreign FDI flows abroad.

Consequently, the investment policy of Chinese companies abroad is being improved. Riskier decisions are made, due to the increase in cost and technologies used in production. They began to take risks, increasing the cost and technological level of the invested production.

Nevertheless, most states are afraid of large investments from China, because they fear excessive dependence on Chinese business and interference in the internal affairs of the state. However, recently, opinions have been increasingly heard that investments made by private investors, rather than state-owned enterprises, will become more successfully realized by Chinese investments in the future.

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An interesting strategy is used by China while investing in developing countries. If, in the case of developed countries, China invests in order to obtain technological innovations and expand its own exports, the situation is different with developing countries. When China invests in a developing country that is clearly experiencing serious economic problems, it quickly becomes its main creditor, sometimes to the extent that it affects changes in terms of economic and diplomatic actions. This practice is relevant mainly in the countries of Africa and Latin America, where Chinese investments come in search of raw materials for their own production sector, and without on-site processing, raw materials are immediately delivered to China.

Thus, the strategy of the PRC varies depending on the region where investments are directed. China invests capital on almost all continents of the world, while pursuing different goals. As part of the "go global" strategy, Chinese investors, mostly private, purchase products from high-tech industries in developed countries (the USA and the UK) in order to transit technologies and apply them at home. If we talk about developing countries, the PRC invests there through subsidies, which allows us to talk about using a soft power strategy, and accordingly strengthening its positions in these regions and in the world as a whole.

As noted earlier, China is a very important strategic partner of Russia and is one of the founding states of the Asian Infrastructure Investment Bank and the 21st century Silk Road Global Economic Belt. At this moment, the development of investment cooperation between the two powers can be characterized as actively developing on both sides, which allows us to talk about high rates of cooperation in quantitative and qualitative terms and is supported by the leadership of the two countries.

When it comes to the strategies used by Chinese investors in investing into Russia, one should keep in mind that, Chinese investments enter Russia following one of two paths. Either when a Chinese investor finds an attractive project on the territory of Russia, or when the governments of the two countries agree on them. There is definitely a huge imbalance in favor of the second way.

As it was mentioned before, China's investments in Russia are mainly concentrated in the raw materials sectors: energy, mining, forestry and agriculture. The answer to the question of why the most attractive sectors of the economy for Chinese investors are the sector of useful materials is extremely simple: the oil and gas, coal and mining sectors are the most developed in the Russian Federation, and consequently these areas are the most stable and supported by the state. Consequently, they can be singled out as the most interesting for Chinese investors for subsequent investments. Moreover, China is extremely interested in buying and importing resources with the most favorable price, which can be provided by the Russian Federation due to its huge reserves of resources. 16 January, 2023 Vitaly Mankevich, President of the Russian-Asian Union of Industrialists and Entrepreneurs, named promising industries for Chinese investment. According to his opinion, “after the departure of Western companies, promising industries for Chinese investments are gas chemistry, oil refining, agriculture, mechanical engineering, IT and high technologies, transport infrastructure”.

While considering the prospects in the mutual investment interaction, the special place should be devoted to the largest and one of the main strategically important issue — oil and gas sector. As it has already been discussed in the paper, in the current international economic and political environment, the issue of willingness of Chinese to invest in Russian oil and gas sector cannot be overestimated. That is explained by the fact that China is investing in Russian energy and extract

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78 В РАСПП назвали перспективные отрасли для китайских инвестиций в России. URL: https://iz.ru/1471244/2023-02-16/v-raspp-nazvali-perspektivnye-otrasli-dlia-kitaiskikh-investitcii-v-rossii
sector due to the high demand on its own market and due to the resources Russia has. That is why the greatest number of investment projects is mostly concentrated in this sector.

In the table 7 and 8 illustrated below the main data in the energy sector is presented. In table 7 we may see that the most interesting companies for having stakes in are Rosneft, Novatek, Sibur which can be explained by the fact that those companies are state owned or have a very high percentage of state in the ownership distribution, which, as it was explained before, is rather stable and trustful for investors.

