Foreign economic activity of the Russian Federation: problems and prospects for the development of investment cooperation

Maksim V. Selyukov, Elena N. Kamyshtanchenko, Natalya P. Shalygina
Belgorod National Research University,
85 Pobeda St, Belgorod, 308015, Russia
E-mail: selyukov@bsu.edu.ru, kamyshtanchenko_e@bsu.edu.ru, shalygina@bsu.edu.ru

Abstract. The current stage of development of the Russian economy dictates the need to improve approaches and technologies for managing foreign economic activity and foreign trade both at the federal and especially at the regional level. Today, the development of foreign economic relations and the development of effective instruments for the implementation of foreign economic activity, the development of international investment cooperation are becoming increasingly important. The purpose of this study is to analyze the main problems and determine the priority directions for the development of foreign economic activity both at the federal and regional levels. The study identified strategic goals and objectives for the development of foreign economic activity, considering the emerging trends in the world market, ongoing economic sanctions, the pressure of stagflationary risks and geopolitical factors, as well as the global coronavirus pandemic COVID-19. At the same time, special attention was paid to the search and development of directions for the development of investment cooperation in the context of Russian-Chinese economic relations.

Keywords: international investment cooperation, foreign trade, Russian-Chinese cooperation, foreign economic relations, socio-economic cooperation, economic partnership.


Внешнеэкономическая деятельность Российской Федерации: проблемы и перспективы развития инвестиционного сотрудничества

Селиков М.В., Камышанченко Е.Н., Шалыгина Н.П.
Белгородский государственный национальный исследовательский университет,
Россия, 308015, г. Белгород, ул. Победы, 85
E-mail: selyukov@bsu.edu.ru, kamyshtanchenko_e@bsu.edu.ru, shalygina@bsu.edu.ru

Аннотация. Современный этап развития российской экономики диктует необходимость совершенствования подходов и технологий управления внешнеэкономической деятельностью и внешней торговлей как на федеральном, так и особенно на региональном уровне. Сегодня развитие внешнеэкономических связей и разработка эффективных инструментов осуществления внешнеэкономической деятельности, развитие международного инвестиционного сотрудничества приобретают все большее значение. Целью данного исследования является анализ основных проблем и определение приоритетных направлений развития внешнеэкономической деятельности как на федеральном, так и на региональном уровнях. В исследовании определены стратегические цели и задачи развития внешнеэкономической деятельности с учетом складывающихся тенденций на мировом рынке, продолжающихся экономических санкций, давления стагфляционных рисков и геополитических факторов, а также глобальной пандемии коронавируса COVID-19. При этом особое внимание было уделено поиску и разработке направлений развития инвестиционного сотрудничества в контексте российско-китайских экономических отношений.
Introduction

The development of foreign economic activity of the Russian Federation in order to improve the competitiveness of its national economy faces a number of factors, such as slow integration of the country into the world economy along with the desire of Russia to keep its position in the international economic and trade space, as well as many others.

Until recently, in the context of the development of foreign economic activity and the implementation of foreign economic policy, from a formal point of view, the targets and tasks presented in the foreign economic strategy of the Russian Federation until 2020 were relevant. In particular, where the main goal of the foreign economic policy pursued by the Government of the Russian Federation was formulated, namely “creating the conditions for Russia to achieve the leading positions in the global economy by participating effectively in the world division of labor and increasing the global competitiveness of its national economy” (Foreign Economic Strategy of the Russian Federation up to 2020 [Vneshneekonomicheskaya strategiya Rossisskoy Federatsii do 2020 goda, 2008].

About ten years have passed since the time when the Ministry of Economic Development of Russia, involving other ministries and departments, as well as business community, designed this strategy. Over this period, the global economy has seen a number of significant changes, which, mostly negatively affecting the Russian national economy, find their reflection in the current international economic order and foreign economic relations of Russia.

