

The Modern Situation Of China's Foreign Direct Investment In Russia In The Context Of The Belt And Road Initiative

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ABSTRACT

The article examines the issue of attracting Chinese FDI to Russia in the context of the Belt and Road initiative implementation. It is shown that in recent years, the influx of Chinese FDI into the Russian economy has decreased significantly. However, on the background of active trade cooperation between the two countries, the potential for Russian-Chinese investment cooperation remains extremely high, including in the transport sector, which is very important for the Belt and Road initiative.

KEYWORDS: Foreign Direct Investment; FDI; One Belt and One Road; Belt and Road; Russia; China.

ABBREVIATIONS: FDI: Foreign Direct Investment; GDP: Gross Domestic Product; R&D: Research and Development; UNCTAD: United Nations Conference on Trade and Development; PRC: People's Republic of China.

1. INTRODUCTION

As is well known, the PRC is one of the world leaders in terms of indicators such as population, GDP volume, foreign trade volume, FDI incoming and outgoing in recent years, total expenditures on R&D, value of exports of high-tech products, number of patent applications and approved patents [1].

Russia and China have a common border with a length of more than four thousand km, which implies active economic cooperation between the two countries. At the same time, it is known that since 2013, the strategic Belt and Road Initiative, put forward by the President of the PRC, Xi Jinping, has been promoted as the main concept for the development of China's foreign economic relations, one of the most important goals of which is to reduce barriers to international investment activity [2]. In this regard, the implementation of the Belt and Road Initiative is of natural interest to a large number of scientists, among whom we can mention such authors as Abramkina M.S. [3], Bondarenko V.A. [1], Duckworth E. [4], Garlick D. [5], Glantz and Ross [6], Jiang Ch. [7], Ma Z. [8], Mantseva E.I. [9], Wang B. [10], Wang D. [11], and other authors, who generally recognize the importance of the Belt and Road Initiative, which has united within its framework of economic interaction more than 150 countries and territories of the world for the development of the global economy.

Since the purpose of this article is to study the attraction of Chinese FDI into the Russian economy in the context of the Belt and Road Initiative, it should be noted that a significant amount of research has been devoted to this topic. The study of Chinese foreign investment in Russia was carried out by such scientists as Aleksandrova M.V. [12], Bao H. [13], Luo I. [14], Sizykh E.Yu. [15], Revenko N.S. [16], Wang Q. [17], Zalesskaya O.V. [18], Zou S. [19] and others. In general, these authors note that Russian-Chinese investment cooperation has significant potential.

As part of the above research goal, the following tasks were set: to consider the role of China in global outward FDI flows and global volumes of accumulated outward FDI, to consider the dynamics of FDI inflows and accumulation of FDI from China in the Russian economy, to determine the role of Russia in Chinese outward FDI and in accumulated FDI abroad and assess the role of China in the influx of FDI to Russia in the period 2013-2021. The specified period was determined starting from 2013, the year of the announcement of the start of the implementation of the Belt and Road Initiative, and 2021 is the last year for which the author had access to detailed statistical data on FDI from both Russian and Chinese official sources.

As a scientific novelty of this study, we can note the use of an integrated approach when comparing statistical data on FDI and foreign trade of Russia and China from Russian, Chinese and international sources over a significant period (2013-2021), using the context of the factor in the implementation of the Belt and Road Initiative.

The sources of statistical data for this study were primarily Russian sources, such as data from the Central Bank of the Russian Federation, the statistical collection "Trade in Russia" (for various years), and the statistical collection "Russia in Figures" (2015). Chinese sources were represented by the statistical collection of the Chinese government, the "Chinese Statistical Yearbook" (for various years, in Chinese). UN data was also used, namely the investment statistical compilation "World Investment Report" of the UNCTAD.

2. RESULTS AND DISCUSSION

Based on the above statistical materials available to the author, Tables 1, 2 and 3 were compiled.

Table 1. The role of China in the global flow of outward FDI and the inflow of FDI to Russia (2013-2021).

