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# Limits of Interaction between Russian and Chinese Companies in the Countries of the Eurasian Economic Union

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**ABSTRACT.** *This article examines the possibility of combining Russian and Chinese integration initiatives within the EAEU space from the business side. The author stresses the need for a wider type of analysis not limited exclusively to prospects offered by the Belt and Road Initiative. The study is based on a statistical analysis of the partner states' foreign trade, as well as official information and expert estimates of the scale and structure of investments, including the author's own data on direct investments by Russian and Chinese TNCs in the EAEU either directly or through third parties. A significant portion of the article is dedicated to the issue of economic competition between Chinese and Russian TNCs in Kazakhstan and Kyrgyzstan and the possibilities for beneficial cooperation between those businesses in Central Asia. The author also sheds light on the growing impact of Chinese business in Belarus and Armenia, where Russian firms are currently the most powerful foreign economic actors, and there is also a significant presence from Western European investors and other TNCs.*

*Following these considerations, the author examines the limitation of the Chinese-Russian business partnerships within Russia. The author also presents an original comparative analysis of Chinese direct investment in Rus-*

*sia and Russian direct investment in China. Finally, the author considers the viability of Russian-Chinese economic cooperation outside the post-Soviet space, ultimately stipulating that the lack of cooperation between Russian and Chinese TNCs in Africa or Latin America can only indicate a forced, politically motivated cooperation in the EAEU countries.*

**KEYWORDS:** *Eurasian Economic Union (EAEU), foreign trade, foreign direct investment (FDI), Russian transnational corporations, Chinese transnational corporations*

The economic competition between Russia and China has been discussed for quite some time (Luzyanin, 2010). However, this discussion has become more topical with the creation of the Eurasian Economic Union (EAEU) – a project positioned as a long-term prospective plan for the integration of the Post-Soviet space – as well as China's practical implementation of the “Silk Road Economic Belt” (now known as the Belt and Road initiative). In May 2015, the leaders of Russia and China formally announced that they would combine the construction of the EAEU with the “Silk Road Economic Belt”. However,

experts have noted that both the potential for cooperation between Russia and China and the possibility for an intensification of the two major powers' rivalry can be seen (Salitskii, Semenova, 2014; Lukin et al., 2016; Scriba, 2016).

In this article, we focus on the relatively less studied aspects of the potential conflict between Russia and China. Firstly, in a geographical sense, we consider not only Central Asia, which is the primary focus among the majority of experts, but also the territory of the EAEU. In other words, we study not just Kazakhstan and the Kyrgyz Republic, but also Armenia and Belarus (the latter especially important in relation to China's growing interest in Eastern European expansion), as well as Russia.

Secondly, we pay increased attention to investments in companies, including private enterprises, rather than political and economic factors<sup>1</sup>. More specifically, we examine the interaction and competition between Russian and Chinese TNCs, and not only in connection to the countries of the EAEU. Our aim is to test the viability of Russian-Chinese economic interaction outside the post-Soviet space, since the lack of cooperation between Russian and Chinese TNCs in other regions of the world appears to attest to the forced, politically driven character of the two countries' cooperation in the countries of the EAEU.

## Contemporary Role of China in the Foreign Economic Relations of the EAEU

As China's economic power grows, so does its role in the foreign economic relations of a majority of countries. The countries of the EAEU are no exception. For example, Russian commodity exports to

China grew more than 7 times from 2000 to 2013, from \$5.2 billion to \$37.5 billion – meaning China's share in Russian exports increased from 5.1% to 7.1%. At the same time, Russian commodity imports from China increased 56 times (!), from \$0.9 billion to \$53.2 billion. As a result, China's share in Russian imports increased from 2.8% to 16.9%, signifying that the net balance of trade has changed. China's share in Russia's overall foreign trade turnover has grown from 4.5% to 10.8% over the course of 13 years. Between 2014-2016, the volume of exports and imports fell sharply, to \$28.0 billion and \$38.1 billion, respectively. However, China's share continued to increase, to 9.8% of Russia's exports and 20.9% of Russia's imports, as well as to 14.1% of Russia's overall trade turnover<sup>2</sup>.

Similar processes are occurring in other countries. China is currently among the top three most important trade partners for all EAEU countries (Table 1).