«To achieve these goals and objectives the Ministry is working in the following main areas:

• Improving trade and investment regimes with foreign partners. It is carried out through negotiations on new multilateral agreements within the WTO framework, free trade agreements, agreements on the investment promotion and protection.

• Strengthening integration within the framework of the Eurasian Economic Union (EEU).

• Development of bilateral trade and economic relations with foreign partners, which is implemented through the activities of Intergovernmental commissions and other dialogue platforms; monitoring trade policy and controlling compliance by trade partners with their international obligations towards Russia; creating favorable conditions for foreign trade activities and eliminating trade "irritants".

• Multilateral economic cooperation, including within the framework of the WTO, CIS, BRICS, APEC, and SCO.

• Implementation of the world's best regulatory practices affecting foreign economic activity» [Foreign economic activity, 2020].

From a socio-economic point of view, the situation with an unbalanced structure of the Russian economy, with obvious predominance of the fuel and raw materials industries at the expense of machinery industry and machine tool building, makes the Russian economy vulnerable; besides, the machinery industry itself suffers from a poor development of new technologies. Thus, what is needed is to develop more advanced approaches to promote the medium and small business sector, especially at the regional level, which, in turn, requires increasing the competitiveness of the national produce in other areas of the Russian economy, in particular, the promotion of the national agricultural produce to world markets, the development of high-tech industries, etc. [Selyukov, 2018].
It is worth mentioning that currently the international markets are highly volatile, and by developing its non-resource exports, Russia will be able to reduce the impact of this volatility on the performance of its economy. The key factor in promoting exports and, thus, foreign trade of Russia will be attracting new exporters in the Russian foreign economic activity and an increase in their competitiveness [On the Russian Exports Center, 2018]. So, the creation of a globally competitive system to support the non-resource exports is one of the main and promising directions in the development of the Russia's foreign economic activity. And it is now that the features and conditions for increasing the effectiveness of foreign economic cooperation of Russia with the member states of the Eurasian Economic Union (EAEU) become of vital importance.

**Literature Review**

Recently, the problems and tasks of the foreign trade of the Russian Federation have received a lot of attention of researchers. Of special importance are the studies on the Russian-Chinese relations and their role in increasing the foreign trade turnover of Russia [Karaganov, Makarov, 2015; Pronina, Svetlova, Ivanova, 2020; Ivanova, 2015; Blanchard, 2016, Halpin, Ummelas, 2017; Zhao, Ezhov, Vasiliev, 2019].

The perspectives of the development of the Russian economy through the cooperation within the Eurasian Economic Union (EAEU) and the Silk Road Economic Belt were well studied in the papers [Van, Van, 2014; Skriba, 2016; Selyukov, Shalygina, Kulik, 2021].

**Model, Data and Methodology**

In the post-Soviet countries, it is the EAEU today that is a dynamically developing integration association. Therefore, the integration processes within this union are of particular importance for the Russian economy. This is only natural, as the economic interests of Russia in the CIS states are largely determined by the existing close relations with the former Soviet republics. Besides, in all the EAEU member countries, the levels of the active state involvement in the economy and of the state regulation of the latter are quite high, which can be good for promoting integration processes and making them more targeted. One of the major conditions to ensure a positive impact of the Eurasian integration on the development of foreign economic activity and economic security of the Russian Federation is the development of its regional markets: of energy, food, transport services, investments, and educational services.

As a result, the methodological basis for studying the problems of the foreign economic activity as a factor to increase the competitiveness of the Russian economy is made up with the main principles of a systemic and integrated approach. This made it possible to study and analyze the external and internal factors of the development of the Russian foreign economic activity, the elements and relationships that most significantly influence the socio-economic development of the country.

The conducted study used the methods of factorial and comparative analysis, marketing analysis and observation, as well as SWOT analysis. Particular attention was paid to a comprehensive assessment of the developing trade and economic relations with the countries of Asia and Latin America, especially, with the People's Republic of China (PRC). The empirical data were processed using the methods of mathematical statistics. The methods mentioned above were used in various combinations at different stages of the study, depending on the goals and objectives.

