

ORIGINAL PAPER

DOI: 10.26794/2308-944X-2022-10-4-24-35
UDC 339.9(045)
JEL F21

Economic Cooperation between Russia and China in the Investment Sphere

M. Kai

Financial University, Moscow, Russia

ABSTRACT

The cooperation between Russia and China has been developing successfully in recent years. Both countries have agreed on several strategically important investment projects. The realization of investment projects determines the future expectation for developing Russian and Chinese economies. The article **aims** to investigate the trends and perspectives of economic cooperation between China and Russia in the field of mutual investments. The research **methodology** includes structuring, comparison, generalization, induction, deduction, and synthesis. Based on the research, the author **concludes** that the main segments of Russian-Chinese economic cooperation between state-owned enterprises are the energy sector, nuclear power engineering, agriculture, science, technology, and infrastructure. Also, there are good prospects for the investment segment of economic cooperation between Russia and China in banking, payment systems, and electricity sectors.

Keywords: Russia; China; economic cooperation; investment; banking; energy; infrastructure

For citation: Kai M. Economic cooperation between Russia and China in the investment sphere. *Review of Business and Economics Studies*. 2022;10(4):24-35. DOI: 10.26794/2308-944X-2022-10-4-24-35

ОРИГИНАЛЬНАЯ СТАТЬЯ

Экономическое сотрудничество России и Китая в инвестиционной сфере

М. Кай

Финансовый университет, Москва, Россия

АННОТАЦИЯ

Сотрудничество России и Китая в последние годы успешно развивается. Страны договорились о нескольких стратегически важных инвестиционных проектах. Реализация инвестиционных проектов определяет будущее развивающихся экономик России и Китая. В статье ставится **задача** исследовать тенденции и перспективы экономического сотрудничества Китая и России в сфере взаимных инвестиций. **Методология** исследования включает структурирование, сравнение, обобщение, индукцию, дедукцию и синтез. На основе исследования автор делает **вывод**, что основными сегментами российско-китайского экономического сотрудничества между государственными предприятиями являются энергетика, атомная энергетика, сельское хозяйство, наука, технологии и инфраструктура. Также хорошие перспективы имеет инвестиционный сегмент экономического сотрудничества России и Китая в банковской сфере, платежных системах и электроэнергетике.

Ключевые слова: Россия; Китай; экономическое сотрудничество; инвестиции; банковское дело; энергетика; инфраструктура

Для цитирования: Кай М. Экономическое сотрудничество России и Китая в инвестиционной сфере. *Review of Business and Economics Studies*. 2022;10(4):24-35. DOI: 10.26794/2308-944X-2022-10-4-24-35

1. Introduction

The investment segment of economic cooperation between Russia and China is an important research topic. In recent years, economic cooperation has been increasingly included in the system of state priorities of the countries. Russia and China are two bordering states whose economic ties are diverse. The cooperation between these countries has been developing successfully in recent years. Russia and China have agreed on several strategically important investment projects. The realization of investment projects determines the future expectation for the development of the Russian and Chinese economies. In the actual situation, economic cooperation between the two countries is developing under the influence of many factors. China has been taking advantage of the United States for a long time, but these countries have trade wars. The sanctions confrontation between Russia and Western countries in the context of the Ukrainian crisis may affect the implementation of economic cooperation between Russia and China. Moreover, the possibilities of interaction depend on the pace and direction of the reform of the Russian economy and the development of the situation in the international scene in 2022–2023.

The steady intensification of Russia-China cooperation over the past few years has triggered a surge in scholarly interest. However, the existing literature is not focused on the specifics of economic cooperation in the field of mutual investment projects.

The research aims to identify prospects of economic cooperation between China and Russia in the field of mutual investments.

The research objectives of the paper are as follows:

- to review the concept of investment as a foundation for economic cooperation;
- to reveal the role of the state in facilitating economic cooperation between nations;
- to analyze the dynamics of the Russia-China economic cooperation between state-owned enterprises;
- to identify the dynamic of Chinese investment and analysis of Chinese investment projects in the Russian economy, and to identify Russia's main investment activities and analysis of Russian investment projects in the China economy;
- to identify prospects for China and Russia's economic cooperation in the banking sector;

- to propose recommendations and suggestions on improving China and Russia's investment activity in the energy sector.

The rest of the paper is structured as follows. Section 2 reviews the theoretical foundations of economic cooperation between Russia and China. Section 3 analyzes the economic cooperation between Russia and China in the field of investment projects in energy, agriculture, science, and technology. Section 4 considers the prospects for investment segment of economic cooperation between Russia and China in the banking and electricity sectors. The final section presents conclusions.

2. Review of the main concepts of economic cooperation between Russia and China

It is essential to consider the concept of economic cooperation. Today, processes such as globalization, integration, forming a single economic space, internationalization, regionalization, cross-border cooperation, etc. are actively developing. This has an impact on every country in the world and the system of international relations.

It is important to consider the place of investment concept as a foundation for economic cooperation.