**Table 7. the percentage of the Chinese stakes in Russian companies.**

<table>
<thead>
<tr>
<th>Year</th>
<th>Investor</th>
<th>Transactional party</th>
<th>Quantity in Millions ($)</th>
<th>Share size in percentages</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>2006</td>
<td>China National Petroleum Corp. (CNPC)</td>
<td>Rosneft</td>
<td>500</td>
</tr>
<tr>
<td>2.</td>
<td>2009</td>
<td>China Investment Corporation (CIC)</td>
<td>Nobel Holdings</td>
<td>300</td>
</tr>
<tr>
<td>3.</td>
<td>2010</td>
<td>China Huadian Corporation (CHC)</td>
<td>JSC Territorial</td>
<td>360</td>
</tr>
<tr>
<td>4.</td>
<td>2011</td>
<td>Three Gorges</td>
<td>EuroSibEnergo</td>
<td>2290</td>
</tr>
<tr>
<td>5.</td>
<td>2013</td>
<td>CHC</td>
<td>TGC-S</td>
<td>590</td>
</tr>
<tr>
<td>6.</td>
<td>2013</td>
<td>State Grid</td>
<td>Sintez</td>
<td>1140</td>
</tr>
<tr>
<td>7.</td>
<td>2013</td>
<td>Shenhua</td>
<td>En+</td>
<td>460</td>
</tr>
<tr>
<td>8.</td>
<td>2014</td>
<td>CNPC</td>
<td>Rosneft</td>
<td>990</td>
</tr>
<tr>
<td>9.</td>
<td>2014</td>
<td>Power Construction Corporation (Power China)</td>
<td>RusHydro</td>
<td>1460</td>
</tr>
<tr>
<td>10.</td>
<td>2014</td>
<td>CNPC</td>
<td>Novatek</td>
<td>940</td>
</tr>
<tr>
<td>11.</td>
<td>2015</td>
<td>State Administration of Foreign Exchange (SAFE)</td>
<td>Novatek</td>
<td>1210</td>
</tr>
<tr>
<td>12.</td>
<td>2015</td>
<td>China Petroleum and Chemical (Sinopec)</td>
<td>Sibur</td>
<td>1340</td>
</tr>
<tr>
<td>13.</td>
<td>2016</td>
<td>SAFE</td>
<td>Sibur</td>
<td>1150</td>
</tr>
<tr>
<td>14.</td>
<td>2016</td>
<td>CEFC China Energy</td>
<td>EN+</td>
<td>500</td>
</tr>
<tr>
<td>15.</td>
<td>2017</td>
<td>CIC</td>
<td>Eurasia Drilling</td>
<td>100</td>
</tr>
<tr>
<td>16.</td>
<td>2019</td>
<td>CNPC</td>
<td>Rosneft</td>
<td>9100</td>
</tr>
</tbody>
</table>

*Source: Oxford Energy, Russian Government data, Chinese Government data, Reuters*

In table 8 we may see the projects that were started in the period from 2009 till 2020 in gas area. It also illustrated the amount of investments attracted from Chinese investors. The main invetors are CNPC and CNOOC which are state owned Chinese companies, which again refers to the second type of Chinese investors entering into Russian market – through the governments agreement.
Table 8. Energy projects funded by Chinese companies in Russia.

<table>
<thead>
<tr>
<th>Subsector</th>
<th>Project</th>
<th>Contractor</th>
<th>Chinese investments in billion US$</th>
<th>Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Gas</td>
<td>Amur gas processing plant (GPP)*</td>
<td>China Petroleum Engineering &amp; Construction (CPECC)*</td>
<td>12,700</td>
<td>2015</td>
</tr>
<tr>
<td>2 Gas</td>
<td>Power of Siberia Gas Pipeline</td>
<td>China National Petroleum Corporation (CNPC)</td>
<td>N/A</td>
<td>2019</td>
</tr>
<tr>
<td>3 Gas</td>
<td>Ust-Luga Gas and Chemical Complex*</td>
<td>China National Chemical Engineering (CNCE)*</td>
<td>13,300</td>
<td>2019</td>
</tr>
<tr>
<td>4 Gas</td>
<td>Amur Gas Chemical Complex (40% stake)</td>
<td>CNPC</td>
<td>11,600</td>
<td>2019</td>
</tr>
<tr>
<td>5 Gas</td>
<td>Yamal LNG Export Facility (20% + 10% stake)</td>
<td>China National Offshore Oil Corporation (CNOOC), Silk Road Fund (SRF)</td>
<td>5,900</td>
<td>2017</td>
</tr>
<tr>
<td>6 Gas</td>
<td>Arctic-2 Liquefied Natural Gas Project (20% stake)</td>
<td>CNPC, CNOOC</td>
<td>4,040</td>
<td>2020</td>
</tr>
<tr>
<td>7 Gas</td>
<td>Chayandinskoye LNG plant (10% stake)</td>
<td>CNCE</td>
<td>1,170</td>
<td>2019</td>
</tr>
<tr>
<td>8 Gas</td>
<td>Process modules (Arctic LNG-2)*</td>
<td>Bomsec OffShore Engineering*</td>
<td>520</td>
<td>2019</td>
</tr>
<tr>
<td>9 Oil</td>
<td>Eastern Siberia Pacific Ocean Pipeline*</td>
<td>CNPC*</td>
<td>25,000</td>
<td>2009</td>
</tr>
</tbody>
</table>