**Empirical Results**

In recent years, the Russian economy has found new markets to sell its products and has improved its trade and economic relations with a number of countries that were not considered as the strategic partners when the aforementioned strategy was being shaped. For example, in 2007-2008, the Russian economy, in line with the established geographical structure of its foreign economic relations, was oriented primarily towards the traditional European markets. At the same time, the
position of Russian companies in the rapidly growing markets of Asia and Latin America was quite weak, with negative trends being observed in some of the areas. Russia, for instance, had a negative trade balance with its main trading partner in Asia – China.

According to the strategic goals and objectives of the Russian Federation in the foreign economic relations the most relevant areas in the context of the development of bilateral economic cooperation are currently the following [Selyukov, Shalygina, Kulik, 2021]:

- cooperation with non-CIS countries (excluding Japan and ASEAN countries – Brunei, Vietnam, Indonesia, Cambodia, Laos, Malaysia, Myanmar, Singapore, Thailand, Philippines);
- Countries of the Association of Southeast Asian Nations (ASEAN);
- Special project of the Ministry of Economic Development of Russia-Japan;
- Cooperation with the CIS countries.

However, we can confidently say that the development of a strategic approach to bilateral economic cooperation with China is the most relevant in the modern coordinate system of Russia's foreign economic activity. At present, the PRC is indeed the most important and high-priority partner in the matters related to the development of our country's foreign economic activity. There have been different stages in the history of relations between Russia and China, but their current state gives hope for an even greater mutually beneficial effect in the strategic perspective.

Now, China is the most important partner, a priority partner, of Russia in terms of developing the foreign economic activity of the latter. This resulted in 2017 in China leading in both the Russia’s trade turnover (86975 million dollars or 14.9%) and in Russia’s exports ($38919 million or 10.9%) and imports ($48056 million or 21.1%). Moreover, it is China that is the major exporting partner of Russia ($11322 million), which is undoubtedly the most important factor to facilitate the further modernization of the Russian economy. If we consider the entire period of 2015-2019, the trade turnover has almost doubled. At the end of 2019, Russia ranked 11th in the ranking of China's 20 main trading partners (10th place excluding Hong Kong). In 2019, exports to Russia increased by 3.6% and reached $ 49.7 billion. Russia has delivered goods for $ 61.05 billion to China. It is noted that in December alone, the aggregate indicator of exports and imports of goods between Russia and China exceeded $ 10 billion (Fig. 1) [Selyukov, Shalygina, Kulik, 2021].

Fig. 1. Dynamics of foreign trade turnover between Russia and China in 2015–2019 [Selyukov, Shalygina, Kulik, 2021]
Speaking about investment cooperation between Russia and China, it should be emphasized that in the current conditions of the development of the world economy, the problems of increasing its efficiency are primarily due to the need to search for alternative sources of investment to stabilize the Russian economy in the face of a recession, the ongoing sanctions regime and smoothing out the consequences of the coronavirus pandemic.

The most important factor influencing the development of Russian-Chinese trade and economic relations is the positive dynamics of the volume of mutual trade, which in 2020 reached 107.77 billion US dollars, it should also be noted that, the indicator is slightly, by 2.9% lower than in 2019.

It should be noted that US $ 10.8 billion is the volume of trade between the PRC and the Far Eastern Federal District, which is about 25% of the total. Also, it should be emphasized that China is the most important partner of Russia in the process of development prospects in the territory of the Far East of preferential treatment of priority development territories and the free port of Vladivostok.

Globalization and economic integration have a serious impact on the development of territories. Over the past decades, Russia has been a particularly attractive subject for organizing China's export activities and an attractive territory from an investment point of view.

