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This Working Paper was prepared as part of a research project concerning the development of strategic partnership and constructive cooperation between Russia and China carried out by the Russian International Affairs Council (RIAC). The authors present the results of a comprehensive review of Russian–Chinese trade, economic, financial and cross–border relations, analyse the impact of strengthening bilateral cooperation between the Russian Federation and the People's Republic of China on the prospects of a "partnership for modernization", and offer some recommendations in the area of bilateral relations and the development of Eastern Siberia and the Russian Far East.

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Introduction

Russian–Chinese trade and economic cooperation has been developing quite successfully in recent years. This much is clear from the positive results achieved in bilateral trade, which topped $95 billion in 2014,[1] mutual investments (as of the end of 2013, total Chinese investments in Russia neared $5 billion, while Russian investments in China reached $860 million),[2] and financial cooperation between the two countries (in 2014, yuan/rouble trading saw an eightfold increase).[3]

In terms of political cooperation, the high status of the Russian–Chinese strategic partnership was affirmed by President Putin's visits to China in 2012, and particularly by the Chairman of the People's Republic of China Xi Jinping's visit to Russia in 2013.[4] The Russian president's visit to Shanghai in May 2014 resulted in the signing of an unprecedented number of bilateral documents, including a 30–year contract on gas supply to China.[5] The decisions made at the Fortaleza BRICS Summit in July 2014 on establishing the New Development Bank and using national currencies for mutual settlements within the group substantially changed the dynamic of the Russian–Chinese foreign exchange and financial relations. The intensity of the Russian–Chinese military cooperation is evidenced by regular joint exercises: 2014 saw "Naval Interaction 2014", the largest ever Russian–Chinese military naval exercise (May 22–25), as well as the "Peace Mission 2014" military exercises (August 22–29), and naval exercises in the Mediterranean (January 2014).

However, despite all the progress made, a number of material imbalances persist in Russian–Chinese trade and economic relations, the most significant of which are: **1)** Russia's disproportionately low share in China's foreign trade turnover, and **2)** Russian exports to China being dominated by commodities.

Overall, the economic interdependence of the two countries is extremely low, for instance, compared to the scale of Chinese–American economic cooperation. So far, Russian–Chinese trade and economic relations are noticeably lagging behind the political and strategic dialogue in terms of the rate, level and scale of growth.

The key parameters of the Federal Targeted Programme for the Development of the Far East and the Baikal Region for the next five years, the List of Priority Investment Projects in the Far Eastern Federal District approved on June 3, 2013 by the Government of the Russian Federation, and President Putin's direct instructions to create points of economic growth in the Russian Far East (in his address to the Federal Assembly of the Russian Federation on December 12, 2013)

[1] Russian–Chinese Trade and Economic Cooperation / Integrated Foreign Economic Information Portal (Ministry of Economic Development of the Russian Federation).
URL: http://www.ved.gov.ru/exportcountries/cn/cn_ru_relations/cn_ru_trade (in Russian).

[2] Chinese Direct Investment in Russia Tops $5 billion / RBC Daily.
URL: http://rbcdaily.ru/economy/562949989017603 (in Russian).

[3] Moscow Exchange Starts Rouble–Yuan Futures Trading // Finam. March 17, 2015. URL: http://www.finam.ru/analysis/newsitem/moskovskaya–birzha–nachala–torgi–fyuchersom–na–kitaiyskiiy–yuan–20150317–102719 (in Russian).

[4] It was Xi Jinping's first foreign visit since being elected chairman of the People's Republic of China.

[5] S. Filatov. Putin's Historic Visit to China Crowned with 51 Agreements // International Life. May 22, 2014.
URL: http://www.interaffairs.ru/read.php?item=11178 (in Russian).

reflect the government's concern about the current condition and development prospects of Eastern Siberia and the Russian Far East, stressing the importance of Russian–Chinese trade, economic, interregional and border cooperation in their future growth.

In view of global development trends and the nature of relations between Russia and the West against the background of the Ukrainian crisis, Russian–Chinese relations are expected to follow their current development pattern and remain a fusion of a strategic and tactical partnership with competitive interaction. In this situation, Russia's top priority is to expand its partnership with China.

The Russian–Chinese "Partnership for Modernization" could form the basis for qualitatively new relations.

As part of the Russian International Affairs Council research project on the development of a strategic partnership and constructive cooperation between Russia and China, this Working Paper presents a comprehensive analysis of Russian–Chinese trade and economic, financial and border relations and their impact on the prospects of "Partnership for Modernization" between the two countries. We hope that this work will help inform state and governmental decisions in the area of Russian–Chinese relations and the development of Eastern Siberia and the Russian Far East.