Source: Oxford Energy, Russian Government data, Chinese Government data, Reuters; *fully funded by China

The biggest project in terms of investments which could be used as a case example is the Yamal LNG, the project implemented on the Yamal Peninsula in order to develop gas field which, according to the official passport of the project reserves about 926 m$^3$ of gas under the surface. The starting point was defined in 2017. When it comes to the main participants and the form of ownership, it is a joint venture of NOVATEK which possesses 50.1%, TOTAL which assets account for 20%, China National Petroleum Corporation possessing 20 % and the Silk Road Fund with its part of 9.9%, respectively. The contract for the design and construction of the LNG plant was conducted by a joint venture of Technip, JGC and Chiyoda, and Daewoo Shipbuilding & Marine Engineering was selected as the contractor for the construction of the Arctic-class LNG tanker.

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Among the success factors of the project the most significant ones are:

1) Traditional concentration of gas reserves is located onshore;
2) Rather high tech developed technologies and well-explored territories;
3) Respectively low development and production costs;
4) High efficiency of the liquefaction process due to low average annual temperature;
5) Access to Asia-Pacific markets;
6) Tax incentives, supported by government;
7) High reliance of the project as one of the major stakeholders in the projects are exactly governments.

There are few Chinese investments in Russia. If you subtract investments made on the initiative of governments, there will be very little private investment. As the report of the Ernst&Young audit company shows, Chinese investors consider the risks of doing business in Russia to be high and therefore are afraid to come to the Russian market. However, there are still several promising sectors. So, the Chinese are investing in the production of cars. Over the past few years, automobile plants have been built and are being built in the European part of Russia.

The example here can be illustrated here by the case of Haval factory in Tula region which role in the current circumstances is increasing sufficiently. The project included construction of four major production processes of stamping, welding, painting and general assembling. The main objectives of the projects can be defined as:

1) The aspiration of Chinese automobile industry to globalize the market, which, in turn, may also lead to the increasing of Chinese car consumption as the European part of Russia is located close to Europe and the process of exporting would become less costly and sufficiently faster;
2) The transformation and upgrade of Chinese manufacturing to high-end;
3) The planned production capacity was estimated of about 150,000 vehicles.

The total investment was measured of about 500 million US dollars which were assessed by the major stakeholder – Great Wall Motor. As it was done before with the previous case of Yamal LNG, we may also consider some success factors which are:

1) Virtually limitless investment facilities of Great Wall Motors;
2) The interest of Tula region to develop and deepen the cooperation in order to get profit from the project;
3) Efficient management which, according to the reports, make the production develop successfully;
4) Current sanctions imposed on the automobile industry of foreign companies which ban import of any brands’ car from Europe, the USA and Japan, led and facilitate the further leading to the increase in production volume as the demand on Russian market increases too.
As for regional distribution, the main destination for Chinese FDI in Russia is the Far East. The Russian Far East is a traditional center of attraction for Chinese business activity. There are several factors that affect the volume of investment flows attracted from China, among them: geographical proximity, accumulated experience of cooperation, differences in economic development. All of them together influence the further deepening of cooperation between China and the Far East. There are a number of studies that confirm the special interest of investors from the PRC in the primary sector of the economy of the regions most closely located to the PRC.

Although the Russian government encourages Chinese business activity in the eastern regions of the country, there are concerns about this at the regional level. Thus, in the Program for the development of the border areas of the Khabarovsk Territory, in the section “Ensuring security”, it is said about the risks associated with the promotion of Chinese capital to the north and northeast of the country. The Development Strategy of the Jewish Autonomous Region until 2030 indicates the risk of increasing dependence on China’s capital and the threat of “aggressive migration and economic policies of neighboring Chinese regions”. There are no comprehensive studies confirming such concerns or at least reflecting the key characteristics of the Chinese presence in the region’s economy. Chinese capital is represented mainly by small enterprises in traditional industries for the Far East, which are unlikely to be able to ensure the advanced economic development of the region. According to the plan of the Ministry of Regional Development, special economic zones created on the territory of the Far East since 2015 will contribute to improving the quality level of investments from China.

At a cost of 120 billion rubles, the largest project “Priamurskaya” is being implemented by the Amur Energy Company (AEC), owned by the Chinese company Meng Lan Xing He (梦兰星河). It was assumed the construction of an oil refinery with a raw material capacity of 6 million tons per year. Depending on the demand for the domestic market, it was planned to supply from 1 to 3 million tons of petroleum products, the rest to the Chinese market.