Federal law No. 39-FL of 25.02.1999 "About investment activities in the Russian Federation carried out in the form of capital investments" (ed. from 03.14.2022), sets regulations in this area. Article 1 of this Federal law has the following definitions:

- the investment concept includes "cash, securities, other assets, also includes property rights, other rights that we know that have monetary value, invested in objects of entrepreneurial and (or) other activities in order to make a profit and (or) other uses to achieve other beneficial effects";
- the investment activity concept is described as: "investment and implementation of practical actions in order to make a profit and (or) achieve another beneficial effect".¹

At the same time, the concept of "investment" refers primarily to ambiguous economic concepts, as O.E. Levchenko remarks [1]. The variety of approaches to the interpretation of the term "investment" has led to the fact that many different terms and concepts of this economic category can be found

¹ Federal law No. 39-FL of 25.02.1999. URL: https://www.wto.org/english/thewto_e/acc_e/rus_e/WTACCRUS48_LEG_86.pdf

in the economic literature. Thus, in macroeconomics, according to O.E. Levchenko, investments are understood as investments of funds leading to an increase in GDP (gross national product) [1].

A well-known English economist, the founder of a new direction in political economy, J. Keynes, determined investments as “an increase in the value of capital assets that consist of fixed or liquid capital” [2].

Y.V. Masalev speaks about two dominant approaches to the definition of the “investment”: 1) “investments as a type of tangible assets”, 2) “investments as the distribution of funds for tangible and intangible objects” [3]. The first approach is material; the second is financial.

Foreign investment is a type of investment. The researchers mention various types of investments: stocks, bonds, mutual funds, index funds, exchange-traded funds (ETFs), and options. According to the form of ownership, investments can be public, private, mixed, and foreign. And according to the organizational form of investments, an investment project and an investment portfolio.

The Federal Law dated No. 160-FL 09.07.1999 “About Foreign Investments in the Russian Federation” (ed. 08.24.2021) has a definition of foreign investment: “an investment of foreign capital carried out by a foreign investor directly and independently into an object of entrepreneurial activity on the territory of Russia in the form of objects of civil rights belonging to a foreign investor, if such objects of civil rights are not withdrawn from circulation or are not restricted in circulation in Russia in accordance with federal laws, including money, securities (in foreign currency and currency of Russia), other property, property rights, having a monetary value of exclusive rights to the results of intellectual activity (intellectual property), as well as services and information”.²

Describing various approaches to the concept of foreign investment, G.A. Chikunov identifies three approaches to this concept, such as: foreign investment as a process, foreign investment based on accepted criteria, and foreign investment as property values (objects of civil rights). The author notes that the concept of foreign investments as property values (objects of civil rights) is more objective because the first approach is narrower and does not reveal the concept’s meaning. The ap-

proach to the definition of foreign investment based on the accepted criteria is too broad, which allows recognizing as a foreign investment any activity of foreign persons on the territory of the recipient state as foreign investment. The approach to the definition of foreign investments as property values (objects of civil rights) seems to be more justified since it is supported by many scientists and is also reflected in many international acts [4].

In the context of this study, foreign investments will be considered as a certain type of investment on the territory of Russia or China within the framework of the classification defined above. Also, foreign investments will be considered as an important basis for economic cooperation. This is due to the fact that investment activity is part of the economy, and investment cooperation represents international economic relations, the purpose of which is the rational allocation of resources, the achievement of higher economic results by taking advantage of participation in the international division of labor, updating the technological structure of production, etc. As a result, the division of labor between states is carried out, and the economic structure of the participating industries is updated. The most significant areas of international investment cooperation include the oil extraction industry, metal production, economic field, mining of minerals, and transport.

Therefore, investment is an important aspect of the development of modern states and plays a significant role in economic cooperation. Foreign investments are becoming a factor in the rational allocation of resources; helping countries achieve certain indicators in the economy by taking advantage of participation in the international division of labor, updating the technological structure of production, etc. Investment cooperation is an important part of economic cooperation and international relations in general.

There are many types of investment cooperation. The main types of cooperation include³: international trade, international production cooperation, international scientific and technical cooperation.

All types of international investment cooperation positively impact the economies of both countries that have concluded a specific agreement with each other. The beneficial consequences of such relationships include: raising the economic level of the state,

² Federal law No. 160-FL of 09.07.1999. URL: <https://cis-legislation.com/document.fwx?rgn=1692>

³ Investment cooperation. URL: <https://utmagazine.ru/posts/7839-investicionnoe-sotrudnichestvo> (accessed on 24.04.2022).

bringing existing industries to new levels, creating modern profitable projects, and securing a more significant place in international trade. However, at the same time, all types of international cooperation require an investment of funds. Only successful achievement of the set goals allows the state to get a high profit, which fully covers the previous costs. Improving the investment policy of the state has an important value. The reason for it is a determining factor of competitiveness and efficiency of the country's economy.

The arrival of foreign direct investment in the country is desirable for the recipient country for several reasons. Firstly, the volume of incoming investments increases the possibilities of expanded reproduction. Secondly, new technologies come to the country along with foreign direct investment. Thirdly, capital coming to the country, expects to make a profit. However, various factors that influenced the investment segment of economic cooperation: COVID-19, sanctions, trade wars, etc.

The state influences the economy regardless of the degree of economic development and its type. In a free market economy, the state must constantly change the depth of its influence, does not face the task of direct distribution of goods and services, and loses the right to dispose of resources freely. The state is forced to increase or decrease the degree of its intervention in the economy. The imperfection of market mechanisms explains the need for state regulation. The state corrects this imperfection, which the market is either unable to cope with itself or provides an ineffective solution. A participant in international economic relations can represent various state structures: "governmental and other state bodies of various levels (municipal, regional, central); state organizations; enterprises" [5].

