

MODERN REGIONAL LEVEL TOOLS OF RUSSIAN-CHINESE INVESTMENT COOPERATION

Abstract: Investment cooperation is considered to be one of the most important part of Russian-Chinese strategic partnership. The potential of bilateral investment cooperation is largely revealed at the regional level. This paper attempts to identify the specifics of bilateral investment cooperation by investigating the study of various regional level tools, thereby to reveal the motivations of Chinese investors, which determine their particular choice.

Keywords: Russia, China, investment cooperation, foreign direct investment, priority development zones, foreign trade and economic development zones

Foreign direct investments (FDI) is one of the main ways of deep integration into the system of international division of labor as well as engaging the country into the global value chains. Successfully implementing the “Go out” policy, for the past 15 years China has been maintaining significant growth rates of FDI exports and has gradually increased its share in the global structure. In 2016, the volume of exports of FDI by China reached \$ 196.15 billion, compared to 2002 – the year when Chinese statistical accounted system of FDI has been created - the increase in Chinese FDI reached 7260% (Fig. 1). In 2014-2016, Chinese investments were mainly flowed to the following sectors (fig.2).

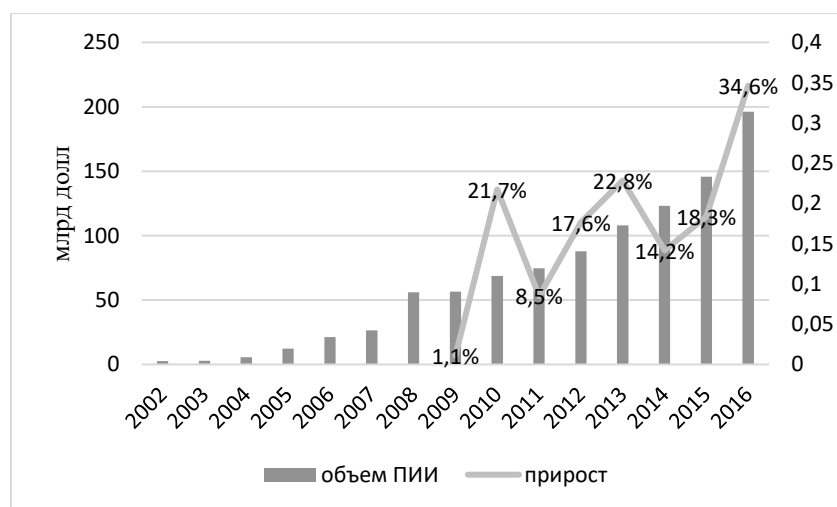


Figure 1. Outward FDI from China in 2002-2016, billion dollars
Source: compiled from [6]

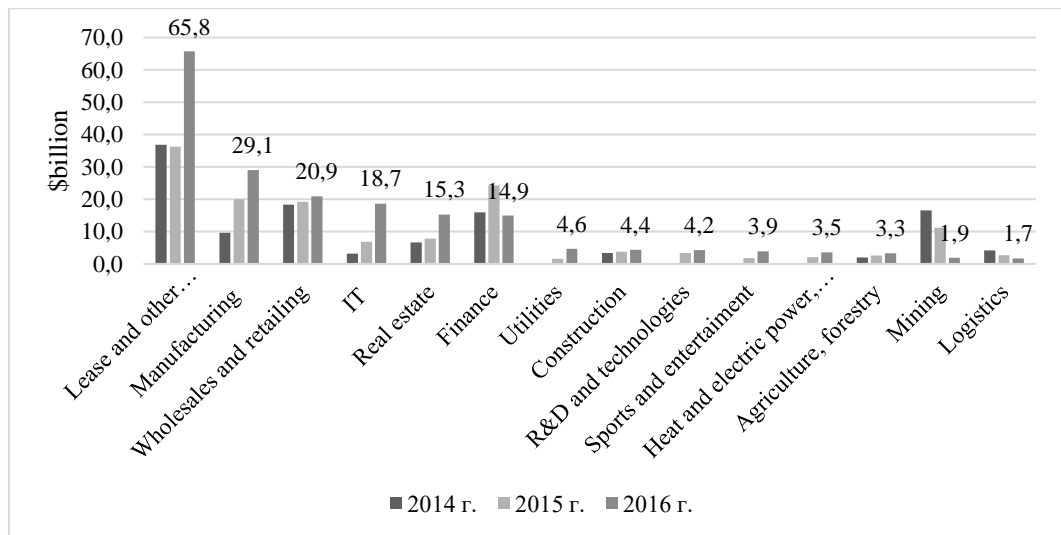


Figure 2. Outward FDI from China in 2014-2016 by sectors, billion dollars
Source: compiled from [6]

Nowadays, Russian-Chinese relations are going through the most favorable period ever. This phenomenon greatly stimulates the research of various aspects of interaction between Russia and China, including its investment component as one of the priority areas of bilateral trade and economic cooperation.