Already at the initial stage of the project in 2012, a problem was raised with obtaining consent from Transneft, whose plans did not include supplying oil to the new plant and building additional oil pumping stations. In 2014, it turned out that AEC does not have its own legal supplier of raw materials, and it is no longer possible to include the plant in the supply plan of Transneft, since all oil volumes are distributed for the period up to 2025. In 2017 the investor tried in vain to obtain preliminary technical conditions for connection to the ESPO main pipeline and conclude contracts with suppliers of raw materials for the future plant. As a result, in February 2019, the presidential plenipotentiary representative in the Far Eastern Federal District Trutnev announced the freezing of the project due to the lack of necessary raw materials.

83 Подобедова Л. Строительство Амурского НПЗ отложили из-за отсутствия сырья. 07.02.2019 // URL: https://www.rbc.ru/business/07/02/2019/5c5ad4c59a794749e2d0e683 (accessed 09/02/2023)
Despite measures to improve the investment climate of the Russian Far East, Chinese enterprises are not yet seeking to implement major projects in the region. Most of the investors are represented by small companies in the northeastern provinces of China. The industry structure of investments is traditional: construction, fishing, agriculture and forestry. As a rule, those projects that are called the most ambitious in the media either were not initially such, or as a result were never implemented.

3.2. The prospects for further development of Chinese FDI in Russia: challenges and opportunities.

While considering the prospects for further cooperation between Chinese business and Russia, it would be important to examine the announcements made by the officials of Chinese part. As one of the example, we may recall the statement made by Chinese Ambassador in Russia Zhang Hanhui that Chinese companies should "take advantage of the opportunity and fill in the gaps that arise in the Russian market." "Large companies face serious problems, including failures in the payment and supply chains. The time is coming when private, small and medium—sized enterprises could play a role,"\textsuperscript{84} the Ambassador summed up.

Furthermore, according to Bloomberg article published 20 March, 2022, despite the warns made by the western countries, Chinese officials are inspiring its business to cooperate and promote the filling of the gaps left by the companies decided to stop business activities in Russia. \textsuperscript{85} In this context, Chinese business is perceived as a force that can compensate for the gap with the West for the Russian economy.

Under the conditions of sanctions pressure, Russia is forced to look for new partners both in foreign trade and in attracting capital. Under these conditions, China is becoming a strategically important partner for the Russian Federation in the field of financial, economic and investment cooperation. However, China's foreign policy is being built in such a way as to ensure the country's world leadership, including through the so-called "soft power". Thus, the desire of the Chinese authorities to influence neighboring states leads to imbalances of mutual trust in investment cooperation between Russia and China. \textsuperscript{86} On the one hand, China is actively promoting its participation in investment projects related to, for example, the energy sector in Russia. However, on the other hand, we must understand the motives of the PRC to take the position of a leader capable of forming opinions and influencing the positions of other countries. Excessive and blind trust can have an extremely negative impact on the development of those sectors of the economy that are most sensible or attractive to investors, due to the presence of strong players from China.

Another feature of Russian-Chinese investment cooperation is that in both countries public capital is closely intertwined with private capital due to the dominant role of the state in regulating the economy, which limits the freedom of market development and freedom in decision-making by large businesses. Therefore, the conditions for making decisions on the implementation of capital-

\textsuperscript{84} 张汉晖大使和华商代表说了啥 (What did Ambassador Zhang Hanhui say to the Chinese business representative?). URL: https://mp.weixin.qq.com/s/PTieFpM9eT5hYyPbI2j_zw (accessed 16/04/2023)
\textsuperscript{86} Brizitskaya A.V. The investment cooperation between Russia and China: problems and directions of development. – Rossiyski Ekonomichesky vestnik. – 1. – 2023. – p.108-119
intensive projects can hardly be called competitive. In many cases, the size and dynamics of foreign direct investment are determined by the long-term interests of States, their vision of the historical prospects of mutual partnership and security considerations.

Thus, the predominance of state capital in all major projects of Russia and China leads to competitive imbalances in investment cooperation between the countries, difficulties for small and medium-sized businesses in attracting foreign investment in the Russian and Chinese markets. Another sign of the lack of competition in the investment market for large businesses is good information support for large investment projects. Several electronic information platforms have been created in Russia, which provide extensive information on such projects. But it is quite difficult to find investors on the territory of countries for small projects – information support of this process is practically absent in both countries.

Summing all the points mentioned in the thesis, we may assess the forthcoming table (Table 9) of SWOT-analysis which was conducted in order to underline the main Strengths, Weaknesses, Opportunities and Threats of the further development of Chinese FDI in Russian economy. As we see it from the table, this interaction can be prolonged and become more powerful through different channels. However, the threats which are affecting the investment cooperation between the two countries have to be researched thoughtfully in order to overcome the challenges faced by the economies nowadays.

Table 9. SWOT-analysis of Chinese FDI in Russian economy.