There are the following options for state participation in international economic relations: "1) direct implementation of operations by central departments and ministries, municipal and regional government bodies, including targeted purchases and sales of products on the foreign market; 2) granting powers to individual enterprises, firms, banking and commercial structures, including private ones, to carry out specific operations, perform certain foreign economic transactions; 3) guarantee of export-import operations".⁴

⁴ Investment cooperation. URL: <https://utmagazine.ru/posts/7839-investicionnoe-sotrudnichestvo> (accessed on 24.04.2022).

In international economic relations, states regulate the process of international economic integration in different forms: 1) the conclusion of trade agreements; 2) the creation of a free trade zone; 3) the creation of the customs union; 4) the creation of an economic union.

3. Evaluation of cooperation between China and Russia in various investment fields

3.1. Cooperation in major investment projects between China and Russia

Russia and China are neighbors with a contentious historical relationship and aspirations to create a non-western international order. These countries are not only partners but also competitors. Nowhere does this duality emerge more openly than in Central Asia, a region traditionally dominated by Russia but increasingly becoming part of China's sphere of influence.

In order to evaluate Russian-Chinese economic cooperation between state-owned enterprises, it is important to identify several interacting sectors.

1. The energy sector. Energy is the largest area of cooperation between Russia and China, and the countries continue to strengthen partnership relations. One of the major strategic projects is the construction of the Eastern Gas Pipeline running along the bottom of the Yangtze River. In February 2022, China National Petroleum Corporation (CNPC) and Russian company "Gazprom" signed an agreement on the purchase and sale of gas from the Russian Far East. In accordance with the agreement, Russia will increase the supply of pipeline gas to China by 10 billion cubic meters per year, which, together with the Power of Siberia gas pipeline, will bring the total volume of gas supplies to China to 48 billion cubic meters per year.

Moreover, CNPC and the Russian company Rosneft signed an additional agreement on the purchase and sale of crude oil. According to the agreement, Russia will continue to supply 100 million tons of crude oil to China through the territory of Kazakhstan for ten years. As of January 2022, CNPC imported more than 300 million tons of crude oil and more than 15 million cubic meters of natural gas from Russia via pipeline. Oil and gas cooperation is the largest area of cooperation between China and Russia. Energy exports have always been an important part of Russia's budget revenues, and tensions with Ukraine have reduced the possibili-

ties of Russian energy exports to Europe. In this context, China is a major market for Russian gas and oil, the expert stressed. It is expected that the partnership between the countries will expand as China's demand for Russian oil and gas persist, and both sides can explore the possibility of further cooperation in the field of renewable energy and other areas. Russia is also the main source of coal imports to China. Chinese partners have joined the implementation of another large-scale project in the Russian Arctic, Arctic LNG-2, as well as the creation of the world's largest gas and chemical plant in Ust-Luga.

2. Nuclear power engineering. China and Russia have stepped up cooperation in the field of nuclear energy, including the Tianwan nuclear power plant in Lianyungang, Jiangsu Province, East China, and the Xiudabao nuclear power plant, Huludao, Liaoning Province, Northeast China. In 2021, energy trade between the two countries accounted for about one-third of the total trade volume between China and Russia. Russia has become the second-largest source of oil imports for China, the second-largest source of coal imports, and the largest source of electricity imports.

Russia and China are actively cooperating in the field of renewable energy sources to achieve their climate goals. The Russian side is traditionally interested in cooperation in nuclear and gas energy. Recently, a core catcher of the reactor of the third unit of the Sudapu NPP, which ensures the safety of the nuclear power plant, arrived from St. Petersburg to Liaoning Province by sea. In May 2021, construction work began on the 3rd and 4th power units of "Sudapu" and on the 7th and 8th power units of the Tianwan Nuclear Power Plant.

3. Agriculture, science, technology, infrastructure. China also plans to cooperate with Russia in the fields of agriculture, science and technology, aerospace, digital communications and finance. China has become the third largest export destination for Russian agricultural and food products, opening access to Russian meat products, grains and legumes. In 2021, the volume of agricultural trade between the countries increased by 7%. Moreover, on February 4, 2022, as part of Putin's visit to China, protocols were adopted allowing wheat and barley to be supplied to China from all over Russia and allowing the export of alfalfa to China. Large-scale deliveries of Russian grain to China from the Azov-Black Sea basin may begin as early as in the

2022–2023 agricultural year (starting from July 1) and amount to at least 1 million tons. Cooperation in agriculture is one of the most and important promising cooperation on the bilateral agenda. Especially considering the recent agreement.

Increasing the supply of soy and barley products under long-term contracts may become one of the directions of diversification of supply channels for China. In addition, in 2021, China allowed the import of beef from Russia, and at the end of February 2020, China opened the import of wheat from all regions of Russia. Other products exported from Russia to China include fish, sunflower oil, rapeseed oil, poultry, wheat flour and chocolate.

China is also a buyer of wood from the Russian Far East.

As for technological cooperation, the countries are jointly developing a wide-body passenger aircraft CR 929 and a heavy helicopter with a payload capacity of 40 tons. There are plans to develop special materials and a satellite system in the aerospace field and conduct international research on the Moon station by 2035.

Let us consider the dynamics of the share of China in the total trade turnover of the Russian Federation over the past five years. In 2021, the share was 17.92%. Therefore, for five years, China has always been one of the leaders in the trade volume of the Russian Federation.