Only Kazakhstan has an overall trade surplus, which is due to its mass export of raw materials (including from enterprises), made possible with the help of a transportation infrastructure financed by Chinese investors. Nevertheless, Kazakhstan, like Russia, has a much larger role in the trade turnover of the EU 28, due to the fact that a significant portion of exports is still oriented towards the West, and the EU still provides more diversified large-scale imports. While the other four EAEU countries, including Russia, do have a trade deficit with China, a huge gap between exports and imports is observed only in Kyrgyzstan. This is due to the fact that, among other things, the country is used as a route of transit for the delivery of goods to third parties, including the EAEU. At the same time, Kyrgyzstan's own exports outside the post-Soviet countries are primarily associated with

<sup>1</sup> Such approach is rather widespread (Mikheev et al., 2015).

<sup>2</sup> Calculations are based on: Russia in figures 2017 (Russian version, pp. 474, 479, 481). URL: [http://www.gks.ru/free\\_doc/doc\\_2017/rusfig/rus17.pdf](http://www.gks.ru/free_doc/doc_2017/rusfig/rus17.pdf). (Date of access: 18.10.2017)

**Table 1.** The Geography of China's Foreign Trade in the EAEU in 2016

	Indicator	Russia	Kazakhstan	Belarus	Armenia	Kyrgyzstan
Total	Exports, \$ billion	287.58	36.74	23.53	1.79	1.58
	Imports, \$ billion	183.31	25.37	27.61	3.22	4.00
	Turnover, \$ billion	470.89	62.11	51.14	5.01	5.58
	Share in turnover, %	100.0	100.0	100.0	100.0	100.0
EAEU	Exports, \$ billion	26.80	3.93	11.38	0.39	0.45
	Imports, \$ billion	14.49	9.86	15.38	1.06	1.63
	Turnover, \$ billion	41.29	13.79	26.76	1.45	2.08
	Share in turnover, %	8.8	22.2	52.3	28.9	37.3
Russia	Exports, \$ billion	X	3.65	10.29	0.38	0.18
	Imports, \$ billion	X	9.56	15.25	0.96	1.03
	Turnover, \$ billion	X	13.21	25.54	1.34	1.21
	Share in turnover, %	X	21.3	49.9	26.7	21.7
Other countries	Exports, \$ billion	260.78	32.81	12.15	1.40	1.13
	Imports, \$ billion	168.82	15.51	12.23	2.16	2.37
	Turnover, \$ billion	429.60	48.32	24.39	3.56	3.50
	Share in turnover, %	91.2	77.8	47.7	71.1	62.7
EU-28	Exports, \$ billion	130.67	18.68	5.66	0.48	0.07
	Imports, \$ billion	69.87	5.69	5.52	0.71	0.25
	Turnover, \$ billion	200.55	24.37	11.18	1.19	0.32
	Share in turnover, %	42.6	39.2	21.9	23.8	5.7
China	Exports, \$ billion	28.02	4.23	0.47	0.10	0.08
	Imports, \$ billion	38.11	3.67	2.13	0.34	1.47
	Turnover, \$ billion	66.13	7.90	2.60	0.44	1.55
	Share in turnover, %	14.0	12.7	5.1	8.8	27.8
Top 5 trade partners outside EAEU		China	Italy	Ukraine	China	China
		Germany	China	China	Germany	Switzerland
		Netherlands	Netherland	Germany	Iran	Turkey
		United States	Switzerland	Poland	Georgia	Uzbekistan
		Italy	France	United Kingdom	Bulgaria	United States