The growing interest of the Chinese side is characterized by the participation of 58 Chinese companies in the implementation of economic projects, they are residents of the PDT and SPV. It should also be noted that the volume of investments of these enterprises is 11.6 billion US dollars.

Chinese businessmen are showing interest in industries such as forestry, agriculture, logistics, transportation, etc.

Today, China is one of the largest investors in the Russian economy and the largest foreign trade partner of Russia. Accumulated direct Chinese investments in Russia at the beginning of 2020, according to Russian data, amounted to USD 3.7 billion (Fig. 2), but according to the estimates of the Chinese side - USD 12.8 billion, which is not true.

Meanwhile, the pace of development of investment cooperation is slowing down, and this is evidenced by the clearly expressed tendency to withdraw a large volume of Chinese investments from the Russian economy.

In fact, China has never been a major investor in Russia, and has never become one even amid falling Western investment. Here we should recognize the fact that at present, all economically profitable (Chinese) investments are located outside Russia.
At the same time, China itself has attracted more and more investments in its economy in recent years. «China has managed to cope with the negative impact of the COVID-19 pandemic and achieve its goal of stabilizing the flow of foreign investment in 2020, overcoming the downward trend of global foreign investment. The inflow of foreign investment in the PRC services sector in 2020 amounted to 776.8 billion yuan, which is 13.9% more than in the previous year» [Rossiya i Kitaj utverdili perechen’ znachimyh proektov investiccionnogo sotrudnichestva na 107 mlrd dollarov, 2020]. And investments from Russia are also not essential for the Chinese economy (Fig. 3).

Fig. 3. Russian investments in China

Considering a quite promising initiative of China aimed at improving the existing trade routes and creating new ones, as well as transport and economic corridors (this initiative was first known as the Silk Road Economic Belt (SREB), which is now embodied in the concept «One Belt – One way»), the Russian economy may receive additional incentives for its development, that is: the status of a large transit zone; an increase in return on investments in the transport infrastructure; more active development of the Asian regions of Russia; and an opportunity to increase the supply of Russian products to Asia.

The very idea of creating the SREB was put forward by the President of the People’s Republic of China Xi Jinping and was first mentioned in his speech in Astana during his state visit to Kazakhstan in September 2013, which focused on the common strategic goal for China and the Central Asian countries: the stable development of the economies, prosperity and power of the states. The Chinese leader emphasized the need to “strengthen practical interaction far and wide” and “convert the advantages of political dialogue, geographical proximity and economic complementarity into the advantageous cooperation, sustainable growth, common interests based on mutual benefits and common gains [Speech by President Xi Jinping at Nazarbayev University, 2013]. The SREB concept can be implemented by taking the following measures: political coordination, interconnection of infrastructure, trade liberalization, free movement of capital and improving mutual understanding between peoples (Economic Development Strategy «One Belt – One Way», 2018). In practice, this project provides for solving problems in the fields of infrastructure construction, investment in the industry, development of natural resources, trade, economic and financial cooperation, humanitarian exchanges, environmental protection and interaction at sea.
In order to finance the implementation of the SREB project, two new financial institutions were created in China in 2014: The Asian Infrastructure Investment Bank (AIIB) and The Silk Road Fund.

As early as in 2015, not only the prospects for creating the SREB were actively discussed, but rather the development of the 21st Century Maritime Silk Road. In general, the three most frequently mentioned overland and two sea routes can be referred to as the main SREB routes: along these routes, the following international corridors of economic cooperation are planned to be formed – China–Mongolia–Russia, China–Central Asia–West Asia, China–Indochina, China–Pakistan and Bangladesh–India–Myanmar–China [Van, Van, 2014].

So, the SREB project means a program to radically intensify China’s foreign economic activity in Eurasia along the historical route which was used for transporting goods from China in ancient times. Chinese political experts emphasize that the idea of creating the SREB is not new for China – over the past decades, a number of leaders of the country called for the restoration of the ancient Silk Road, but it was Xi Jinping who was the first to bring this initiative to the official level. In fact, the concept of the Silk Road Economic Belt is the most important direction in China’s foreign policy, a vector of moving towards its new global role.