It is challenging to analyze the investment activities of the two countries relative to each other because reliable data are unavailable. Data on investment investments and projects provided in this research are based on the information from the Central Bank of Russia,⁵ Trade Representation of the Russian Federation and in the People's Republic of China,⁶ Trade Representation of the Russian Federation in the People's Republic of China,⁷ and also from the National Bureau of Statistics of China.⁸ Due to different methods of calculating and accounting for particular investments, statistical data may vary by organization.

⁵ Central Bank of Russia. Statistics. URL: https://cbr.ru/statistics/?PrtId=st_dir-inv

⁶ Trade Representation of the Russian Federation and in the People's Republic of China. Open data. URL: <https://minvr.gov.ru/opendata/>

⁷ Trade Representation of the Russian Federation in the People's Republic of China. URL: <http://www.russchinate.ru/ru/ru-cn-cooperation>

⁸ National Bureau of Statistics of China. URL: <http://www.stats.gov.cn/english/>

According to Russian data, China is still among the most significant investors in the Russian economy. The volume of accumulated direct investments from China, after a reduction due to COVID-19 restrictions in 2020 by 41%, to \$ 2.19 billion, increased by 15% to \$ 2.5 billion in the first six months of 2021. According to Chinese data, China's cumulative direct investment in Russia as of September 2021 totaled 113 billion USD.

At the same time, the deepening of Russian-Chinese relations is evidenced by an increase in the share of settlements in national currencies.

Calculations in national currencies are growing more slowly; in particular, for the study period 2015–2021, they have increased 6.6 times. Payments in national currencies are increasing (in dollar terms) but at a significantly slower pace than settlements in traditional reserve currencies, which increased 10.7 times in 2015–2021.

It can be said that the indicator of the volume of accumulated direct investments from the PRC to the Russian economy (according to the PRC) in the period from 2015 to 2021 decreased. This is due to factors that affect the economy: sanctions, trade war and coronavirus infection. The economies of all countries are influenced by these factors. In 2022, the influence of these factors will increase due to the escalation of the crisis in Ukraine. The Chinese economy has suffered less from these factors, but investment activity has decreased. This has an impact on investment flows, may indicate some weakening of investment activity. For 2021 within the framework of the activities of the Intergovernmental Russian-Chinese Commission on Investment Cooperation, 65 projects were allocated, among which: the construction of the Moscow-Kazan high-speed highway, the construction of the Nizhneleninskoye cross-border Russian-Chinese railway bridge — Tongjiang (EAO), the development of a production and trade zone of the woodworking industry in the Tomsk region, the creation of a zone of cooperation in the field of forestry (Trans-Baikal Territory), the joint Russian-Chinese production of butadiene-nitrile rubbers in Shandong, the construction of a complex for the production of polyethylene, etc.

An important aspect is the cooperation of the customs offices of the countries as a guarantee of economic cooperation. The main partner of the Russian Customs service in the region is the General Customs Administration of the People's Republic of

China. Contacts with the Chinese side are carried out at the central, regional and territorial levels on a planned basis. The priority tasks in this direction are to promote an increase in the volume of Russian-Chinese trade to 200 billion rubles. Annual trade turnover by 2024, as well as simplification of customs procedures in the context of the initiative to create a Large Eurasian Partnership and interface the construction of the Eurasian Economic Union with the Silk Road Economic Belt.

Within the framework of the Russian-Chinese Commission for the preparation of regular meetings of Heads of Government, the work of the Subcommittee on Customs Cooperation has been organized, meetings of which are held annually. There are nine Russian-Chinese working groups on various customs issues within the framework of the Sub-Commission.

3.2. Progress of China's direct investment projects in Russia in the field of resources and energy

Over the past decade, China's direct investment in Russia, as a whole, has shown an upward trend in parallel with the expansion of the diversity of industries and areas of investment.

According to the official data from the Federal State Statistics Service and the data of the Central Bank of Russia, it is possible to consider the indicators of direct investment in the Russian Federation by country, in particular, highlighting the share of China in the structure of these investments. In 2017–2021, the flow of direct investments of China to Russia (billion US dollars) decreased by 12.1%. This is due to the coronavirus pandemic and the negative consequences of this phenomenon. Also, the share of China's foreign direct investment in the Russian economy in the total structure of foreign direct investment decreased from 0.74 to 0.49%.⁹

China is not among the top 20 investor countries. However, investment cooperation is actively developing within the framework of a number of investment projects. The main investment projects in Russia with the participation of Chinese investments include: Construction of the Moscow-Kazan high-speed highway, Construction of the Nizhneleninskoye-Tongjiang cross-border Russian-Chinese railway bridge (EAO), Construction of a polyethylene production complex with a capacity of 2,700 thou-

⁹ External sector statistics. Central Bank of Russia. URL: https://cbr.ru/statistics/macro_itm/svs/ (accessed on 29.04.2022).

sand tons per year Svobodny (Construction of a gas chemical plant in the Amur Region), Construction of a refrigerator factory in the Republic of Tatarstan, Development of the Berezovsky iron ore deposit (Zabaikalsky Krai), Development of the Udokan copper deposit (Zabaikalsky Krai), Construction of a mining and processing plant at the Elegetskoye field in the Republic of Tyva (Complex project "Construction of the Elegetskoye-Kuragino railway and Coal terminal in the Far East in connection with the development of the mineral resource base of the Republic of Tyva), Development of the Baim copper-porphyry deposit in the Chukotka Autonomous Okrug, Development of the Taiga iron ore deposit in the Republic of Sakha (Yakutia), Development of the Bystrinsky deposit in the Trans-Baikal Territory, etc.