**Sources:** Obyemi eksportnih postavok Rossiyskoy Federatsii v gosudarstva – chleni EAES za 2016 g. [Russian Federation exports to EAEU member states in 2016]. URL: [http://www.eurasiancommission.org/ru/act/integr\\_i\\_makroec/dep\\_stat/tradestat/tables/intra/Documents/2016/12\\_180/I201612\\_8\\_5.pdf](http://www.eurasiancommission.org/ru/act/integr_i_makroec/dep_stat/tradestat/tables/intra/Documents/2016/12_180/I201612_8_5.pdf) (Accessed: 18.10.2017); Obyemi importnih postavok Rossiyskoy Federatsii iz gosudarstv – chlenov EAES za 2016 g. [Russian Federation imports from EAEU member states in 2016]. URL: [http://www.eurasiancommission.org/ru/act/integr\\_i\\_makroec/dep\\_stat/tradestat/tables/intra/Documents/2016/12\\_180/I201612\\_9\\_5.pdf](http://www.eurasiancommission.org/ru/act/integr_i_makroec/dep_stat/tradestat/tables/intra/Documents/2016/12_180/I201612_9_5.pdf) (Accessed: 18.10.2017); Vneshnyaya vzaimnaya trgovlya tovarami Evraziyskogo ekonomicheskogo soyuza [EAEU intra-trade in commodities]. URL: [http://www.eurasiancommission.org/ru/act/integr\\_i\\_makroec/dep\\_stat/tradestat/time\\_series/Pages/default.aspx](http://www.eurasiancommission.org/ru/act/integr_i_makroec/dep_stat/tradestat/time_series/Pages/default.aspx) (Date of access: 18.10.2017); Vneshnyaya trgovlya Respubliki Armeniya po stranam [Foreign trade of the Republic of Armenia, by countries]. URL: [http://www.eurasiancommission.org/ru/act/integr\\_i\\_makroec/dep\\_stat/tradestat/tables/extra/Documents/2016/12\\_180/E201612\\_2\\_2.pdf](http://www.eurasiancommission.org/ru/act/integr_i_makroec/dep_stat/tradestat/tables/extra/Documents/2016/12_180/E201612_2_2.pdf) (Accessed: 18.10.2017); Vneshnyaya trgovlya Respubliki Belarus' po stranam [Foreign trade of the Republic of Belarus, by countries]. URL: [http://www.eurasiancommission.org/ru/act/integr\\_i\\_makroec/dep\\_stat/tradestat/tables/extra/Documents/2016/12\\_180/E201612\\_2\\_3.pdf](http://www.eurasiancommission.org/ru/act/integr_i_makroec/dep_stat/tradestat/tables/extra/Documents/2016/12_180/E201612_2_3.pdf) (Accessed: 18.10.2017); Vneshnyaya trgovlya Respubliki Kazakhstan po stranam [Foreign trade of the Republic of Kazakhstan, by countries]. URL: [http://www.eurasiancommission.org/ru/act/integr\\_i\\_makroec/dep\\_stat/tradestat/tables/extra/Documents/2016/12\\_180/E201612\\_2\\_4.pdf](http://www.eurasiancommission.org/ru/act/integr_i_makroec/dep_stat/tradestat/tables/extra/Documents/2016/12_180/E201612_2_4.pdf) (Accessed: 18.10.2017); Vneshnyaya trgovlya Kirgizskoy Respubliki po stranam [Foreign trade of the Kyrgyz Republic, by countries]. URL: [http://www.eurasiancommission.org/ru/act/integr\\_i\\_makroec/dep\\_stat/tradestat/tables/extra/Documents/2016/12\\_180/E201612\\_2\\_5.pdf](http://www.eurasiancommission.org/ru/act/integr_i_makroec/dep_stat/tradestat/tables/extra/Documents/2016/12_180/E201612_2_5.pdf) (Accessed: 18.10.2017); Vneshnyaya trgovlya Rossiyskoy Federatsii po stranam [Foreign trade of the Russian Federation, by countries]. URL: [http://www.eurasiancommission.org/ru/act/integr\\_i\\_makroec/dep\\_stat/tradestat/tables/extra/Documents/2016/12\\_180/E201612\\_2\\_6.pdf](http://www.eurasiancommission.org/ru/act/integr_i_makroec/dep_stat/tradestat/tables/extra/Documents/2016/12_180/E201612_2_6.pdf) (Accessed: 18.10.2017).

the supply of gold, particularly to Switzerland. The export-oriented nature of the gold mining industry naturally attracts foreign investment, but companies from neighboring China are smaller in scale than Canadian investors. (Of course, other foreign firms are also operating in this sector, including from EAEU countries.)

The above allows us to identify two trends most likely to be found when examining relations between China and EAEU countries. Firstly, the growth of exports to China is primarily possible due to increased supplies of raw materials and semi-finished products, such as the development of a production base using Chinese capital. Secondly, it is possible to improve the structure of imports mainly by strengthening the transit functions of the post-Soviet countries. The latter can be achieved either by transport operations or by generating output at factories for delivery to the West (primarily EU countries) using Chinese capital.

As for direct investments, those from Russia are of particular importance for Belarus and Armenia, while those from China are important for Kazakhstan and Kyrgyzstan (Table 2). This trend is especially noticeable if trans-shipping investments are taken into account when calculating inward foreign direct investment stocks, since both Chinese, and especially Russian and Kazakhstani TNCs, often make investments through firms registered in Cyprus, the British Virgin Islands and other similar jurisdictions. For 6 years, the research team at the Primakov National Research Institute of World Economy and International Relations (IMEMO) have been calculating direct investments (Kuznetsov, et al., 2017). Their

findings demonstrate that official statistics have underestimated the real scale of foreign direct investment stocks by more than double. At the same time, the amount of investments from Russia and China (and also Canada) are roughly comparable in Kyrgyzstan, and Kazakhstan is not far behind. There are almost no direct Chinese investments in Armenia, whereas investors from several EU countries, Lebanon and the United States, play a relatively significant role in the country. (Many of them are representatives of the Armenian diaspora.)