Russia responded to the Chinese initiative with the concept of coexistence and complementarity, or the integration of the SREB with the Russian integration project – the Eurasian Economic Union (EAEU). This idea began to develop in late 2013-early 2014 [Skriba 2016]. The agreement on linking the EAEU and the Chinese SREB was signed by the heads of the Russian Federation and China in May 2015 during the visit of Xi Jinping to Russia.

The most significant of them was The Joint Statement of the Russian Federation and the People’s Republic of China on Cooperation in Integrating the Construction of the EAEU and the SREB (2015). In the course of the interaction between the two countries, the Commission for connecting the EAEU and SREB projects has been created [Van, Van, 2014].

On May 14-15, 2017, the first high-level forum on international cooperation within the “One Belt – One Way” strategy was held in Beijing, in which the leaders and heads of the government from 29 countries took part, including Russian President Vladimir Putin.

It is important to mention that another step was taken on January 17, 2018, when the EEC board approved a draft agreement between the EAEU and China on the exchange of customs information on goods and vehicles for international transportation moving across the customs borders of the EAEU and China. This agreement creates a unified custom register that includes information on customs control along the route of goods and solves the issue of mutual recognition of the customs control results by the countries participating in the transport corridors. This will help expedite the clearance of goods imported into the Union countries and China, as well as those transported in transit.

At present, the main integration of these initiatives, as expected, has taken form of various infrastructure projects in the EAEU countries. The emphasis is made on transport and logistics infrastructure, since the transport corridors of the SREB, as conceived by the Chinese partners, should link resources, productions and sales markets. It is highly likely that the negotiations on the Moscow-Kazan rapid transit railway will be completed in the current year, this railway being part of the Eurasia high-speed railway from China to the EU via Kazakhstan, the Russian Federation and Belarus [Economic Development Strategy "One Belt – One Way", 2018].

At the same time, China’s infrastructural projects with the EAEU countries are mainly bilateral, as Beijing deliberately seeks to work with partners directly, rather than through collective bodies. Therefore, overall, the share of China’s projects in the process of integrating the “One Belt – One Road” initiative and the EAEU is still insignificant, with these projects hardly having any significant affect on the economic development of the Union. The situation may start to improve when the agreement on the exchange of customs information between the EAEU and China comes into effect after it is approved by the Chinese partners.
According to several credible experts, when integrating the SREB and the EAEU, it is important to prevent the diffusion of those EAEU regulations which often do not coincide with the Chinese ones. This specifically applies to the work of the transport and logistics infrastructure (rail and other kinds of transportation) in the territory of the Union. Experts also talk about inconsistency among the EAEU participants when launching cross-border infrastructure projects with the Chinese partners, which reduces their effectiveness in the end.

Besides, at the current stage of integrating the EAEU and the SREB, one of the vital areas is improving the mutual understanding between peoples by means of developing humanitarian exchanges, above all, in education, especially at the regional level.

Currently, one of the positive examples of such cooperation in the sphere of education is a project implemented at the Institute of Economics and Management of Belgorod State National Research University (BelSU): practice-oriented training for undergraduates from Dezhou State University majoring in World Economy and Trade. So, apart from achieving a number of economic (to increase revenues), social (to improve the quality of teaching, learning and academic mobility) and branding (to help the University enter the leading world university rankings and to increase its competitiveness) goals, BelSU at the same time is making a contribution to the promotion of the Russian-Chinese relationship.