<table>
<thead>
<tr>
<th>Strengths</th>
<th>Weaknesses</th>
</tr>
</thead>
<tbody>
<tr>
<td>- China is one of the largest economies in the world and has significant capital available for investment.</td>
<td>- Russia has an unstable political climate, which can make it difficult for foreign investors to operate.</td>
</tr>
<tr>
<td>- Russia has abundant natural resources, and Chinese companies can benefit from investing in these resources to meet domestic demand.</td>
<td>- The Russian economy is heavily dependent on oil and gas exports, which can make it vulnerable to fluctuations in global oil prices.</td>
</tr>
<tr>
<td>- The two countries have a long-standing economic partnership and cultural ties, which can facilitate business transactions.</td>
<td>- The legal framework in Russia can be complex and opaque, which may deter foreign investors.</td>
</tr>
<tr>
<td>- Russia’s geographic location can provide a gateway for Chinese companies to expand into Europe and other markets.</td>
<td>- Corruption and bureaucracy can present challenges when conducting business in Russia.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Opportunities</th>
<th>Threats</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Russia is in the midst of implementing structural reforms to modernize its economy, providing opportunities for investment in infrastructure, technology, and innovation.</td>
<td>- The ongoing trade tensions between the US and China can impact investment flows between China and Russia.</td>
</tr>
<tr>
<td>- The Belt and Road Initiative proposed by China can provide new opportunities for collaboration in areas like infrastructure development and energy.</td>
<td>- The political relationship between Russia and the West is strained, which can weigh on investor sentiment.</td>
</tr>
<tr>
<td></td>
<td>- The Russian economy has been impacted by sanctions imposed by Western</td>
</tr>
<tr>
<td>As Russia looks to diversify its economy away from its reliance on oil and gas, there is potential for Chinese investment in industries such as agriculture, manufacturing, and tourism.</td>
<td>The global economic slowdown can impact demand for Russian exports and affect the investment climate.</td>
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</tbody>
</table>

There are some measures to overcome the challenges faced by Chinese investors in case of choosing Russia as the main destination for FDI.

1. It is necessary to fully understand the current macroeconomic situation in Russia and local policies and regulations. The economic activity of each country is accompanied by cyclical fluctuations, so choosing the right time to invest and the investment industry is crucial. Chinese enterprises should take full account of the systemic risks associated with macroeconomic fluctuations and choose industries for investment with strong political support and growth potential. At the same time, it is necessary to pay attention to compliance with the rules and legal provisions of the host country in order to avoid unnecessary economic disputes. If the legitimate economic interests of the company are harmed, it is necessary to contact the relevant state institutions to protect their rights and interests.

2. Increased resistance to currency risk and reduced financing costs. Most of the direct investment projects of Chinese companies in Russia have a long construction period, under the influence of sanctions from Europe and the United States, there is an obvious tendency for the depreciation of the ruble and a shortage of foreign exchange reserves in Russian banks. Currently, Chinese enterprises must ensure careful selection of the settlement currency and have a certain risk reserve. In the matter of financing, it is also necessary to guarantee the active expansion of financing channels and the creation of new investment and financial models, such as building-operation-transfer (BOT) and public-private partnership (PPP).

3. Legal tax evasion and confirmation of market access. There are big differences between regions in Russia, fiscal and tax policies and economic conditions vary from place to place, so Chinese companies should actively adapt to the real conditions of the place where they invest, implement local preferential tax policies and reasonably avoid paying taxes within the framework of the law. In addition, Russia's market access policy will adjust or soften over time, so Chinese companies must confirm that the project meets the requirements before investing.

4. Full cost accounting and efficient use of labor. It is known that the prices of Russia and China are very different, but at the same time, especially the main building materials have insufficient production capacity at a much higher cost. Chinese companies should fully study the local supply of raw materials, infrastructure, price levels, and also take into account the impact of inflation. On the other hand, it is necessary to intelligently distribute the ratio of local to foreign labor, reduce labor costs as much as possible and increase labor productivity.

As it was mentioned before, due to the difficult economic and geopolitical situation, a question arises related to the future prospects in Sino-Russian economic relations. On one hand, some experts
hold the opinion that the further development may be slowed down from Chinese part in order to save Chinese position worldwide, to prevent some activities related to banning of the international trade and other forms of connections with other countries. As a confirmation of this fact, the following is written below.

In particular, at a meeting on economic issues on 12 May, 2022, largely devoted to international sanctions, Putin said that "the niches in the domestic market that have been vacated after the departure of unscrupulous partners are gradually being occupied by our manufacturing companies", but he did not say a word about China. Meanwhile, more recently, the Kremlin persistently urged China to occupy niches that open up after the departure of hundreds of Western companies, but Beijing actually refused. Recently, many Chinese companies have withdrawn from the Russian market or reduced their activities. The latest example is AliExpress Russia, which reportedly laid off up to 40% of its employees.

