

ICEST 2020
**International Conference on Economic and Social Trends for Sustainability of
Modern Society**

**RUSSIA-CHINA BILATERAL FDI IN THE CONTEXT OF ONE
BELT, ONE ROAD INITIATIVE**

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Abstract

Today, in conditions of deglobalization and increased protectionism, the development of bilateral foreign economic relations is becoming a subject of great importance. The expansion of economic ties between Russia (RF) and China (PRC) in the framework of One Belt, One Road project (B&R) is a clear proof of that. This paper analyzes RF-PRC investment cooperation (RCIC) in the context of B&R initiative and assesses the potential of its implementation in accordance with the applied financing models. The authors highlight the key features of the RCIC and show the characteristics of the B&R. Special attention is given to identifying the most promising areas of bilateral investments in the context of the B&R. As a result of the study, the authors conclude that RF-PRC investment relations are developing in a rather unbalanced and contradictory way significantly lagging behind foreign trade relations in terms of dynamics, performance and volume. Nevertheless, the potential of investment cooperation between the two countries is enormous, which gives an opportunity to identify areas for equaling bilateral investments and putting investment cooperation on the rails of innovation and technology.

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Keywords: Investment, Russia, China, “One Belt, One Road” initiative, international economic relations.



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1. Introduction

Since 2014, due to the geopolitical and economic standoff between Russia and western countries, Russia's geographic structure of trade and investment relations has been realigned. Currently, the vector of Russia's foreign economic strategy is directed towards Asia-Pacific Region, particularly China. Significant progress has been observed in the sphere of foreign trade between the RF and the PRC: since 2010, the PRC has been its largest trading partner. 2018 saw a record growth in trade turnover (+24.6%), when the pipeline capacity from the RF to the PRC doubled, which caused export volumes to grow by 44.2% from 38.9 billion USD in 2017 to 56.1 billion USD in 2019 (due to the increased export of mineral fuel and oil). In 2019, the RF-PRC trade turnover grew by 2.4% as compared to 2018 and amounted to 110.9 billion USD, which confirms stability in economic cooperation. Export from the RF to the PRC in 2019 rose by 1.2 % as compared to 2018 and amounted to 56.8 billion USD, while RF's import from the PRC in 2019 increased by 3.6 % compared to 2018 and amounted to 54.1 billion USD. Taking into account that in December 2019 the Power of Siberia gas trunkline was put into operation, the volume of the RF export to the PRC will increase further in the future.

As some politicians claim if the world economy recovers quickly after the 2020 crisis, by 2024 the volume of mutual trade is expected to reach 200 billion USD (Chinese Ambassador: Russia-China Trade to Reach 200 Billion US Dollars by 2024, 2019). Thus, the potential for foreign trade cooperation between the RF and the PRC is enormous.

In contrast to foreign trade relations, the investment cooperation between our countries does not show such a rapid and dynamic development. There is a significant imbalance, instability and contradiction in RCIC. However, the implementation of B&R has become a kind of a catalyst for the development of RF-PRC investment relations.

B&R, initiated by the PRC in 2013, is a large-scale project aimed at building logistics infrastructure between the PRC and Europe. The project provides a strong impetus which will fuel investment cooperation through the implementation of joint investment projects between the RF and the PRC.

2. Problem Statement

The development of RCIC in the context of B&R initiative is linked to the implementation of specific projects in various areas of economic cooperation. For further research on this topic it is important to identify a number of problems:

- disclosing the key features of RCIC;
- showing the specifics of B&R and the opportunities for its implementation with a view to the modern challenges of the global economy;
- identifying problems and the most promising areas for bilateral investments in the B&R context.

2.1. Disclosing the key features of RCIC

The complexity of disclosing the key features of the RCIC is associated with understatement and incomplete reliability of statistical data. Comparing Chinese and Russian statistical data, we can draw a

conclusion that the share of Chinese capital in the RF economy is large, and that RCIC are characterized by an imbalance, with PRC's financing taking the preferential participation in investment projects.