According to Chinese statistics, the volume of Chinese FDI in Russian economy totaled about \$ 13 billion in 2016, that allowed Russia to become the third main recipient country of Chinese investment in Europe (second to the Netherlands and the United Kingdom). However, the amount of FDI to Russia is still not as high as desired. As we can see in the table 1, China has become one of the leaders in the number of FDI projects it finances in Russia just recently. Along with the development of Chinese investments in Russian economy, a lot of questions may occur: what factors impede the development of bilateral investment cooperation, what is the investment strategy of China in Russia, how it correlates with its overall investment strategy etc.

Table 1. TOP-10 FDI donor countries in Russia and the number of projects funded by them

	2010	2011	2012	2013	2014	2015	2016	2017
China	3	3	0	4	7	12	9	32
Germany	26	13	28	12	11	36	43	28
USA	24	24	29	24	14	29	38	19
Italy	6	6	5	2	4	12	7	17
Japan	11	6	9	14	8	10	12	17
South Korea	4	0	1	1	3	3	2	12
France	10	9	14	7	14	20	20	11
Switzerland	11	4	3	4	8	8	7	11
The UK	14	4	2	3	6	5	2	8
France	8	6	5	5	6	9	7	7

Source: compiled from [4]

Recent researches offer several points of view regarding the factors that determine the scope of Chinese investments in Russia. Due to one of them, China's FDI strategies in developed and developing countries varies. In the first group of countries, Chinese investments are being attracted by the developed service sector, as well as access to high technologies sector, and in the second group - by mineral resources [1]. A. Novopashina proves that the placement of direct investments in primary industries occurs mainly in the regions of Russia bordering with China, which in fact makes its production an object of future foreign trade. The author claims that the placement of Chinese FDI in Russia is explained by the size of the market in the host region and their territorial proximity to China, the availability and amount of natural resources did not give the regions a

comparative advantage in attracting direct Chinese investments [2]. V. Ovchinnikov rejects the hypothesis that Chinese investors are guided by the factors of investment attractiveness of the region when they choose a location for placement of their capital [3]. Thus, we can see that the research of the of Chinese investors motivations can lead to rather conflicting results. However, most studies of the issue are based on sectoral or regional analysis. In this paper, the author makes an attempt to analyze the Russian-Chinese investment cooperation from institutional positions, stressing the regional level tools.

The main instruments of Russian-Chinese investment cooperation at the regional level include:

1. Investment funds for regional development;
2. Mechanisms within the federal programs for the regional development (The Program of Cooperation Between Russian Far East and Eastern Siberia and Chinese North-Eastern Regions (2009-2018));
3. Intergovernmental commissions (the intergovernmental Russian-Chinese commission on cooperation and development of the Far East and the Baikal region of Russia and the Northeast of China).
4. Instruments of the “Go out” policy of Chinese companies (Foreign territories of trade and economic cooperation);
5. Specific tools for the regional development in Russia: Special economic zones, territories of advanced development, industrial parks, tourism clusters;

Foreign zone of trade and economic cooperation (FZ) is a kind of foreign platform for implementing the “Going Out” strategy of Chinese enterprises, as well as the most important tool for China to promote the “One Belt, One Way” initiative, FZ is aiming in stimulating international cooperation in industrial capacity and production equipment sphere. In other words, FZ is an industrial complex, registered in China and creating a separate legal entity with Chinese capital abroad.

The intention of the FZ construction was firstly announced by the, Chairman of the People's Republic of China of that time, Hu Jintao, at the China-Africa Cooperation Forum in November 2006. The implement was caused by the need to stimulate international cooperation in the field of production capacity, optimize the distribution and coordination of all parts of the production chains of Chinese enterprises abroad.

The rapid growth of FZ activity (table 2) became possible due to the collective effect within the development zone itself, as well as significant support from the Chinese government. Through the FZ channel, the threshold for entry into the international market is significantly reduced, of Chinese companies are able to avoid the influence of trade barriers and disputes, which very often affect Chinese companies.

Table 2. 2015-2017 FZ development results

Indicator	2015 г.	2016 г.	2017 г.
Host countries	-	36	44
Nyt number of FZ	75	77	99
Total investments (billion dollars)	7,05	24,19	30,7
Participating companies	1209	1522	4364
Output value (billion dollars)	42,1	70,3	-
Payments to the state treasury of the host country (billion dollars)	1,42	2,67	2,42
Created jobs for local population	-	212	258

Source: complied by author

In addition, Chinese enterprises receive another advantage in the form of geographic concentration of production. Cluster type of FZ involves the creation of complete production chains in sufficient geographical proximity to each other, which allows fully realize the scale effect.

Recent intensification in the construction and further development of the FZ made it necessary to improve the legal for their activities. In 2015, the Ministry of Commerce together with the Ministry of Finance of the PRC issued “Methods for assessing foreign zones of trade and economic cooperation”.