One more example of the difficulties faced by the investment cooperation between Russia and China is the example of creation of a new gas chemical plant in Amur region. This project was announced by Sinopec (40%), Chinese largest energy and chemistry company, and Sibur (60%), Russian oil and chemistry company. The plant was intended to be created for production of polyethylene and polypropylene in demand on worldwide markets. The planned capacity was estimated of about 2.7 mln tons. It was assumed that the plant will supply products mainly to China and the countries of the Asia-Pacific region. The budget of the project was previously estimated at US$ 10.7 billion. The costs were expected to share according to the proportion to the participation shares. However, as of the end of March 2022, the overall level of project readiness was 37.8%, and for individual technological installations — 43%. On March 25, Reuters reported that Sinopec suspended negotiations on major investments in Russia's petrochemical industry due to the risk of falling under Western sanctions.

At the same time Vice President of Sinopec Yu Baocai confirmed that the company does not close projects in Russia: “The company's work in Russia is currently steadily progressing. There are no signs of a decline in the value of assets.” The official reason of stopping of the construction process is that Sibur and Sinopec probably faced the fact that some of the imported equipment ordered for the construction of the Amur GCC turned out to be unavailable due to Western sanctions against Russia. Therefore, partners will have to order this equipment in "friendly countries" like China. Nevertheless, there are no insurmountable problems for the implementation of this project.

There are also problems in the opposite direction. China practically blocks exports from Primorye. The Ministry of Economic Development of the region also recognizes the existence of a crisis in the export sector. The difficulties have acquired such a scale that export opportunities are being considered bypassing the PRC. Evgeniy Nikiforov, ex-head of the Primorsky Krai Export Development Center, noted that the Asian market is limited not only to China. Russian companies should also not forget about the African, Indian market. He announced plans to explore new export markets for the region's products.

\[87\] СИБУР продал китайской Sinopec 40% "Амурского ГХК". URL: [https://www.interfax.ru/business/743249](https://www.interfax.ru/business/743249) (accessed 01/05/2023)

\[88\] Амурский газохимический оптимизируется на полпути. URL: [https://www.rbc.ru/newspaper/2022/04/11/624ef7959a7947d20588a9fc](https://www.rbc.ru/newspaper/2022/04/11/624ef7959a7947d20588a9fc) (accessed 01/05/2023)

\[89\] Амурский газохимический оптимизируется на полпути. URL: [https://www.rbc.ru/newspaper/2022/04/11/624ef7959a7947d20588a9fc](https://www.rbc.ru/newspaper/2022/04/11/624ef7959a7947d20588a9fc) (accessed 01/05/2023)
However, in a large-scale context, the trade turnover between Russia and China, both in terms of imports and exports, is only growing every year. However, according to the scientists, the facts draw a less optimistic picture. In Russia, against the background of unprecedented economic sanctions from many countries of the world, they are counting on the development of partnership with China. Meanwhile, China has reacted with restraint to Russia's aggression in Ukraine.

In the official position, the PRC emphasizes the importance of the sovereignty of all countries and the need for negotiations between the parties concerned to resolve the conflict. In words, he condemns economic sanctions against Russia, promising to continue cooperation. However, China has not yet announced any concrete steps that could support the Russian economy. Moreover, a number of initiatives related to investments and the allocation of money have been suspended for the time being. Meanwhile, many joint projects have already suffered from sanctions or are in limbo.

At the same time, Investment Manager of Greenwood International Trade Center Zhang Luan, speaking during the Russian-Chinese youth subforum "Economic development for the benefit of peoples", noted that Russian-Chinese cooperation in the conditions of withdrawal of Western companies from the Russian market may shift the focus from the trade to the production and investment sphere, but Chinese investors will wait for the stabilization of the ruble.

Zhang Luan is convinced that China will partially supply goods that have ceased to be exported to Russia from Western countries, but not on such a scale, since it takes a lot of time to rebuild logistics chains. In addition, the disconnection of Russian banks from the SWIFT system also played a negative role. Western countries have imposed tough sanctions against Russia because of a special operation to demilitarize Ukraine. In early March, the European Union decided to disconnect seven Russian banks from the SWIFT system: VTB, Bank Rossiya and Otkritie, Novikombank, Promsvyazbank, Sovcombank and the state corporation VEB.RF. At the end of March, the UK authorities imposed sanctions against Gazprombank, Rosselkhozbank, Alfa-Bank. In early April, the EU expanded sanctions against VTB, Sovcombank, Novikombank and Otkritie Bank. However, according to Zhang Luan, Russia and China have strong enough ties and trusting relations for further cooperation not only in the field of trade, but also investments.