2.2. The general characteristics of B&R initiative, and the opportunities for its implementation with a view to the modern challenges of the global economy

The modern challenges of the global economy lead to B&R evolving from a set of infrastructure projects into a new inclusive model of globalization (Chernova, 2019). In 2017, B&R was designated as a tool for implementing integration processes, and five key principles of cooperation were proclaimed: equal consultations, mutual benefit, harmony and inclusiveness, market mechanisms, balance and stability (Excellent Prospects and Practical Actions for the Joint Creation of the Silk Road Economic Belt and XXI Century Maritime Silk Road, 2015). B&R is "a new engine of globalization" (Escobar, 2017), which brings a fair distribution of results in all spheres, including investment, and equal cooperation of all B&R countries. The flexibility of B&R initiative and the modern tendencies taken into consideration (e.g., the Green Belt included) will, in our view, determine its viability.

2.3. Identifying problems and the most promising areas for bilateral FDI in the B&R context

The imbalance in the implementation of bilateral investments between the RF and the PRC hinders the development of their investment relations, which is reflected in the limited participation of the PRC in its joint investment projects with the RF. To a significant extent, the RCIC is initiated by a political initiative. The sectoral structure of bilateral investment between countries is strongly correlated and defined by the commodity structure of foreign trade. To identify the promising areas for bilateral investments in the framework of B&R, it is necessary to focus on convergence points and priority directions of the economic cooperation between the two countries.

3. Research Questions

This study raises the following questions:

- What is the scale, structure and dynamics of the RCIC?
- What mutual investment projects can be aimed at implementing B&R?
- What RF-PRC projects can be implemented in the framework of B&R? What financial models can be applied?

4. Purpose of the Study

The aim of this study is to determine the vector of the RCIC within B&R and to assess the potential impact of investment projects on both economies.

5. Research Methods

The theoretical and methodological basis of this research is rooted in the research works by leading Russian and foreign scientists: Chernova A.F., Chubarov I.G., Demidova A.E., Guo Xiaoqiong,

Kalashnikov D.B., Korol R.G., Li Xiaolong, Sizyh E.Yu., Zhong Zanping, Yu Xiaoqin, including scientific articles on foreign investments, RF-PRC economic cooperation, international and Russian organizations' reports – UNCTAD, the Russian Direct Investment Fund (RDIF). The data base of the research is the statistical data from the RF Federal Customs Service, RF Central Bank, the Federal State Statistics Service (2018) (Rosstat), PRC's state statistical agencies, etc.

In this study we used such methods of scientific analysis as the comparative economic systems analysis and the scientific abstraction method. Their complex application allowed us to ensure the reliability of the results of the research.

5.1. The Specifics of Russia-China investment relations

Table 01 shows the statistical data on FDI flows from the PRC as a home country to RF as a host country, and from the RF as a home country to the PRC as a host country in 2013-2018 (based on the Balance of Payments of the RF and the RF Central Bank). Despite incomplete statistics reliability, the table data allow us to trace the general trend in the dynamics of bilateral investments and the prevailing significance of PRC's investment in the RF economy over RF's investment in PRC's economy.

Table 01. RF-PRC Bilateral FDI in 2013-2018, million US dollar

FDI flows	2013	2014	2015	2016	2017	2018
PRC's investments in RF	4080	6872	5401	345	140	4189,3
RF's investments in PRC	14	54	11	6	33	247

Source: collected by the authors with reference to: Federal State Statistics Service (2018)

To assess the real presence of PRC's investment in the RF is extremely difficult due to the specifics of the PRC investment model. Over 80% of all PRC's investments are made through offshore enterprises (the Bahamas, the Virgin Islands, the Netherlands, etc.) (World Investment Report, 2019). The "love" for offshore is also typical for RF investments. The volume of accumulated PRC's investment in the RF economy is estimated at 3.3 billion USD (as of 1st April, 2019), while the volume of accumulated RF's investment in the PRC is 261 million USD (Musina, 2019). According to Statistical Bulletin of China's Outward Foreign Direct Investments 2017, the volume of accumulated Foreign Direct Investment (FDI) was 13.9 billion dollars. Thus, the RF ranks fourth in terms of accumulated investment volume in Europe (Sizykh, 2019). It is clearly seen that the statistical data in terms of the RF and the PRC sides differ significantly – PRC's statistics take into account the role of offshore enterprises in their investment routes.