For Kyrgyzstan, the value of China is much more significant than Russia as a result of its extensive loans. According to the Ministry of Finance of the Kyrgyz Republic, at the end of 2016, the country's foreign debt amounted to almost 3.8 billion dollars, including more than 1.5 billion dollars to the Export-Import Bank of China. Since 2010 the debt had increased more than 10 times. In fact, the entire increase in Kyrgyzstan's public debt is associated with an increase in liabilities to China. For comparison: over the same period, Kyrgyzstan's debt to Russia decreased from \$300 million to \$270 million, while its debt increased from \$564 million to \$568 million to the Asian Development Bank. The country's debt to the International Development Association (World Bank Group) decreased from \$649 million to \$618 million and from \$431 million to \$236 million to the Japan Bank for International Cooperation<sup>3</sup>. By September 30, 2017 Kyrgyzstan's foreign debt approached \$4 billion, with \$1.63 billion of it due to the Export-Import Bank of China<sup>4</sup>.

The experience of other non-rich developing countries shows that, over time, these debts will most likely have to be converted into direct investment by Chinese

3 Структура государственного внешнего долга КР по состоянию на 31.12.2016 г. [Structure of the state external debt of the Kyrgyz Republic, as of 31.12.2016]. URL: [http://www.minfin.kg/userfiles/ufiles/struktura\\_vneshnego\\_dolga31.12.2016.xls](http://www.minfin.kg/userfiles/ufiles/struktura_vneshnego_dolga31.12.2016.xls) (Accessed: 18.10.2017)

4 Структура государственного внешнего долга КР на 2017 г. [Structure of the state external debt of the Kyrgyz Republic in 2017]. URL: [http://www.minfin.kg/userfiles/ufiles/2017/struktura\\_vneshnego\\_dolga\\_na\\_30.09.2017.xls](http://www.minfin.kg/userfiles/ufiles/2017/struktura_vneshnego_dolga_na_30.09.2017.xls) (Accessed: 18.10.2017)

companies, either in primary or infrastructure enterprises. The structure of Kyrgyzstan's external debt (with 40% belonging to China) already largely determines the orientation of the country's foreign trade, despite its formal membership in the EAEU. Other countries of the EAEU, where the presence of direct Chinese investors is still small, including Belarus and Armenia, also receive Chinese loans.

### The Chinese Factor in Foreign Investor Competition in the EAEU

The significance of Chinese investments in the EAEU countries continues to grow. According to IMEMO, if at the end of 2010 foreign direct investment stock from China in 5 EAEU countries amount-

ed to \$17.3 billion, by the end of 2016, it amounted to \$31.3 billion<sup>5</sup>. Chinese statistics are somewhat different<sup>6</sup>, showing larger investment in Russia (apparently, due to small projects in the eastern regions of the country), and significantly less in Kazakhstan. The latter is connected with the problem of calculating investment by the Trans-Asia Gas Pipeline Company, owned by CNPC, in the pipelines from Turkmenistan (through Uzbekistan) and directly from Kazakhstan to China, as well as the difficulty in evaluating a number of mining projects by offshore companies.

At the same time, the sectoral structure of Chinese direct investment is rather primitive, with a dominance of investment in the oil and gas sector, other raw materials, and infrastructure projects. This is particularly characteristic of the invest-

**Table 2.** Inward foreign direct investment stocks in EAEU countries at the end of 2016.

Country of origin of investments	Russia		Kazakhstan		Belarus		Armenia		Kyrgyzstan	
	\$ billion	%	\$ billion	%	\$ billion	%	\$ billion	%	\$ billion	%
<b>Total</b> (UNCTAD)	379.0	100	129.8	100	19.0	100	4.6	100	5.1	100
<b>Russia</b> (Bank of Russia)	X	X	3.0	2	3.8	20	1.2	26	0.2	4
<b>Russia</b> (IMEMO)	X	X	8.2	6	8.5	45	3.4	74	0.9	18
<b>China</b> (IMEMO)	8.2	2	21.5	17	0.6	3	0.0	0	0.9	17
<b>Kazakhstan</b> (IMEMO)	2.9	0.8	X	X	0.1	0.5	0.0	0	0.6	12
<b>Kazakhstan</b> (National Bank of Kazakhstan)	1.2	0.3	X	X	0.0	0.1	0.0	0	0.3	6