Furthermore, in the context of the events happened recently, we may see the willingness of Chinese investors to ensure China's energy and food security amid rising prices through the approach of investment in the various sectors of Russian economy. The example of this action is the purchase by Chinese investors of the Russian business from the Polish retailer and clothing manufacturer LPP SA, which owns the Reserved, Cropp, House, Mohito and Sinsay brands.

According to the latest St. Petersburg International Economic Forum 2022, where some of Chinese representatives were present, Chinese business is ready to continue the bilateral communication in terms of investment programs but only if it will not damage the other formal conclusions with western countries. As the example of such agreements between Russian and Chinese partners, there were papers between the "New Land Grain Corridor" and the Chinese company "Zhongchentong International Investment" for a total amount of about 2 trillion rubles.

Furthermore, one of the main important point was the speech of Xi Jinping – Chinese statesman, political and party figure, acting General Secretary of the Central Committee of the Communist Party of China, Chairman of the People's Republic of China, also Chairman of the Central Military Council of the People's Republic of China (and CPC) – where he pointed the importance of bilateral beneficial interaction in all the spheres, especially economic. But, at the same time, it is pretty
important to clarify that the speech was non-provocative and the actual activities and initiative were not mentioned.

Here the question of the niches which could be occupied by Chinese business may arise. Firstly, high technologies production (including automobile, household appliances etc.), which were mostly taken by the western and Japanese companies which announced that they were going to stop any business activity in Russia.

Secondly, projects in retail and the service sector (primarily the hotel business), which will lose the participation of Western capital. Practice shows that those companies that have taken root in Russia seriously do not leave (for example, Auchan or Leroy Merlin), but niches in this area will definitely be released.

Thirdly, advanced projects in the field of mining, requiring both large investments and technologies. There is a precedent — the Yamal-LNG joint venture, in which 20% belongs to the Chinese corporation CNPC, and almost 10% to the Silk Road Fund. There is already a follower — the Arctic LNG-2 project, in which Chinese capital still owns 20%, but there is a feeling that another 20% belonging to French Total and Japanese Mitsui will soon be released.

However, there should be no inflated expectations from attracting large and high-tech Chinese businesses. The process of approving any such project, even in a stable and predictable situation, requires many months, if not years. Now, until the outcome of the special operation becomes clear, until the American "sanctions printer" calms down and there is no understanding of what measures the Russian government is ready to support foreign investors, the matter will not move from a dead point.

As a conclusion in this part it is important to mention that it is quite early to make any predictions regarding the future of FDI in Russian economy as the situation is tightly connected with the political actions which can be done. However, the question of finding the possibilities of Russian companies to attract FDI from China has risen nowadays. We should not deny the fact that Chinese investors may become one of the main sources of gaining investments. On the other hand, blind reliance on Chinese partners and trust in their help to the economy in terms of investments is quite precipitate.
CONCLUSIONS

Relations between Russia and China, according to official formulations, are relations of comprehensive partnership and strategic interaction entering a new era. As the leaders of the two countries constantly emphasize, they are developing on the principles of equality, consideration of each other's interests, freedom from political and ideological conjuncture.

Currently, Russian politicians are increasingly making statements about a "Turn to the East" - the reorientation of economic activity from the predominance of the western region to the eastern regions. Strategic objectives to increase trade, investment and other forms of economic interaction with China are highlighted as one of the directions of the "Turn to the East". Under the conditions of Western sanctions against the Russian Federation, large-scale business is forced to look for investment partners in the East. China can and is ready to become one of such partners – a country that already has a positive history of relations with the Russian Federation and successfully implemented and implemented projects in various industries.

China and Russia are neighboring countries, and one of the largest powers in the world. Russia and China are actively deepening cooperation in many areas, constantly expanding trade and economic cooperation and its scope, improving the quality and level of interaction. At the moment, there is a shortage of industries in Russia to attract Chinese direct investment. The mining, oil and gas industries in Russia is the most developed industry, but Russia does not provide a great number of opportunities to attract foreign investment in this industry. If foreign investors want to start a new business in Russia, they will face too many obstacles, so the period for creating a business will be relatively long.

It is difficult to overestimate the importance of further development of bilateral cooperation and increasing the attractiveness of Russian business for subsequent Chinese investments. It is also important to mention that, of course, we cannot talk about total isolation or the final withdrawal of Western investors from the Russian market, but we can note the interest of entrepreneurs from China in the investment development of the Russian Federation.