	2013	2014	2015	2016	2017	2018	2019	2020	2021
Annual amount of FDI outgoing from the PRC, billion USD (data from the Chinese government)	107,844	123,120	145,667	196,149	158,288	143,037	136,908	153,710	178,819
Annual amount of Chinese FDI in Russia, billion USD (data from the Chinese government)	1,022	0,634	2,961	1,293	1,548	0,725	-0,379	0,570	-1,072
Russia's share in the annual amount of outward FDI of the PRC, % (data from the Chinese government)	0,95	0,51	2,03	0,66	0,98	0,51	-0,28	0,37	-0,60
Annual amount of FDI in Russia, billion USD (data from the Central Bank of the Russian Federation)	69,219	22,031	6,853	32,539	28,557	8,785	31,975	9,479	40,450
Share of FDI from China in the annual amount of FDI in the Russian Federation, % (data from the Chinese government and the Central Bank of the Russian Federation)	1,48	2,88	43,21	3,97	5,42	8,25	-1,19	6,02	-2,65
Annual amount of FDI from	0,597	1,271	0,645	0,345	0,140	-0,013	0,136	0,053	0,011

China to Russia, billion USD (data from the Central Bank of the Russian Federation)									
Share of FDI from China in the annual amount of FDI in the Russian Federation, % (data from the Central Bank of the Russian Federation)	0,86	5,77	9,42	1,06	0,49	-0,15	0,42	0,56	0,03
Annual amount of FDI outgoing from China, billion USD (UNCTAD data)	107,844	123,120	127,560	183,100	158,288	143,037	136,908	153,710	178,819
Annual amount of FDI in Russia, billion USD (UNCTAD data)	53,397	29,152	11,858	37,668	25,954	13,228	32,076	10,410	38,639
Annual global inward FDI stock (UNCTAD data)	1443,230	1323,863	1774,001	1746,423	1644,872	1375,437	1707,830	961,983	1478,137
Annual global outward FDI stock (UNCTAD data)	1399,483	1253,159	1594,317	1452,463	1593,102	1014,750	1400,770	731,854	1729,076
Share of China in the global annual amount of outward FDI, % (UNCTAD data)	7,71	9,82	8,00	12,61	9,94	14,10	9,77	21,00	10,34
Share of the Russian Federation in the global annual amount of inward FDI, % (UNCTAD data)	3,70	2,20	0,67	2,16	1,58	0,96	1,88	1,08	2,61
Share of FDI from China in the annual amount of FDI in the Russian Federation, % (data from the Government of	1,91	2,17	24,97	3,43	5,97	5,48	-1,18	5,48	-2,78

the PRC and UNCTAD)									
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Calculated and compiled by the author from sources [20-27]. In this article, data on the PRC in UN statistics of China (as well as Russia) are indicated without Hong Kong, Macau and Taiwan, while the sovereignty of the PRC over these territories is noted [2].

Analysis of the data obtained in Table 1 shows that in the period we are considering (2013-2021), there was a general trend towards growth in the value of Chinese outward FDI, but the maximum figures (196.149 billion or 183.1 billion USD according to Chinese government statistics or according to UNCTAD data, respectively, it is important to note that the data from these sources, judging by the available statistical materials, coincide starting from 2017 inclusive) were recorded in 2016. Accordingly, in 2017-2019 there was a drop in the amount of Chinese outward FDI. The main reason for this situation is the publication in August 2017 by the State Council of the PRC (the highest government executive body of China) of the «Guidelines for the Direction of Foreign Investment» [28] (adopted in the «Catalogue of Industry Directions for Foreign Investment in Specific Countries», which already had been in force since the early 2000s of the Ministry of Commerce of the PRC [29]), which, among other things, limited Chinese investments abroad, primarily in such industries as real estate, hotel business, and entertainment, and encouraged investments in projects aimed at deepening cooperation with countries and territories of the world, participating in the Belt and Road Initiative. It is important to note that the share of Russia in Chinese overseas FDI decreased during the period under review, with a maximum figure of about 2% in 2015 and no more than 1% in other years, including taking negative values (generally corresponding to the net outflow of FDI) in 2019 and 2021 according to Chinese statistical data, which, including in the period under review (2013-2021), is several times less than the share of Russia in the global amount of FDI inflows, which, for example, in 2013 amounted to 3.70%, and despite the fact, which was generally declining, still significantly exceeded the indicators of Russia's role in Chinese outward FDI.