**Sources:** UNCTAD. World Investment Report 2017. Investment and the Digital Economy. 2017. URL: <http://unctad.org/en/pages/PublicationWebflyer.aspx?publicationid=1782> (Accessed: 18.10.2017); (Kuznetsov et al., 2017, p. 8); Direct Investment of the Russian Federation Abroad in 2014-2017. Positions by Instrument and Partner Country (Directional Principle). URL: [https://www.cbr.ru/statistics/credit\\_statistics/direct\\_investment/16-dir\\_inv.xlsx](https://www.cbr.ru/statistics/credit_statistics/direct_investment/16-dir_inv.xlsx) (Accessed: 18.10.2017); Sostoyaniye netto-positsii po pryamim investitsiyam po napravleniyu vlozheniya po stranam na 31 dekabrya 2016 g. [Net position of direct investment by direction of investment by country as at 31 December 2016] URL: [http://www.nationalbank.kz/cont/15ru\\_4q16.xlsx](http://www.nationalbank.kz/cont/15ru_4q16.xlsx). (Accessed: 18.10.2017)

5 Calculations of the research team led by A.V. Kuznetsov in the framework of the projects "Monitoring and Analysis of Investments in the CIS and Eurasia" commissioned by the Eurasian Development Bank.

6 Detailed data are available at the end of 2015 – \$ 14 billion, in Russia, \$ 5 billion in Kazakhstan, \$ 1 billion in Kyrgyzstan, almost \$ 0.5 billion in Belarus, and less than \$ 10 million in Armenia: The Belt and Road Initiative: Country Profiles. URL: <http://china-trade-research.hktdc.com/business-news/article/The-Belt-and-Road-Initiative/The-Belt-and-Road-Initiative-Country-Profiles/obor/en/1/1X3CGF6L/1X0A36I0.htm> (Accessed: 18.10.2017)

ment trends in Kazakhstan and Kyrgyzstan (as, well as for neighboring Tajikistan which is not included in the EAEU). Only in Belarus the structure of Chinese direct investment is different, with investment focused in the real estate and mechanical engineering fields. The largest project (investment exceeded \$0.3 billion) was the joint venture launched by the Chinese company Geely Automobile Holdings for the assembly of passenger cars with a focus on sales in the Russian market. At first it was a SKD assembly, but by the autumn of 2017, a plant was opened that met the EAEU requirements for the minimum localization of automobile production. This example illustrates the competition among EAEU member states for investments aimed at the entire EAEU market. Geely, like other Chinese TNCs, chose Belarus over Russia for its project despite the fact that Russia tends to be more comfortable for TNCs in terms of the general foreign investment conditions. However, in Belarus, authorities can provide individual support for large projects.

In certain cases, Russian TNCs do not compete with Chinese investors because of the non-standard strategies not currently used by Western TNCs.

For example, in Kyrgyzstan, a large Junda oil refinery in Kara-Balta was built specifically for Chinese investors. The investors also provided the facility with qualified personnel from China, until Kyrgyzstan trained its own specialists. The supply of specialists proved more important for the plant than an uninterrupted supply of raw materials (a Russian investor would have immediately provided a stable supply of raw crude oil from either Russia or Kazakhstan). Another oil refinery was constructed over the past few years in Kyrgyzstan in Tokmok. This is possibly the way China has sought to gain a foothold in the oil refining industry of the entire EAEU – in the country where this industry is not developed.

At the same time, in many niches, especially in the service sector, Russian and Western TNCs do not encounter any Chinese competition. In particular, Chinese direct investments in the EAEU banking industries is negligible, while capital investments from Russian companies (and sometimes investors from other EAEU countries) are quite substantial. Only in two countries – Kazakhstan and Russia – do the Chinese Bank of China and Industrial & Commercial Bank of China operate. In Russia, their subsidiaries' total equity is valued at \$101 million and \$93 million respectively. In Kazakhstan – \$72 million and \$51 million. One other Chinese banking corporation entered the Kazakhstani market in the summer of 2017 when an agreement was signed for the Kazakhstani Altyn Bank to sell 60% of its shares to a consortium of two Chinese banking corporations: China CITIC Bank Corporation and China Shuangwei Investment Co. Therefore, in Russia, Chinese banks are not only not comparable to leading domestic banks, but also to such European giants as UniCredit Bank (Italy), Raiffeisenbank (Austria) or Rosbank (France). However, Chinese banks are comparable to Moskommertsbank, a bank controlled by Kazakhstani capital. At the end of 2016, the equity capital of its subsidiary Kazkommertsbank was valued at \$60 million.