In addition, investments in the framework of the Belt and Road program are growing. The countries participating in the initiative now account for 13.5% of the total volume of Chinese FDI (in 2016–8.5%). But over the past two years, stagnation has been observed due to a decrease in the growth rate of total investments abroad, stricter control over where the funds are directed, as well as the insignificant size of the markets of the host countries and their growing debt burden and geopolitical risks. The main areas of Russian investment in China are the manufacturing industry, construction, and transportation.

A political resource is an essential factor for developing Chinese investments in Russia. At the same time, as the analysis shows, the implementation of large investment projects takes place in the western part of Russia [6]. There are no major projects in the Far East, a region directly bordering China. Capital from China is present here in the form of small and medium-sized enterprises in certain regions of the south of the Far East and in certain industries: agriculture and forestry, construction, mining, services and seafood production.

The population of the Far East and Eastern Siberia resists to some extent the development of investment activities in the region, perceiving any development programs with Chinese participation as pre-sale preparation of the territory. Therefore, the population of the Far Eastern Federal District perceives the lack of investment from China as a positive result. Business is primarily interested in the safety of investments, so large Chinese investors will not be interested in this region of Russia, as long as there are such sentiments of the population.

Thus, the dynamics of Chinese investments in Russia have somewhat decreased. This is due to the economic situation, coronavirus infection and the level of development of the country's economy.

3.3. Russia's direct investment and cooperation development process in China's production and manufacturing industry

Investment flows from Russia to China are growing. The main directions of Russian investments in China include the manufacturing industry, construction, transportation, etc.

Foreign direct investment inflows to China hit a record high of \$ 173 billion in 2021. Direct investment in China's economy from Russia decreased in the period from 2017–2021. The decrease in the number of investment projects also demonstrates this. Russian direct investment flow to China decreased from 23.84 million dollars in 2017 to 12.43 million dollars in 2021. Mainly the decline occurred in 2020.¹⁰

However, China is actively reforming the investment segment. New standard investment law was passed in Q1 2019, unusually fast for China, and took effect in January 2022. Among many other provisions, the new law opened China Government procurement tenders to foreign companies. This is of particular relevance to the Belt & Road Initiative as many projects are quasi-sourced or originate from China's diplomatic channels. However, faced with challenges in certain constructions and other technological areas and in need of the technology themselves, China allowed overseas partners to bid for projects.¹¹

Our analysis of the most significant projects in China with the participation of Russian investments leads to the following highlights:

1. Joint Russian-Chinese production of nitrile butadiene rubbers in Shandong.
2. Creating an industrial complex to produce aluminum products in Henan Province (China).
3. Terminal for the reception and transshipment of liquefied petroleum gas and propylene in Manchuria (China).

¹⁰ New Statistical Yearbooks Published by China Statistics Press 2018–2021. URL: <http://www.stats.gov.cn/tjsj/ndsj/2021/indexeh.htm>

¹¹ A New China for 2021: Foreign Investor Friendly Access, Overseas Direct Investment in Hi-Tech Projects and M&A, and More Belt & Road Initiative Opportunities. URL: <https://www.china-briefing.com/news/a-new-china-for-2021-foreign-investor-friendly-access-overseas-direct-investment-in-hi-tech-projects-and-ma-and-more-belt-road-initiative-opportunities/> (accessed on 29.04.2022).

4. Establishment of an enterprise for the production and marketing of monoclonal antibodies developed by JSC “Biocad” in China.

In the context of the constant interference of the West in China’s internal affairs, China-Russian relations have occupied an important place in China’s foreign strategy and influence China’s diplomatic behavior and domestic public opinion at the global, regional and national levels. Relations with third parties often influence changes in bilateral relations between China and Russia.

As the analysis showed, direct investment from Russia into the Chinese economy declined. Russia occupies a small share of China’s foreign investment structure, only 0.007% in 2021. At the same time, the coronavirus pandemic has greatly affected the investment cooperation of the countries.

4. Cooperation between Russia and China in the financial, banking and electricity sectors

4.1. Financial cooperation between China and Russia

Cooperation in the banking sector is one of the important elements of Russian-Chinese economic cooperation. In December 2015, the Chairman of the Bank of Russia and the Chairman of the People’s Bank of China signed a memorandum of understanding between the two central banks in Beijing, actively implementing an important aspect achieved by the heads of the two countries to deepen bilateral financial cooperation.

Due to the rapid development of Russia and China in the field of economy, trade and investment, assistance was provided for the development of interbank cooperation between the two countries. Cooperation mainly includes opening branches and representative offices, the development of interbank correspondent relations, financing, cross-border money transfers and payment systems by bank card, and others. By the end of 2018, Chinese banks had established correspondent relations with more than 200 Russian banks and created a clearing network including US dollars, rubles and yuan. Currently, 9 Russian banks have opened branches and representative offices in China. Some Chinese banks have established branches and representative offices in Russia. In 2017, the Bank of Russia opened its first representative office abroad in Beijing.

Russian-Chinese cooperation in the banking sector may be reinforced as follows:

1. Improved communication can be established between state and non-state level mechanisms to facilitate the exchange of information at all levels and improve work efficiency.

2. Raising the level of bilateral internationalization of the ruble and yuan. The calculation in national currencies should be expanded from border areas to other areas. To promote the practical implementation of the integration of China’s International Payments System (CIPS) with the domestic Financial Messaging System so that bilateral trade clearing can be carried out directly in national currencies and reduce the cost of cross-border settlements.