Data from Table 1 shows that the dynamics of the influx of Chinese FDI into the Russian economy in the period under review (2013-2021) is extremely uneven, while the indicators of the influx of FDI from China to Russia in the statistics of the PRC government and the Central Bank of the Russian Federation (this may be related to the peculiarities of organizing such international transactions and issues of determining direct investment for statistical purposes). According to Russian statistics, during this period, the maximum amount of Chinese FDI attracted into Russia in 2014 (\$1.271 billion, which may be due to the participation of Chinese investors, primarily the China National Petroleum Corporation, in the Yamal liquefied natural gas project («Yamal LNG») [30]), after which the influx of Chinese FDI into Russia as a whole constantly decreased, including to negative values in 2018. In turn, Chinese government statistics show significantly larger amounts of FDI inflows from China to Russia with maximum figures in 2015 (\$2.961 billion; in the time range, this coincides with the closure of the above-mentioned deal to acquire stakes in the project «Yamal LNG» by the China National Petroleum Corporation (acquired 20% of the project shares), as well as a smaller stake (9.9%) of the project shares by the Chinese Silk Road Fund [31] and the acquisition by the China Petroleum and Chemical Corporation of a 10% stake in the largest Russian petrochemical company «Sibur» [32]), as well as relatively high rates of FDI inflow from China in 2016 (acquisition of a 10% stake in Sibur by the Chinese Silk Road Fund [33]) and 2017 (purchase of a 20% stake in one of the most important projects of the Rosneft Oil Company - JSC VCNG (Verkhnechonskneftegaz) by Beijing Gas Group Company [34]). It is noted that in 2019 and 2021, Chinese statistics showed a relatively significant outflow of Chinese FDI from Russia, while Russian statistics showed a generally small outflow of Chinese FDI in 2018.

It is interesting that according to statistics from the Central Bank of the Russian Federation, the maximum share of Chinese FDI in the structure of FDI inflows into the Russian economy was noted in 2015 (9.42%), in second place are the results of 2014 (5.77%, due to the beginning of the adoption of anti-Russian sanctions by the Western countries, in these years it was decrease in the influx of FDI to Russia as a whole), while it can be noted that, according to UNCTAD, China in the period under review (2013-2021) has already become one of the world leaders in terms of outward FDI amounts. For example, in 2014 and 2015, China accounted for 9.82% and 8% of the world's outward FDI, and the maximum considered figure (21%) was recorded in 2020 when there was a drop in the amount of global FDI flows due to the impact of the coronavirus pandemic to a minimum in recent years of \$731.854 billion.

Analysis of the data from Table 2 shows that China, despite its relatively recent emergence as one of the world leaders in outward FDI amount, is already one of the leading countries in terms of outward FDI stock, accounting for \$2.785 trillion in outward FDI stock at the end of 2021, which corresponded to 6.18% of the global stock of outward FDI. Among this amount, about \$10.644 billion represented Chinese FDI stock accumulated in the Russian economy (according to Chinese government statistics), which corresponded to about 0.38% of accumulated Chinese outward FDI stock, while in the period under review (2013-2021) Russia's share in accumulated outward FDI stock from the PRC decreased (the corresponding indicators at the end of 2013 were 1.15% and at the end of 2021 0.38%), the reasons for this can be indicated by the decrease in the inflow of

Chinese FDI to Russia in 2018-2021 (up to a net outflow of FDI) and the continuing increase in amount of outgoing FDI stock of the PRC accumulated in other countries and territories of the world. It can also be noted that the data presented in Table 2 shows a decrease in Russia's share in the global amount of accumulated inward FDI during the period under review (the corresponding indicators are 2.26% at the end of 2013 and 1.15% at the end of 2021).

Table 2. The role of China in inward FDI stock accumulated in Russia (2005, 2008, 2012, 2013, 2019, 2021).