Here are other estimations that indicate a large percentage of PRC's capital investment in the RF's economy. Thus, the amount of the PRC's direct investment in RF in 2011-2017 made up 16.3 billion USD (RF Central Bank, 2018). However, under the study carried out by "Skolkovo" Moscow School of Management, these figures are half the real volume of PRC's investment in projects of the RF – over the period of seven years PRC's enterprises have invested 35.9 billion dollars in the RF's market. Thus, a conclusion can be made that the PRC is one of the largest investors in the RF economy.

The capital investments are subject to the market legislation, and no government agreement on any political level can influence the decisions of private investors in the event of an unstable economic situation and decreasing return on capital. It fully applies to PRC's capital in the RF. As can be seen from the table, PRC's capital in the RF declined sharply in 2016-2017, that can be explained by PRC's internal government

policy to optimize a structure of its capital portfolio in other countries. In the first half of 2018, PRC's investors withdrew 1.005 billion USD from the RF, and the total amount of their investments decreased by 24% to 3.184 billion USD. What's more, almost all of this money – 92% of this volume (921 million USD) was withdrawn by the PRC's business directly from the capital of the RF enterprises.

One of the reasons for such a enormous withdrawal of capital was the prolongation of restrictions against the RF imposed by the USA and the EU. Alongside its investment reductions into the RF and capital withdrawal, the PRC refused to invest in the construction of the RF's largest gas processing works in the Amur region, and considered "Eurasia" high-speed railway, which was supposed to connect Beijing, Moscow and Berlin, as unprofitable. According to some experts, PRC's investors leaving the RF and a sharp reduction in PRC's investment should be seen as a temporary phenomenon due to the restructuring of PRC's investment. However, in our view, this assessment downplays the severity of the problem and the recognition of the fact that RF's investment market is losing greatly in a competition with other countries.

Despite all the above-mentioned, there is also a positive trend in RCIC. So about 30 investment projects totaling 22 billion USD are presently being implemented in the RF with the participation of PRC's partners. It is worth noting that a significant share of these funds in the amount of 3.5 billion USD has been invested in the projects in the Far East. Thus, the programme strengthening the investment relations between the PRC and the administrative territories of the Far East and Eastern Siberia, that has been in effect since 2009, is bringing positive outcomes. The 2019 Eastern Economic Forum also paid attention to the investment development of the Far East and its partnership with the PRC (Eastern Economic Forum, 2019).

One of the features of the PRC's investment presence in the RF is that a significant share of PRC's capital in the RF's economy (primarily in the energy sector and large-scale infrastructure projects) comes through intergovernmental cooperation. Currently, more than 70 priority projects worth more than 20 billion dollars are being implemented through the Intergovernmental Commission for Investment Cooperation. The key areas of PRC's capital in the RF are also agriculture, forestry, construction and production of building materials, trade, light and textile industries, etc. Particularly, investments in the extraction of mineral resources, agriculture and forestry account for about two-thirds of all PRC's direct investments in the RF.

For private PRC's investors the most attractive areas are automotive industry, commercial real estate, e-commerce and e-payments. Thus, in 2017, Russia took the 6th place among the "New Silk Road" countries which attracted the largest PRC's investment in real estate (New Frontiers, 2018).

The main RF's incentives for PRC's investment strategy is the access to raw materials and the creation of the market for the goods and services produced in the PRC. Thus, the acquisition of Uralkali PJSC shares by a PRC's corporation gave PRC's entrepreneurs an opportunity to ensure an uninterrupted supply of potash fertilizers to their own farmers. As a matter of fact, this strategy involves acquiring existing facilities or building transport infrastructure to develop the country's economy as PRC's trading partner. Doing so, PRC's entrepreneurs seek to obtain controlling shares or very large stakes for control and management.

Another feature of RCIC is a high level of institutionalization of relations. The investment process is mainly "top-down", supporting a high political activity of both states. Numerous institutions have been

established to encourage mutual investments: RF-PRC Business Advisory Committee, RF-PRC Investment Fund (a joint project of Russian Direct Investment Fund and China Investment Corporation) etc.