Smaller Kazakhstani banks also operate in Russia, as well as Armenian and Belorussian banks. In Kazakhstan, there are two Chinese banks that are almost half the size of the total direct investment by Russian banks Sberbank, VTB Group and Alfa-Bank. Their competitors are primarily local banks, as well as a number of Western banks and subsidiaries of banks from Asian Muslim countries. In Belarus, the largest Russian banks are Vnesheconombank, Gazprombank, Sberbank, VTB Group and Alfa-Bank (their aggregate direct investment



stock exceeds \$0.7 billion). Three large Kazakhstani banks operate in Kyrgyzstan – ATF-Bank, BTA Bank and Halyk Bank. The Russian VTB Group (with \$78 million in equity) operates in Armenia, alongside a series of smaller banks often represented by Russians from the Armenian diaspora.

There is still no Chinese foreign direct investment in the EAEU within the telecommunications sphere, while Russian TNCs are some of the most important players on the market in these countries. In Belarus, Russia's MTC competes with operators owned by Turkish and Austrian capital, while in Kazakhstan VEON (a Russian-Norwegian company known as VimpelCom until 2017) mainly competes with operators owned by Swedish investors. Within the Kyrgyz market, Russian and Kazakhstani investors primarily compete.

The path towards the economic integration of the EAEU countries is viewed, at least by Russian businesses, as a positive factor when deciding to invest in the participating countries. It is not by accident that in 2016, across all of EAEU countries, Russian outward foreign direct investment stocks grew. This was not the case in the majority of post-Soviet states left out of the integration project (Kuznetsov et al., 2017, p. 24). However, it would be premature to predict a further growth of mutual investments within the framework of the EAEU. First, the unfavorable economic situation undermines the financial capabilities of the post-Soviet TNCs for foreign investment, shown by the fact that in 2016 Russian TNCs continued to sell off part of their foreign assets. Secondly, certain countries are trying to prevent foreign (primarily Russian) investors from investing in strategically important sectors of the economy. One illustrative example is the failed privatization of the Belaruskali company, and there are similar

examples within Central Asian countries (Kvashnin, 2016).

Therefore, with the exception of Kyrgyzstan (which surpasses neighboring Uzbekistan and Tajikistan in terms of Chinese outward foreign direct investment stocks) and the raw material sectors of the economy in Kazakhstan, the Chinese factor in investor competition is still less significant than the West European one. The exception is Armenia where EU representatives act according to the standard strategy developed for the “Eastern Partnership” and tested on Ukraine. That is, since Armenia does not yet meet EU standards for full-scale cooperation in the investment field, they put forth various claims on the country's investment climate and then wait for it to improve (Mamikonyan, Lewandowski, 2016).

Under such conditions and taking into account the fact that Armenia chose to join the EAEU, Russian TNCs do not face a strong threat of competition from the EU, although, of course, the problems in the existing investment climate do need to be overcome. In Belarus, the situation is somewhat more complicated. Significant work is being done on the Belorussian investment climate. Some publications offer a fairly accurate diagnostic evaluation of the specifics of foreign direct investment in the country, such as the dominance of capital investments aimed at the domestic market rather than exports – not good for the long-term sustainability of the small Belarus – and the large role of unproductive investments, particularly in real estate (Petrushkevich, 2017). Naturally, Belorussian experts are worried about the dominance of Russian TNCs, since along with sectoral diversification of foreign investment, any country faces the task of geographical diversification. Therefore, Western European TNCs will most likely become an alternative to Russian TNCs, although contacts with Chinese – and other Asian – investors are also welcome.

## Is there cooperation between Russian and Chinese TNCs outside of the EAEU and the People's Republic of China?

Recently, reports of new Chinese projects in Russia have consistently appeared. One of the most significant deals of late is the sale of a 20% share in PJSC Verkhnechonskneftegaz by Rosneft to the Chinese investor Beijing Gas Group Company Limited for \$1.1 billion. The contract was signed in November 2016, and the deal closed in June 2017. In 2015 and then 2016, 10% stakes valued at \$2.5 billion in the petrochemical company PJSC Sibur Holding were sold to Sinopec and Silk Road Fund respectively. Another large project with a minority Chinese direct investor is Yamal LNG, where CNPC owns 20% and has already invested about \$2.5 billion since 2013. According to the Ministry of Commerce of the PRC, by the end of 2016, the volume of Chinese foreign direct investment in Russia amounted to \$9.5 billion—almost 10 times more than Russian direct investment in the PRC<sup>7</sup>. At the same time, a number of leading Russian TNCs have already begun the initial phases of long-term, large-scale projects, such as the construction of an oil refinery in Tianjin by Rosneft. Nevertheless, outside of their bilateral investment relations, there is almost no cooperation between Russian and Chinese companies. In our opinion, this is due either to differing motivations for direct investment abroad and differing expansion strategies used by the two countries' TNCs, or serious competition both for the development of resources and the domination of markets in the absence of opportunities for strategic alliances (i.e. an alliance for the sake of technological cooperation or

the exchange of work experience in a particular market).