In addition to the above, one of the most important ways of promoting foreign economic activity, especially when there is a serious threat of criminalization of foreign trade, is to increase the efficiency of government bodies, the main goals and objectives of which are to ensure economic security at all the levels of the national economic system. Among these state bodies, without doubt, are customs authorities of the Russian Federation, which regulate the legal relations that arise, change and cease in the Russian customs area. The strategic goal of the customs service of the Russian Federation is to increase the level of economic security of the Russian Federation, to ensure the complete and regular flow of revenues into the federal budget, to defend the interests of national manufacturers, to protect intellectual property and to assist foreign trade through improving the quality and effectiveness of customs administration [Kompleksnaya programma razvitiya FTS Rossii na period do 2020 goda, 2017].

One of the priority areas in terms of enhancing foreign economic activity, improving the investment climate and promoting entrepreneurial activity in Russia, is, first, improvement of the customs administration. With this in mind, the most important aspect is the interaction of the customs service of the Russian Federation with the business community when preparing laws and regulations that make up the EAEU law and the legislation of the Russian Federation on customs, as well as the development and implementation of “road maps” of the National Entrepreneurial Initiative on improving customs administration and export support. These issues have been repeatedly discussed, but their practical solutions require the development of new approaches and methods.

Conclusion

Thus, it should be recognized that the idea of integrating the two initiatives is still at an early stage, and significant opportunities for cooperation between the parties in the formation of a Large Eurasian Partnership for the mutual benefit of all its participants have yet to be found. The integration of the EEU and the SREB is still lagging the political agenda. First, the roadmap, which was supposed to be ready by early 2016, is still under development. Secondly, there are no signs that a political dialogue on this issue can take place between the EAEU members soon.

An important aspect when pairing the EECS and the EAEU is to prevent the dilution of those Union regulations, which often do not coincide with the Chinese ones. First, this concerns the work of the transport and logistics infrastructure (rail and other transportation) on the territory of Russia. Currently, there is also an inconsistency between the EAEU members in launching investment projects with the Chinese side, which reduces their effectiveness.
One cannot but agree with the fact that the bulk of Chinese investment comes from intergovernmental cooperation. As a result, without a powerful administrative resource, the Chinese will not invest in the Russian economy. Therefore, in order to attract Chinese investment, it is necessary to ensure the security of foreign investment in parallel with increasing political support at the highest level.

In the current conditions, in the context of the development of investment cooperation, special attention should be paid to the scientific, technical and innovation sphere to develop the most effective vaccine against Covid-19. Among the most promising areas of interaction in this area, the following key areas of bilateral dialogue can be identified:

- basic research,
- artificial intelligence,
- new energy resources and materials,
- information and communication technologies and the Internet,
- biotechnology,
- aerospace industry,
- nuclear power,
- agriculture and environmental protection.

In general, it should be emphasized that the current trends in the development of the world economy make it urgent for the Russian government to review issues related to the priorities of foreign economic policy, to develop new approaches and tools for their application, with further formalization in the form of a modern strategy for the development of foreign economic activity in Russia, in which special attention will be paid to increasing the investment attractiveness of domestic projects.

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Информация о авторах

Селюков Максим Викторович, кандидат экономических наук, доцент, доцент кафедры социальных технологий и государственной службы, Белгородский государственный национальный исследовательский университет, г. Белгород, Россия

Камишанченко Елена Николаевна, доктор педагогических наук, доцент, заведующая кафедрой мировой экономики, Белгородский государственный национальный исследовательский университет, г. Белгород, Россия

Шалыгина Наталья Петровна, кандидат экономических наук, доцент, доцент кафедры мировой экономики, Белгородский государственный национальный исследовательский университет, г. Белгород, Россия

Максим В. Селюков, Candidate of Economic Sciences, Associate Professor, Associate Professor of the Department of Social Technologies and Public Administration, Belgorod National Research University, Belgorod, Russia

Елена Н. Камышанченко, Doctor of Pedagogical Sciences, Associate Professor, Head of the Department of World Economy, Belgorod National Research University, Belgorod, Russia

Наталия П. Шалыгина, Candidate of Economic Sciences, Associate Professor, Associate Professor of the Department of World Economy, Belgorod National Research University, Belgorod, Russia