3. Improving the level of banking services and introducing innovations in financial products. Banks on both sides can develop correspondent relations and create branches to expand geographical coverage. It is necessary to actively introduce innovations in financial products, enrich the settlement tools between Russia and China and improve the efficiency of settlements.

As the analysis shows, Russian-Chinese cooperation in the banking sector is not very active. The dynamics of settlements in national currencies is not growing as fast as the dynamics of settlements in foreign currencies. Also, bank representative offices are not actively opening in the two countries. Chinese banks are partly represented in the regions of Russia (Khabarovsk, Blagoveshchensk, Vladivostok), while Russian banks are represented only in large cities (Beijing, China).

The market of non-cash payment services shows a clear trend toward diversification. It has contributed to the integration of the payment industry with such industries as mobile operations, the Internet and e-commerce, creating new opportunities for innovation and development of payment services. With the development of modern communication technologies and computer technology, traditional non-cash payment tools such as invoices are getting a new impetus, new payment methods such as online payments and mobile payments are flourishing, and the system of non-cash payment tools is gradually being completed.

Bank cards, being the most frequently used payment instrument among the general public, have far surpassed the field of payments and settlements, combining many financial functions such as savings, consumption, investment and capital management, and have become a means

of integrating the internal resources of banking institutions and facilitating the development of intermediary business important carriers. Integration of non-cash payment tools and social management functions continues to deepen, and industry applications become more mature.

Payment systems play an important role in reducing cashless management of business innovations. They can contribute to the development of their own standard banking services (such as insurance, leasing, factoring and consulting). At the same time, the bank also promotes intersectoral innovative development and cooperation in tourism, logistics, telecommunications, medicine and education in order to successfully operate as a highly competitive modern bank. In general, in the current economic situation, in order to fully contribute to the development of commercial banks, it is necessary to carry out comprehensive, innovative work, promote innovative products through conceptual innovations, technological innovations, and accelerate the pace of systemic reform.¹² This is the only way to effectively introduce innovations and comprehensively contribute to the development of commercial banks.

The analysis shows the importance of reinforcing Russian-Chinese cooperation in the payment systems sector as follows:

1. Acceleration of the procedure by Chinese banks. Sberbank, Alfa Bank and Tinkoff are planning to start issuing the card on the Chinese payment system. This opportunity is also being worked out in VTB, Home Credit, Expobank, etc. The demand for Union Pay cards, including co-branded ones, will only grow in the conditions of the crisis in Ukraine. The timing of the launch also depends on the capabilities of UnionPay, since now they receive a lot of requests from Russian banks. Now it is possible for Union Pay cardholders to use ATMs of a credit institution, as well as pay for purchases at retail outlets equipped with bank terminals. But this already includes the fundamental political question of whether the PRC will continue to remain in a neutral position with regard to sanctions. The US government is trying to put pressure on the Chinese government in this way.

2. Introduction of new services based on China's experience. Since April 1, 2022, SBPay has appeared in Russia, a system from the Central Bank of Russia with payment via QR codes. The new method is designed to replace Apple Pay and Google Pay, as it also does not require a bank card. However, the service still has a number of problems.¹³ The method is extremely common in Asia, where payment terminals are not very successful. To make a payment, person must point the device's camera at the QR code of the institution or seller, after which a special application will open. In China, two similar services compete with each other — Tencent and Alibaba Group. Their applications are WeChat and Alipay. In China, in order to pay for anything using a QR code, you need to create an account in a Chinese bank. There are several reasons why China has implemented a payment system using QR codes. In applications, you can analyze all user transactions and get a lot of information about them. That is, one application contains all the data about a citizen. Active implementation of the system in Russia would solve the problem of the termination of Apple Pay and Google Pay services.

4.2. Russia's investment in China's electricity sector

As the analysis showed, despite the constant increase in the pace of Russian-Chinese trade, a significant part of which is energy resources, the problem of reforming China's energy complex remains quite significant. The growing demands of developing sectors of the country's economy, urbanization and an increase in the standard of living of the population — all this requires large amounts of energy. In 1990, electricity consumption was observed at the level of 603.5 billion kWh. In 2019, the value of the indicator rose to 7,201.8 billion kWh. In 2021, electricity consumption in China, according to preliminary estimates, exceeded the 2020 figure by 5.2%; at the same time, the population consumed 7.5% more energy than in 2020, industry — by 10.2%.¹⁴

It is planned that in 2030, a quarter of China's national energy supply system will be organized on non-fossil energy sources. At the same time, there is

¹² The Chinese ambassador said that Moscow and Beijing will discuss the use of national payment systems. URL: https://tass.ru/ekonomika/14555781?utm_source=yandex.ru&utm_medium=organic&utm_campaign=yandex.ru&utm_referrer=yandex.ru (accessed on 29.04.2022).

¹³ Chinese version. How the SBPay payment service will work. URL: <https://www.gazeta.ru/tech/2022/04/01/14685649.shtml> (accessed on 29.04.2022).