Most of Russian and Chinese direct investments in Central Asia are still concentrated in the oil and gas sector. There are examples of joint Russian-Chinese cooperation in the development of resources only in Kazakhstan – at present, the northern part of the Kumkol (within the framework of Turgai Petroleum's activities) is being developed by the leading private TNC from Russia, Lukoil, and the Chinese CNPC (via Canadian subsidiary PetroKazakhstan) on a parity basis. From 2009-2015, Lukoil was also a co-owner of Caspian Investment Resources, selling its 50% stake in 2015 to its Chinese partner Sinopec. If we look at the extensive geography of Lukoil's foreign business in the exploration and production of hydrocarbons, now spread across Azerbaijan, Uzbekistan, Iraq, Egypt, Norway, Romania, Cameroon, Nigeria, Ghana and Mexico, we can see a large list of foreign partners. Apart from local, usually state-owned companies, their partners include TNCs from the United States, several EU countries, Norway, Japan, Turkey, and even Malaysia and Iran – but not China. The reason lies in the desire of Russian investors to gain experience in drilling on the deep water shelf or in other complex or unusual geological conditions not found in Russia, and Chinese partners cannot provide such technologies. In the development of foreign field deposits, Gazprom also cooperates with local businesses and German, Italian, and French TNCs, rather than Chinese companies. The cooperation of giant Russian companies with those from the EU comes from many previous years of cooperation in the development of pipelines from Russia to the EU and the corresponding market facilities (underground

7 The Russian Federation Trade Representation to the PRC. Russian-chinese investment cooperation (in Russian). 2017. URL: <http://www.russchinatrade.ru/ru/ru-cn-cooperation/investment> (Accessed: 18.10.2017)



gas storage facilities, etc.). The situation is similar with Rosneft. Russian companies only recently began to view China as a partial replacement of markets in the EU.

The large number of Russian raw material giants who are objectively inclined to internationalize their businesses, and China's desire to use Chinese investment to establish control over raw materials abroad, has naturally caused the growth of direct investments from both countries to grow in various sectors within developing countries. However, in the field of uranium mining, for example, an important import for the further development of the nuclear power industry in both Russia and China, the country's expansion strategies clearly do not intersect (Korendyasov, 2013). In 2007 the state-controlled Chinese Sino-U established its first foreign joint venture in Niger. In addition to local capital, South Korean and Australian firms act as partners of the Chinese uranium company. At the same time, Russia's Gazprombank (through its own raw materials holding GPB Global Resources) launched projects in Niger in early 2011, after receiving two licenses for the exploration and mining of uranium in the Tuluk-2 and Tuluk-4 sites near the city of Agadez. The other foreign projects in the uranium sector are being implemented by Rosatom's Atomenergoprom in Kazakhstan, Tanzania and the United States.

In steel and non-ferrous metal industries, the diamond industry, and some other sectors, Russia and China are more likely to act as competitors. First, there are direct investments in neighboring countries by both Russia and China. For example, Russian Rusal has already owned plants that produce cathode materials in the Shanxi province (direct investment stock exceeds \$10 million). In 2015, the Chinese Lunsin company (owned by the Chinese Zijin Mining Group) launched

the Kyzyl-Tash GOK ore mining and processing plant in Tuva, investing \$0.3 billion in its construction over the course of 10 years. At the same time, Russian TNCs prefer local or Western companies when looking for partners to develop foreign deposits or process raw materials. For example, Rusal in 2007 significantly expanded its overseas presence in the aluminum business, combining its assets with the alumina division of the Swiss Glencore and worked with a number of European partners on various projects. China entered the equation unexpectedly. In 2011, Rusal bought out Norway's Norsk Hydro's 35% stake in a Jamaican alumina refinery Alpart, and then 5 years later, after experiencing financial difficulties, sold off all shares of the Alpart bauxite-alumina complex to the Chinese competitor JISCO for almost \$3 billion. There are no plans for cooperation between Russian and Chinese companies in the precious and semi-precious stones market sectors. Rather, Russia's Alrosa is trying to implement its own strategy to strengthen its position in the Chinese market, creating the Eurasian Diamond Center in Vladivostok in the fall of 2016 (Indian and South African investors have already shown interest in working in the Russian Far East), as well as expanding its presence in the mines of Angola (its partner is a Portuguese business).