PRC's investors act cautiously preferring to enter into agreements rather than invest capital. As practice shows, the specifics of the PRC's approach to its investment in the RF is in long-term market research, long negotiation processes that may eventually end with zero results. PRC's investment enterprises are often associated with government financing, so their investment decisions are not always motivated by financial indices alone.

In addition, a peculiar feature of the PRC's investment strategy is that most of the PRC's investments are carried out "under the cover" from offshore, that can be explained by the desire to easily withdraw acquired profits from the recipient countries. The PRC is an important and promising partner for the RF. As for the RF's investment in the PRC, its insignificant amounts are due to both limited capital in the country, and PRC's protectionist policy towards foreign capital and unwillingness to give control to foreign investors over their enterprises. However, despite all the above-mentioned, RCIC are developing dynamically and have a significant potential for further growth.

5.2. B&R initiative as a global investment project

B&R initiative is also known as the Silk Road Economic Belt and the XXI Century Maritime Silk Road was proposed by President Xi Jinping in 2013 (Zhong, 2018). The scale of this project is difficult to overestimate: it aimed at creating a basis for the development of the global value chains, the expansion of investment projects and the growth in commodity flows. The spheres of interaction between states within the framework of B&R are extensive and global that they affect not only economic but also social-cultural relations. These include: "political coordination" (intergovernmental work to integrate interests and achieve political trust), "interconnection of infrastructure" (construction of international highways), "uninterrupted trade" (lifting barriers for the flow of goods and investment), "free movement of capital" (deepening financial relations), and "strengthening closeness between peoples" (intercultural communication).

At present, more than 125 countries and 29 international organizations have concluded relevant cooperation agreements with the PRC (The Belt and Road Initiative Progress, 2019) as part of the B&R. Speaking about the diversity of collaboration it is necessary to stress the significance of investment in the implementation of B&R goals. "In 2013-2018 PRC's direct investment in countries located along B&R exceeded 90 billion USD, while the volume of contract work performed in these states exceeded 400 billion USD" (The Belt and Road Initiative Progress, 2019). A significant share of investment projects is carried out with the direct participation of the Silk Road Fund and Asian Infrastructure Investment Bank.

PRC's investment presence in B&R countries is aimed on the creation and subsequent concession or management of the constructed facilities. Due to the provision of profitable credit lines, the PRC promotes its enterprises for the implementation of relevant projects, that can result in the industry-wide economic effect comparable to the effect of implementing projects in the country (Chubarov & Kalashnikov, 2018). At the same time, the countries participating in the B&R benefit from the construction of additional facilities that have a positive effect on the domestic economy. Thus, the implementation of joint investment projects implies the creation of a synergetic effect of economic growth in all subjects.

5.3. RF-PRC bilateral investment projects and financing models under B&R initiative

In 2015, RF and PRC signed an agreement on the integration of Eurasian Economic Union and B&R which only strengthens the countries' mutual interest in strengthening the vector of economic cooperation, including investment cooperation. In 2016, the RF and the PRC signed a memorandum on coordination of joint actions to promote economic and investment cooperation on various international platforms. Many joint projects are funded by the Russia-China Investment Fund (RCIF) which manages 100 billion yuan. The main investors include PRC's public and private corporations (including China National Nuclear Corporation) and Shenzhen Special Economic Zone enterprises. In addition to supporting projects under B&R initiative, RCIF invests in projects in the field of nuclear energy, infrastructure, logistics and new technology with profitability equal to or greater than 9% interest rate in yuan (Davydenko & Kolesnikova, 2018). The most well-known project funded by RCIF is "Nizhneleninskoe-Tongzhian railway bridge over the Amur River that is to be completed in 2020 (Faliahov, 2019).

As mentioned previously, the implementation of B&R initiative implies the implementation of the countries' joint projects in the sphere of infrastructure, primarily transport infrastructure. In this context an emphasis should be laid on the construction of "Europe – Western China" transport corridor, the development of the Northern Sea Route and the improvement of the existing rail roads and sea ports. These projects are important both for the RF and the PRC. For RF, the construction of modern highway infrastructure can become an economic growth driver, accelerate passenger- and cargo flows between different regions of the country, and have a positive impact on the economic development of border areas (Li, 2017). For the PRC, transport routes through RF are attractive due to the possibility to diversify logistic chains of supplying goods to the European market.