In conclusion, it should be noted that the objectives set when writing this course work have been completed. Namely:

- the nature and subject of the FDI phenomenon was determined, the main theories of FDI and its interpretation are researched;
- the importance of mutual investment interaction between Russia and China was defined;
- the role of FDI inflow from China in Russian economy is clarified;
- the current situation regarding Chinese FDI in Russian market and its role is determined;
- the peculiarities and problems of investment climate in Russia are identified;
- the strategy of Chinese investors abroad, particularly to the Russian Federation is researched;
- the prospects of further development of Chinese FDI in Russian economy are considered.

The subject and the role of FDI in the economy was determined. Foreign direct investment refers to an investment made across borders where an investor from one economy acquires a substantial degree of involvement and establishment in an enterprise situated in another economy. It is widely accepted that FDI generates both direct and indirect benefits in the host countries. Indirect
benefits, popularly known as spillover benefits, include greater efficiency of domestic firms as a result of an increase in competition from the entry of foreign firms. Other economic benefits are faster adoption of new technologies by domestic firms and increase in the mobility of domestic resources—financial capital, improvement in the management structure of the domestic economy, net skilled labor migration as a result of centralization of substantive managerial decision making in the parent firm, etc.

The current situation regarding Chinese FDI in Russian market, its role and statistics related to the topic of the research identified and described. During the study of this topic, it was found that the topic of importance interaction between Russia and China in the investment context is quite disputable nowadays due to the political issues happening from February till the present moment. Under the conditions of Western sanctions against the Russian Federation, large-scale business is forced to look for investment partners in the East. China can become one of such partners—a country that already has a positive history of relations with the Russian Federation and successfully implemented projects in various industries.

At the same time when considering the statistics on the research topic, we may conclude that the place of Chinese FDI in Russian economy is not one of the highest, since the leaders in the list of countries with the highest FDI outflow to Russian economy were Cyprus, Germany and the United Kingdom. However, due to the sanctions imposed on Russian economy it is expected that the amount and volume of FDI from these countries should sufficiently decrease in near future.

Moreover, after analyzing the situation related to the dynamics of accumulated FDI from Hong Kong and China to the Russian Federation, we can note the fact that Hong Kong is used by Chinese investors as a transit location, since there are more developed international stock and financial markets there, Chinese firms have more opportunities to attract financing or get more favorable loan terms, consequently, such investment flows to Russia may be more attractive. This is especially noticeable in the information sphere, since in general it is easier for digital companies to work through a proxy of the country than with a traditional business.

The investment climate in Russia was investigated; its peculiarities and problems were determined. Hence, we may conclude that this may be a possibility of Russian companies to attract the investments from China. The problem that was defined is the problem of the development of investment climate in Russia. Currently it faces some quite serious problems which may be solved by progressive and durable actions. The possible solutions which may be taken into consideration are:

1) The continuation of the process of arranging mutual bilateral strong relationship in political and economic context in order to deepen the involvement of Russia and China in the programs of further development;
2) It is necessary to adopt and improve laws and regulations, optimize the business environment in Russia;
3) Efforts to combat corruption should be intensified, the legitimate rights and interests of investors should be protected, and their confidence in investing in Russia should be strengthened;
4) Encourage enterprises to innovate, optimize relevant technical standards, appropriately reduce the number of technological barriers for foreign investors, etc.
When it comes to the niches where the replacement may take place, they are mostly: 1) high technology sector with automobile and household appliance production; 2) customer services and retail projects, especially related to the tourism and hotel industry; 3) energy sector with the large-scale projects of Yamal LNG etc.

Different opinion concerning the prospects of further development of Chinese FDI in Russian economy were defined. The last conclusion that worth mentioning is connected with the future of Chinese FDI in Russian economy. As it was mentioned before, currently the situation is changing every day. As we could see, some opposite opinions are discussed. Therefore, we may conclude that the situation is quite dual: 1) on one hand, we see the confirmation of the fact that Chinese investors are ready to replace western partners if they are going to leave Russian market. Moreover, some of Chinese business representatives showed their interest in Russian companies’ investment programs during SPIEF 2022; but at the same time 2) on other hand, we should note that some experts are holding the opinion that Chinese FDI will decrease due to the instability of the situation, so the investors will wait for stabilizing.

Chinese FDI has great potential for development in the Russian economy. Due to the growing trade and economic ties between Russia and China, Chinese FDI is becoming more competitive in the Russian market and has more and more opportunities to enter the Russian market. In addition, the technologies and innovations that are being developed in China can become key for the growth and improvement of the Russian economy. However, for the successful development of Chinese FDI in Russia, it is necessary to solve a number of problems, such as restrictions on external investment and insufficient protection of intellectual property. In general, Chinese FDI can become an important component of the Russian economy, but for this it is necessary to continue to strengthen economic ties between the two countries and improve conditions for foreign investment.
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