	2005	2008	2012	2013	2019	2021
Amount of accumulated FDI from China, billion USD (data from the Chinese government)	57,206	183,971	531,941	660,478	2198,881	2785,150
Amount of accumulated FDI from China, billion USD (UNCTAD data)	46,311	147,949	509,001	613,585	2099,400	2581,800
Amount of accumulated FDI in Russia, billion USD (UNCTAD data)	132,491	213,734	508,890	575,658	463,860	521,876
Amount of accumulated FDI from China to Russia, billion USD (data from the Chinese government)	0,466	1,838	4,888	7,582	12,804	10,644
Global inward FDI stock, billion USD	10129,739	14909,289	22812,680	25464,173	36470,162	45448,812
The global stock of outward FDI, billion USD	10671,889	16205,663	23592,739	26312,635	34571,124	41798,485
China's share in global stock of outward FDI, %	0,43	0,91	2,16	2,33	6,07	6,18
Russia's share in the global amount of accumulated inward FDI, %	1,31	1,43	2,23	2,26	1,27	1,15
China's share in the amount of accumulated inward FDI in Russia, %	0,81	1,00	0,92	1,15	0,58	0,38

Calculated and compiled by author from sources [20,23,24,35-42]

Table 3. Russia and China as trading partners (2013-2021).

	2013	2014	2015	2016	2017	2018	2019	2020	2021
China's foreign merchandise trade, billion USD (data by the Chinese government)	4158,993	4301,527	3953,033	3685,557	4107,164	4622,415	4577,891	4655,913	6050,166
China's merchandise exports, billion USD (data by the Chinese government)	2209,004	2342,293	2273,468	2097,631	2263,371	2486,682	2499,482	2589,952	3363,023
China's merchandise imports, billion USD (data by the Chinese government)	1949,989	1959,235	1679,565	1587,926	1843,793	2135,734	2078,409	2065,962	2687,143
Amount of foreign merchandise trade between Russia and China, billion USD (data by the Chinese government)	89,259	95,27	68,016	69,616	84,221	107,107	110,94	108,189	147,16
Amount of Chinese merchandise exports to Russia, billion USD (data by the Chinese government)	49,591	53,677	34,757	37,356	42,831	47,965	49,748	50,504	67,551
Amount of China's merchandise imports from Russia, billion USD (data by the Chinese government)	39,668	41,594	33,259	32,26	41,39	59,142	61,192	57,685	79,609

Russia's share in China's foreign merchandise trade (data by the Chinese government)	2,15	2,21	1,72	1,89	2,05	2,32	2,42	2,32	2,43
Russia's share in China's merchandise exports (data by the Chinese government)	2,24	2,29	1,53	1,78	1,89	1,93	1,99	1,95	2,01
Russia's share in China's merchandise imports (data by the Chinese government)	2,03	2,12	1,98	2,03	2,24	2,77	2,94	2,79	2,96
Amount of Russian foreign merchandise trade, billion USD (data by the Russian government)	729,724	687,314	460,113	410,345	511,967	606,701	587,272	495,693	686,659
Amount of Russian merchandise exports, billion USD (data by the Russian government)	453,344	433,366	298,42	247,687	309,09	394,675	370,24	288,605	427,587
Amount of merchandise imports of Russia, billion USD (data by the Russian government)	276,38	253,948	161,693	162,658	202,877	212,026	217,032	207,088	259,072
Amount of foreign merchandise trade	88,798	88,389	63,549	66,034	86,972	108,244	111,488	104,199	141,925

between Russia and China, billion USD (data by the Russian government)									
Amount of Russian merchandise exports to China, billion USD (data by the Russian government)	35,625	37,505	28,601	28,012	38,917	56,019	57,315	49,249	69,098
Amount of Russian merchandise imports from China, billion USD (data by the Russian government)	53,173	50,884	34,948	38,022	48,055	52,225	54,173	54,95	72,827
China's share in Russia's foreign merchandise trade, % (data by the Russian government)	12,17	12,86	13,81	16,09	16,99	17,84	18,98	21,02	20,67
China's share in Russia's merchandise exports, % (data by the Russian government)	7,86	8,65	9,58	11,31	12,59	14,19	15,48	17,06	16,16
China's share in Russia's merchandise imports, % (data by the Russian government)	19,24	20,04	21,61	23,38	23,69	24,63	24,96	26,53	28,11
China's share in Russia's merchandise	Н/Д	7,5	8,3	9,8	10,9	12,5	13,5	14,6	14

exports, indicated in official statistics, % (for comparison, data by the Russian government)									
China's share in Russia's merchandise imports, indicated in official statistics, % (for comparison, data by the Russian government)	Н/Д	17,7	19,1	20,9	21,1	21,9	22,1	23,7	25,1