A number of RF's transport infrastructure development projects are aimed at improving competitiveness of transport infrastructure in the emerging B&R. These include (Decree of the President of the Russian Federation 07.05.2018 № 204, 2018):

- construction and modernization of RF's sectors of highways, which are related to "Europe-Western China international transport route;
- reducing the time for railroad container transportation, particularly from the Far East to the western border of RF, to seven days, and increasing the volume of transit container transportation by rail road by four times;
- increasing the capacity of the Baikal-Amur and the Trans-Siberian railways by one and a half times up to 180 million tones.

The RF's unique geographical position can make it possible to become an important partner for the PRC in implementing B&R and achieving positive influence for the Far East region economy (Korol & Demidova, 2017). For the PRC's side, "Europe-Western China" international transport route is an alternative route of supplies to Europe via the Suez Canal and can significantly speed up the cargo delivery. It is implemented by attracting investment of such big financial and construction corporations as China Communication Construction Corporation, CECC, Shandong Expressway, the Silk Road International Development Fund, China Development Bank. PRC's companies are ready to invest about 150 billion rubles in the RF section of "Europe-Western China" transport route.

In general, PRC's participation in the development of the RF's national infrastructure is supported by the following:

- a framework for infrastructure cooperation between the PRC and the RF has been established on the level of intergovernmental agreements;
- PRC-RF national and local funds to facilitate RF's infrastructure development have been set up;
- PRC's large production capacity, technology and cost competitiveness.

Industrial cooperation between the RF and the PRC in the infrastructure sector is based on innovative investment and financing model where new financing tools are quickly introduced to meet specific needs. In recent years, bond issuance model or the use of securitized income and assets for infrastructure construction have been widely used, though this model is still rare in developing countries along B&R. As B&R projects are implemented, investment models will improve, including fund raising from enterprises of the PRC and the RF, international investment agencies, local authorities, by issuing medium- and long-term bonds. In this event, the maturity term of bonds must correspond to the period of construction and operation of infrastructure facilities. Also, an approach of public raising of funds needed for construction on financial markets and joint risk-taking can be used.

Thus, the list of potential joint RF-PRC projects within B&R framework reflects large-scale transformation of the transport infrastructure to accelerate and expand the opportunities for international cargo traffic. The use of innovative financing models with the constant involvement of new tools is aimed at making these large-scale plans a reality.

6. Findings

RCIC are characterized by an imbalance, with PRC's investments significantly prevailing over RF's investments. This explains the complexity and long-term implementation of joint investment projects. Investment cooperation between the PRC and the RF is characterized by a high degree of institutionalization – a larger part of PRC's investments and joint investment projects are implemented through intergovernmental agreements within the limits of mutual strategic interests of states. In this regard, a significant part of projects is implemented in the energy sector and construction of infrastructure facilities. Most of the PRC's investments are of state origin, which further demonstrates a low investment attractiveness of the Russian market for private capital.

B&R initiative, aimed at cooperation between Eurasian countries, Africa and subregions of Asia, is to be reflected in the economic growth of these countries due to their inclusion into the global value chains. As new challenges for the global economy arise, the B&R initiative is evolving, and now it is not merely a set of infrastructure projects but a new inclusive concept of globalization.

In this regard, RCIC in the context of B&R is only one of the areas of mutual interests (in addition to political, cultural, ecological, logistical and foreign trade interests and integration processes). At the same time, investments in international transport routes form channels for the movement of goods and people. The implementation of investment projects is supported by diversified financing models that combine funds

from national governments, international and national organizations, banks and funds, private investors: enterprises and individuals. This allows us to speak about great opportunities for the growth of RCIC.

7. Conclusion

The prospects for bilateral investments between the RF and the PRC in the context of B&R initiative can be assessed at a high level. The 2020 Coronavirus pandemic may slow down the implementation rate of the projects planned, however, the established framework for cooperation, well-developed financing models and mutual economic interest lay the groundwork for intensification of investment cooperation as national economies recover.

Acknowledgments

The article is prepared with grant support from «General Special Project of Humanities and Social Science Research of Education Department of Shaanxi Provincial Government (P. R. China) in 2020», («2020 年度陕西省教育厅一般专项项目 (人文社科类»).

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