¹⁴ National Bureau of Statistics. China. URL: http://www.stats.gov.cn/tjsj/sjjd/202201/t20220118_1826513.html

a certain paradox. The presence of sufficiently rich deposits of coal in China caused its transformation into a dominant source of energy used, among other things, for the needs of industry. Such actions have led to a serious deterioration of the environmental situation. At the moment, the share of coal in electricity production remains very high; accordingly, CO₂ emissions are not reduced. China is still the world leader in carbon dioxide emissions, which does not strengthen China's position in the international arena. In the future, including in connection with the signing of the Paris climate agreements, the volume of coal production in China has significantly decreased. Experts noted that in China, the country's energy policy limits the growth of coal generation.¹⁵

China's close attention to renewable energy sources may become an additional factor of uncertainty in the development of the entire global electricity department. Undoubtedly, this will mean new challenges for Russia. However, so far, the recent energy crisis has only proved the undoubted lack of apparent alternatives to oil and natural gas, opening up the possibility of further strengthening the energy alliance between Russia and China.

The next step is the improvement of cooperation between Russia and China in the electric power industry which can play a serious role in this process.

It should be noted that Russian-Chinese cooperation in this area has a relatively recent history. The export of Russian electricity to the border areas of Northeast China began in the last decade of the previous century. It was caused by a shortage of energy in the north-eastern provinces of China with some excess capacity in the Far East of Russia. In 1992, the first interstate power transmission line was put into operation, and in 1997 — the second, thereby marking the connection of the power systems of Russia and China.

However, the volume of deliveries via the Blagoveshchensk — Heihe power transmission line and the Sivaki — Shipazhan electric transmission line were small, no more than 200 million kWh per year. At the same time, these lines were characterized by a voltage class of 110 kV and 220 kV. At the beginning of this century, the situation changed to a certain degree. In 2005, an agreement was signed between JSC RAO UES of Russia and the State Energy Complex of China, defining the procedure for

long-term cooperation and the volume of Russian electricity supplied. According to the agreements, it was planned to export up to 50 billion kWh. The importance of the development of bilateral cooperation in the field of the electric power industry was emphasized by the signing on March 21, 2006, agreements between RAO UES of Russia and the State Energy Committee of the People's Republic of China on the comprehensive development of a feasibility study of a project for the supply of electricity from the Russian Federation in the People's Republic of China.

In 2021, against the background of the energy deficit in China, the Chinese energy complex appealed to the Russian side with a request to increase exports. Given the capabilities of power plants in the Russian Far East and the capacity of interstate transmission lines, an increase in the level of excess capacity supplies was theoretically quite acceptable. Since October 1, 2021, the Russian exporter has almost doubled the supplied volumes of energy, and the results of 2021, according to experts, are likely to show a 30% increase compared to the previous period. Also, in December 2021, an agreement was reached to increase the export of electricity from Russia to China in 2022 to 4.4 billion kWh.¹⁶

Currently, it is widely believed that increasing the volume of supplies to China is not beneficial for the Far East of the Russian Federation since the estimated price of exports to China is lower than the average tariff for electricity in the subjects of the Far Eastern Federal District. Without touching on the issue of the correctness of comparing wholesale and retail prices, it should still be noted that the final retail price for consumers in China is higher than in the Far Eastern Federal District (in 2021 — an average of 0.542 yuan per kWh for households, 0.635 — for industrial consumers¹⁷). In 2021, according to the Decree of the Government of the Russian Federation No. 3657-r of December 30, 2020, the basic tariff level for the Far Eastern subjects of the Russian Federation was 5.49 rubles without value added tax (VAT).

Since joint Russian-Chinese projects in the field of electric power are focused primarily on the border

¹⁵ Paris Agreement. URL: <https://www.un.org/ru/climatechange/paris-agreement>

¹⁶ Russia will increase electricity exports to China in 2022 to a record 4.4 billion kWh. URL: <https://tass.ru/ekonomika/13315263/> (accessed on 29.04.2022).

¹⁷ Explainer: China signals likely rise in household electricity prices. Reuters. URL: <https://www.reuters.com/world/china/china-signals-likely-rise-household-electricity-prices-2021-07-01/> (accessed on 29.04.2022).

regions of the Russian Far East, the main attention should be paid to the Unified Energy System of the East. As part of the ECO of the East, 39 power plants (including 11 diesel ones) operate the total installed capacity of which is 11,116 MW, as well as 649 power lines with a length of 33,727 km.¹⁸ Moreover, most power plants belong to thermal ones. As for the consumption of electric energy in the regions of the Far East, its dynamics clearly reflect the socio-economic situation of the subjects of the Far Eastern Federal District. In 2021 (from January to November), energy consumption amounted to 38,102.8 million kWh. The low rates of increase in the level of consumption (except for the Republic of Sakha (Yakutia) in 2019) demonstrate the corresponding rates of socio-economic development.

At the same time, according to experts, the winter period of 2021–2022 is characterized by a maximum consumption compared to the previous period due to the harsh climatic features of the region and an increase in the load of industrial enterprises of the Far Eastern Federal District.

The leader in energy production among the Far Eastern regions that are part of the ECO of the East is the Amur Region, whose power plants account for 37% of the total output. At the same time, the purchase of electricity for export to China is mainly carried out at the power plants of the Rushydro Group located on the territory of this subject of the Far Eastern Federal District: Bureyskaya, Nizhne-Bureyskaya and Zeyskaya HPP. Nizhne-Bureyskaya HPP is one of the largest Russian hydroelectric power plants built in the post-Soviet period. According to the Federal Customs Service of the Russian Federation, the region exported electricity to China in the amount of 169,613.79 thousand US dollars, in 2018–163,963.8 thousand dollars, in 2020–136,841.2 thousand dollars. The electricity delivered to China during the nine months of 2021 amounted to 117,274.8 thousand dollars. Thus, we can state the presence of some excess capacity, as a result of which a certain increase in supplies to China will not lead to a shortage of electricity in the Far Eastern regions of Russia (ECO of the East) — excess capacity is characteristic of the Russian electric power industry as a whole [7].