Calculated and compiled by the authors from sources [20-23, 43-50]

The data presented in Table 3 allows us to better understand the degree of interconnection between Russia and China in the foreign merchandise trade of both countries during the specified period. As you can see, according to Chinese statistics, in 2021, the amount of foreign merchandise trade of the PRC exceeded 6 trillion USD, of which 2.43% was foreign merchandise trade with Russia, while in Chinese merchandise exports in this year, Russia occupied 2.01%, in merchandise imports - 2.96% (in recent years, under anti-Russian sanctions of the Western countries, these figures have become even higher). For Russia during this period, the role of China as a trading partner was significantly higher. According to the data from Table 3, calculated on the basis of Russian statistical sources, the share of China in Russian merchandise exports in 2013-2021 was 7.86-17.06% in various years, in merchandise imports - 19.24-28.11% in various years, in foreign merchandise trade in general - 12.17-21.02% in various years (with a general growth trend from 2013 to 2021).

The indicated degree of interconnection between both countries in foreign trade shows that the role of China in the influx of FDI to Russia does not correspond to the degree of mutual importance of both countries for each other in foreign merchandise trade. Of course, it can be noted that from the point of view of employment and tax collection, it is more profitable for the Chinese government, for example, to produce goods on the territory of the PRC and further to export finished products to Russia than to transfer all or part of the production chain from China to Russia. However, under certain conditions, organizing the production of Chinese companies in the Russian territory may be a more profitable solution for the Chinese government. In particular, during government procurement, only products manufactured in Russia (or in the countries of the Eurasian Economic Union) may be in demand, which may well facilitate the organization of production (and not just assembly) of Chinese companies in Russia, or the use of the Russian components in products will significantly increase profits of Chinese manufacturers (which, however, most likely depends on the competitive situation in the Russian market itself and the competitiveness of Chinese products in general and the products of individual Chinese companies). As well known, one of the ways to attract FDI into the country's economy is to provide tax benefits and other preferences (up to various forms of actual and official state support), as well as, and it is very important, to effectively guarantee a legal environment («clear rules of the game») and investment security.

In the context of the implementation of the Belt and Road Initiative, it is important to note that the Chinese government officially expresses its readiness to support projects of Chinese investors carried out as part of the Belt and Road Initiative, while countries and territories participating in the global initiative, as a rule, are states friendly towards the Chinese government and, as a rule, do not officially join the anti-Russian sanctions of the Western countries. It can be noted that in 2021, the countries and territories participating in the strategic initiative (list of participants at the end of 2023) accounted for about 36.55% of the global amount of outward FDI, which makes the international investment potential of participants in the Belt and Road Initiative quite significant, especially in the current Russian situation. [51] In this regard, of course, it can be noted that when attracting

FDI, it is important to take into account the technological component of investment projects; in this regard, attracting FDI from countries with modern technologies seems more desirable [52], which again shows the potential importance of China as a significant source FDI for Russia. Besides that, it should be noted that in the context of the Belt and Road Initiative, particular attention should be paid to the Russian transport sector. As well known, the development and expansion of transport infrastructure is an important goal of the Belt and Road Initiative; thus, Russia, as the largest country in the world, has a significant potential for attracting FDI to transport and logistics projects. Among such projects should be mentioned a project of water transport shipping connection between the Caspian Sea and the Azov-Black Sea basin known as the Eurasia Canal. This project has significant potential for the development of international trade between Russia, Kazakhstan, China, the countries of the Mediterranean basin, the Caspian region, Central Asia and the Arab monarchies [53, 54].