As the main regulation in this area, the document approved 5 categories of FZ that can claim prior support from the government: an industrial park in the manufacturing sector, an industrial park for the development of natural resources, an agro-industrial industrial park, a trade and logistics industrial park, as well as an industrial research type park. In addition, the document tightened the evaluation criteria, both for existing FZ and for just applying enterprises. According to 2017 statistics data, only 20 of the FZ received the status “government supported state-level FZ”, four of them are located in Russia (table 3).

Table 3. Foreign zones of trade and economic cooperation in Russia

Overseas business cooperation zone	Location	Chinese partner	Leading industries
Ussuri zone of trade and economic development (2006)	Primorskiy Kray (Far Eastern federal district)	Kangji international investment company ltd (Heilongjiang province)	Light industry, electromechanics, woodworking, leather goods, furniture, building materials, etc.
Tomsk Russian-Chinese timber industry cluster (2008)	Tomsk region (Siberian federal district)	Avic forestry (Shandong province)	Lumber, plywood, fiberboard, MDF and other timber processing
Russian-Chinese agro-industrial cluster (2014)	Primorskiy Kray (Far Eastern federal district)	Dongninghuaxin economic and trade co.,ltd (Heilongjiang province)	Grain crops production and storage, related warehouse, transport, trade services
Russian-chinese zone of trade and economic development «Longyue» (2013 г.)	Еврейская автономная область (ДФО)	Longyue trade and economic company ltd/ (Хэйлунцзян)	Development of forest resources, logging, primary woodworking

Source: complied by author

The main instruments for attracting investments into the regions of Russia are special economic zones (SEZ) and priority development areas (PDA), both of them are using Chinese FDI. Residents of the Far Eastern priority development areas with the participation of Chinese capital are implementing more than 30 projects worth about \$ 4.2 billion, which is about 7% of all investments in the region.

In addition, in March 2016, the Chinese company "Tianyi" signed an agreement on the implementation of a joint project with the resident of the special economic zone "Baikal Harbor" LLC "Interra". Some of the comparative characteristics of ADT and SEZ instruments are presented in table 4.

Table 4. Comparison of special economic zones and priority development area in Russia

	ADT	SEZ
Validity period	70 years (may be extended)	49 years

exploitation of mineral resources, excisable goods production	Allowed	Forbidden (with exceptions for car and motorcycle manufacturing)
Development target	Far East development	Prior industries development
Income tax	0% - 12%	2-15.5%
National insurance contributions	7.6%	28-30%
Customs duties and fees	collected	0%
Total number	19 ADT in the Far East region, 63 – in single-industry cities	26 SEZ
Chinese capital participation	6 ADT, 30 projects with a total value of 4.2 billion dollars. 1. Kandalas (Industrial Park), Republic of Sakha (Yakutia), 2015 2. Priamurskaya (manufacturing, transport and logistics), Amur region, 2015 3. Khabarovsk (manufacturing, transport and logistics), Khabarovsk Territory, 2015 4. Amur-Hinganskaya (light and food industries, tourism and recreation), Jewish Autonomous Region, 2016 5. Nadezhdinskaya (light and food industries, transport and logistics), Primorsky Krai, 2015 6. Free port “Vladivostok”, 2015	4 SEZ, total investment \$ 132 million 1. "Sirius solar technology" (SEZ "Alabuga"), Amur Sirius (production of solar cells); 2. ABC Steel (SEZ Alabuga), Shandong Yuanda Steel Science & Technology LTD (production of galvanized steel and products with a polymer coating); 3. "Lifan Cars Rus" (SEZ "Lipetsk") LIFAN Industry group (automotive).

Source: complied by author

Thus, after many years of negotiations and declaring intentions of further intensifying Russian-Chinese investment cooperation, we can talk about small advances in this area. Analyzing regional tools, we partially confirmed the hypothesis of the regional and industrial distribution of Chinese investments: the SEZ tool is attractive for Chinese companies producing goods with higher value added. The SEZ with the participation of Chinese capital is located in the European part of Russia - a region with a relatively developed infrastructure and rather large domestic market. FZ and ADT that basically located in low-populated but rich in resources areas, are attractive for Chinese investors as manufacturing bases of the Chinese enterprises abroad. ADT tool became popular among investors, as it can meet their needs: investors received the advantages (a special tax regime, attraction of foreign labor without quotas, provision of land, the possibility of applying the procedure of a free customs zone) that were able to level the shortcoming of the relatively undeveloped infrastructure in the region. According to the author, in view of the insufficiently large experience of cooperation, as statistical information is accumulated, it is advisable to develop empirical studies of factors influencing the placement of Chinese capital within the framework of a particular instrument using mathematical and statistical tools, as well as to evaluate the possible benefits and risks for both parties.

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