However, an increase in the transfer of generated capacity is unlikely to be an incentive for the effec-

tive development of the industry in the Far Eastern Federal District. The potential of Russian-Chinese cooperation in the field of electric power is much wider. First of all, the opportunities associated with the renovation and construction of new infrastructure facilities should be noted. Currently, the power grid complex of the Russian Far East is characterized by serious problems. Often, taking into account the area of the Far Eastern Federal District regions, a very serious remote locations of the main generating capacities from energy consumption facilities make it necessary to build extended electric networks.

Other areas of cooperation may be the modernization of worn-out equipment, including in the power grid complex, and investment in the construction of new generating capacities. Of course, it would be wrong to say that there is no interaction between the two countries in all these areas. Thus, the construction of trans-border power transmission lines was carried out with the participation of the Chinese side.

Possible recommendations and proposals for improving the investment activity of China and Russia in the electricity department were highlighted. They are based on a number of initiatives to increase Russian energy supplies to China; reducing excess capacity to a certain extent contributes to next step improvement, overcoming project barriers, and so on. In addition, despite the crisis of 2021, a sharp departure of the PRC from the proclaimed principles of the energy transition is unlikely, which actualizes Russian-Chinese cooperation in the field of renewable energy sources. The climatic features of the Russian Far East are favorable for the construction of wind and solar power plants; the development of generation based on clean energy is extremely costly, but under the current conditions, the energy-wasting economy has a very uncertain future.

5. Conclusion

The investment segment of international economic cooperation is an important element of Russia's interaction with foreign countries, and foreign investment is a significant source for the development of the real sector of the national economy. Building a new type of international relations is also the main development direction of China and Russia. At the same time, with the in-depth development of world multi-polarization, cultural diversification, and social informatization, the

¹⁸ The United Energy System of the East (ECO of the East). URL: <https://www.so-ups.ru/%20functioning/ees/oes-east/> (accessed on 29.04.2022).

global governance system and the world order are rapidly evolving.

The research revealed the following:

1. The main segments of Russian-Chinese economic cooperation between state-owned enterprises are the energy sector, nuclear power engineering, agriculture, science, technology, and infrastructure.

2. In 2021, foreign trade turnover in Russia amounted to US\$ 785 billion and increased by 34.42% over the study period compared to 2016. In 2021, the share of China in Russian foreign trade was 17.92%. China has been one of the leaders in the trade turnover of the Russian Federation for five years.

3. There are good prospects for the investment segment of economic cooperation between Russia and China, including:

- banking sector: improved communication can be established between state and non-state level mechanisms to facilitate the exchange of information at all levels and improve work efficiency; raising the level of bilateral internationalization of the ruble and yuan; improving the level of

banking services and introducing innovations in financial products;

- payment systems sector: acceleration of the procedure by Chinese banks; introduction of new services based on China's experience;

- electricity sector: increasing the supply of Russian energy to China; reduction of excess capacity to a certain extent participating in the next step improvement of the Far Eastern electric power industry.

4. Lately, the dynamics of Chinese investments in Russia have decreased due to the economic situation and coronavirus infection.

Consequently, the prospects for the development of the investment segment of economic cooperation are extensive and China-Russian investment cooperation can be raised to a new strategic height. At the same time, it is important to understand the variability of the economic situation. China is under the influence of Western partners because of strong economic and trade ties. Chinese firms avoid public statements about the affairs in Russia. Therefore, it is difficult to predict the development of the situation in the current economic realities.

REFERENCES

1. Levchenko O.E. The concept and types of foreign investments. *Alley of Science*. 2019;2(3):409–413.
2. Keynes D.M. The general theory of employment, interest and money. Moscow: EKSMO; 2007. 960 p.
3. Masalev Ya.V. Investments: concept and classification. *Modern Science*. 2020;(7–1):72–76.
4. Chikunov G.A. Problems in approaches to the definition of the concept of "foreign investment". MNSK-2019. State and law. Materials of the 57th International Scientific Student Conference. Novosibirsk; 2019:234–235.
5. Abduraupov R.R., Ibragimov F.A. The true impact of IFRS adoption on FDI in transitional countries. *Economy: Analysis and Forecasts*. 2019(1):54–62. URL: https://www.elibrary.ru/download/elibrary_46703329_44591500.pdf (accessed on 24.04.2022).
6. Glazov G.S., Etmanova V.S. Investment cooperation between Russia and China at the present stage of economic development. *Topical issues of the modern economy*. 2020(1):418–22. URL: https://www.elibrary.ru/download/elibrary_42459799_91236703.pdf
7. Denisenko V.A. Russia and China: cooperation in the electric power sector. *Oriental Institute Journal*. 2022;(1):132–143. DOI: 10.24866/2542–1611/2022–1/132–143

ABOUT THE AUTHOR / ИНФОРМАЦИЯ ОБ АВТОРЕ

Ma Kai — Master of Economics, Financial University under the Government of the Russian Federation, Moscow, Russia
Ма Кай — магистр экономики, Финансовый университет, Москва, Россия

Conflicts of Interest Statement: The author has no conflicts of interest to declare.

The article was submitted on 11.09.2022; revised on 28.10.2022 and accepted for publication on 20.12.2022. The author read and approved the final version of the manuscript.