3. CONCLUSIONS

The study conducted on the issues of attracting FDI from China to the Russian economy in the context of the implementation of the Belt and Road Initiative allowed the author to come to the following conclusions:

- There was a general trend towards an increase in the value of Chinese outward FDI in the period under review (2013-2021);
- The share of Russia in Chinese overseas FDI decreased during the period under review, with a maximum of about 2% in 2015 and no more than 1% in other years, including taking negative values (there was a net outflow of Chinese FDI from Russia);
- The dynamics of the influx of Chinese FDI into the Russian economy were extremely uneven during the period under review (2013-2021);
- According to Russian statistics, during this period, the maximum amount of Chinese FDI attracted into Russia was in 2014 (USD 1.271 billion), after which the influx of Chinese FDI into Russia as a whole decreased, including negative values in 2018;
- Chinese government statistics show significantly larger amounts (compared to Russian statistics) of FDI inflows from the PRC to Russia, with maximum figures in 2015 (\$2.961 billion) and relatively high levels of FDI inflows from the PRC in 2016 and 2017, while in 2019 and 2021 Chinese statistics showed a relatively significant net outflow of Chinese FDI from Russia;
- According to statistics from the Central Bank of the Russian Federation, the maximum share of Chinese FDI in the structure of FDI inflows into the Russian economy was noted in 2015 (9.42%), in second place are the results of 2014 (5.77%);
- According to the UNCTAD, China in the period under review (2013-2021) became one of the world leaders in terms of outward FDI amounts; for example, in 2014 and 2015, China accounted for 9.82% and 8% of the world's outward FDI, and the maximum considered indicator (21%) was recorded in 2020;
- China, despite its relatively recent emergence as one of the world leaders in outward FDI, has already become one of the leading countries in outward FDI stock (6.18% of global outward FDI stock at the end of 2021);
- About 10.644 billion USD are Chinese FDI accumulated in Russia (at the end of 2021, according to Chinese government statistics), which corresponded to about 0.38% of accumulated Chinese outgoing FDI stock, while in the period under review (2013-2021), Russia's share in accumulated outward FDI stock of the PRC decreased (the corresponding figures at the end of 2013 were 1.15% and at the end of 2021 were 0.38%);
- There was a decrease in Russia's share in the world amounts of accumulated inward FDI stock during the period under review (2013-2021) (the corresponding figures were 2.26% at the end of 2013 and 1.15% at the end of 2021);
- According to Chinese statistics, in 2021, China's foreign merchandise trade with Russia accounted for 2.43% of Chinese foreign merchandise trade, while Russia accounted for 2.01% of Chinese merchandise exports in that year and 2.96% of merchandise imports;
- China's share in Russian merchandise exports in 2013-2021 was 7.86-17.06% in various years, in merchandise imports - 19.24-28.11% in various years, in foreign merchandise trade in general - 12.17- 21.02% in various years (with an overall growth trend from 2013 to 2021);
- The indicated degree of interrelation between both countries in foreign trade shows that the role of China in the influx of FDI to Russia does not correspond to the degree of mutual importance of both countries for each other in foreign trade;
- In the context of the implementation of the Belt and Road Initiative, it is important to note that the Chinese government officially expresses its readiness to support projects of Chinese investors carried out as part of the implementation of the Belt and Road Initiative;
- Countries and territories participating in the Belt and Road Initiative are, as a rule, states friendly towards the Chinese government and do not officially join the anti-Russian sanctions of the Western countries;
- In 2021, countries and territories participating in the Belt and Road Initiative (list of participants at the end of 2023) accounted for about 36.55% of the global amount of outward FDI, which makes the international investment potential of participants of the Belt and Road Initiative quite significant.

- When attracting FDI, it is important to take into account the technological component of investment projects; in this regard, attracting FDI from countries with modern technologies seems more desirable, which again shows the potential importance of China as a potentially significant real source of FDI for Russia - it is known that China is one of the world leaders in terms of volume R&D expenses, world leader in export of high-tech products and patent activity.

- A project to establish a water transport shipping connection between the Caspian Sea and the Azov-Black Sea basin known as the Eurasia Canal can be mentioned as an example of a project suitable for Chinese and other countries' FDI, conducted in the context of the Belt and Road Initiative.

Among the problematic issues that the author came to attention when conducting this study is the difficulty of assessing the number of investments of companies from the PRC in the Russian economy carried out through third countries. The study of this problem undoubtedly needs further research.

CONFLICT OF INTEREST

None.

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