In the manufacturing industries, there is often no opportunity for cooperation between TNCs of both countries due to differing levels of production development in Russia and China; a good example is the production of electronics and electrical engineering equipment, where several leading Chinese TNCs operate simultaneously<sup>8</sup>. In the automotive industry, the chemical industry and the timber industry, there is no joint investment to establish these industries in developing coun-

8 World Investment Report 2017. UNCTAD, annex table 25. URL: <http://www.unctad.org> (Accessed: 18.10.2017).

tries, even though there are examples of direct investment flows between China and Russia. Cooperation also does not occur in the service sector, although both Russian and Chinese business structures base banks abroad, develop mobile phone companies, and build transport corridors (Kuznetsov et al., 2016; Cui, Shi, Wang, 2016).

The lack of cooperation is partly due to the willingness of Chinese businesses (as opposed to Western and Russian TNCs) to invest in politically unstable countries with a low level of investment attractiveness—for example, in agriculture, primitive manufacturing industries, and the construction of engineering infrastructure (Ayodele, Sotola, 2014; Chen et al., 2016). At the same time, the Chinese investors supply local partners with long-term credit resources, and if necessary, provide their investment project with Chinese labor – a similar strategy is simply not available to Russian companies. There are, however, examples of direct competition: for example, in Pakistan between the Russian-Norwegian company VEON headquartered in the Netherlands (known as VimpelCom before 2017) and the state-controlled Chinese company China Mobile based in Hong Kong.

There is no cooperation between Chinese and Russian TNCs not only in developing countries, but in developed countries as well. Chinese TNCs are increasingly trying to make investments in EU countries (Hanemann, Huotari, 2016), whereas Russian TNCs have been actively investing in the EU for more than a decade. There have also been no examples of cooperation within the EU to overcome politically motivated protectionism. If you do not consider capital investments in real estate, then the most significant Russian investments in the EU

have been in projects related to the steel industry and oil refining, with Western companies often partnering with Russian TNCs, while Chinese investments are primarily concentrated in engineering and other industries, where access to advanced technologies is possible. The countries' respective relations with the Italian tire manufacturer Pirelli vividly illustrates this lack of cooperation. Back in 2011, this company undertook its first joint venture with the Russian state industrial conglomerate corporation Rostec and in 2012 bought the company's second biggest plant. In turn, in 2014, when the "war of sanctions" was already taking place, state-controlled Rosneft bought a 13.1% stake in the Italian TNC, bringing about new cooperation between Russia and Italy within the tire industry (the plans, not limited to merely trade cooperation and new production in Russia, also included a joint venture in Armenia). Then, in 2015, Chinese ChemChina gained control of Pirelli, buying over 63% of its shares, acquiring the first 13.1% of its shares, like Rosneft, through the purchase of half the shares of the company's co-owner, the tire giant Camfin. With the purchase of a 13.1% stake, Russia's Rosneft immediately received several seats on the board of directors at Pirelli, however soon after the company's takeover by a state-controlled Chinese TNC, there were no longer any Russian representatives on the board of directors. Although, at the same time, Igor Sechin, the chairman of the board of the Russian TNC, called the deal with the Chinese company "a unique example of new Eurasian business thinking".

Despite the hype in the media regarding the conflict between Russia and the West, the cultural and historical proximity

9 Sechin I.I. Nadeyus', nam udestsya prinyat' uchastiye v voploschenii v zhizni mechi Enriko Mattei [I hope that we will be able to participate in the realization of Enrico Mattei's dream] Надеюсь, нам удастся принять участие в воплощении в жизнь мечты Энрико Маттеи. Interview for *Il Sole 24 ore*. URL: <https://www.rosneft.ru/press/today/item/182521/> (Accessed: 18.10.2017)

of Russians and other Europeans appears to outweigh the gap in the way business is conducted, building “social capital” between Russian and Chinese entrepreneurs.

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Thus, the interaction of Russian and Chinese businesses in the EAEU countries appears to be primarily the result of political factors. This does not mean, however, that their interaction is not promising – the political merging between Russia and China with regard to the significant role of national, state-controlled TNCs in both countries, could facilitate the implementation of joint projects in the EAEU countries. However, in the long run, we are likely to meet an intensification of Russian-Chinese investment ties with a predominance of Chinese capital investments in Russia, since the reduction of labor costs – usually popular with TNCs – is of secondary importance. The examples of joint development found in the markets of Kazakhstan or Kyrgyzstan will remain isolated against a background of a gradually strengthening Chinese presence. At the same time, the positions of Russian TNCs in Armenia and Belarus will remain stable for a long time, and the main competitive pressure will continue to come from TNCs of Western countries, primarily from the EU.

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