Foreword: Russian–Chinese relations and Russia's Integration into the Economic Area of the Asia–Pacific Region

Further exploration and development of the Russian Far East, the Baikal Region and Eastern Siberia in cooperation with China is essential for implementing Russia's economic strategy, modernizing and introducing innovations to the country's economy, and integrating Russia into the Asian–Pacific economic space. This region was chosen as a strategic economic development priority for a number of reasons.

The extremely rich natural resources of Eastern Siberia and the Russian Far East, as well as their proximity to Asian countries, will allow the region profit from the growing demand in Asia for energy and other natural resources, and consequently modernize regional economies with minimum costs for Russia. Exploration of Russia's Far Eastern territories, involving both mineral resources exploration and infrastructural development, requires substantial financing. To achieve these goals, Russia needs to intensify its interaction with Asian Pacific countries considerably, primarily with China, and with its north–eastern provinces in particular (without prejudice to Russia's interest in comprehensive cooperation with the other countries of the Asia–Pacific Region: Japan, North and South Korea and the ASEAN member states).

The geographic location of this part of Russia also creates unique opportunities to build new transport arteries from Eastern and Northern Europe to Asia and North America. For areas like the Heilongjiang and Jilin provinces, Inner Mongolia and other regions without sea access, the Russian Far East could become a new sea gate.

Having said that, it must be recognized that developing the Far East is one of the most complicated strategic problems of Russia's regional development. Its solution, especially in the context of globalization and the increasing role of Asian–Pacific countries depends largely, if not entirely, on Russia's active economic cooperation and participation in integration processes in Asia.

Leading Russian experts agree that actual integration of the Asian part of Russia, particularly the Far East and Eastern Siberia, into the global economic system is a prerequisite for the region's – and the country's – normal socioeconomic development, as well as for the sustainable growth of economic potential and strengthening Russia's footing in the global economy. In the strategy of the Russian Far East's interaction with the global economy, the Asian–Pacific vector plays a key role.

In view of this, it's important to stress that the Russian government intends to fully unlock the geographic, geological and natural resource potential of the easternmost part of the country. This much is clear from the government's decision to create the Ministry for the Development of the Russian Far East and

draw up a new concept for the development of the Far East, which would take into account all the current trends in the global economy and economies of the Asian–Pacific countries.

The main line of work in the development of the Russian Far East is the implementation of large–scale infrastructural projects, which require significant investments. Clearly, the funds could either come from the federal budget or from investments attracted through Russia's participation in large–scale integration processes. This is why cooperation with Asian–Pacific countries could be regarded as a real tool of comprehensive economic development for the Russian region.

The key areas of cooperation between Russia and its Asian–Pacific neighbours are the exploration of natural resources and energy potential, the development of transport infrastructure and the improvement of the quality of life in the Russian Far East and the Baikal Region.

For a number of reasons, the optimal partner for the Russian Far East and Siberia in the current situation is China. First of all, the economies of China and Russia's eastern regions are complementary: heavy, high–tech and extracting industries are well–developed in Russia, while China has agriculture, light industry and a large workforce. China, Hong Kong and the Chinese diaspora in Taiwan and Singapore have considerable currency reserves, while the Russian Far East and Siberia need investment capital. The level of technological development in Northeast China is comparable to that of the Russian Far East. Finally, China is geographically close to the Far East of Russia and has the infrastructure necessary to quickly establish trade and economic relations with the region.

President Putin's visit to China in June 2012, marked by the announcement of a 'new start' in Russian–Chinese relations, contributed to the dynamic development of the cooperation between the two countries. The Russian Skolkovo Foundation and the Tsinghua University Science Park in Beijing signed an agreement on cooperation in energy efficiency, biomedicine and new materials. During the visit, the Russian Direct Investment Fund and the China Investment Corporation signed a protocol on the incorporation of the Russia–China Investment Fund Management Company, which will invest in projects on the territory of Russia, the CIS and the People's Republic of China. Other agreements concerned the construction of the Ussuriysk Thermoelectric Plant. A loan agreement signed between Vnesheconombank (VEB) and the China Development Bank enabled VEB to continue the Taishet Aluminium Plant Construction Project in Eastern Siberia.

Recently, shares of several Russian oil companies have been acquired by Chinese oil and gas corporations. In our opinion, the transfer of such large shareholdings to Chinese partners must be accompanied by an adequate compensation in the form of access to transport infrastructure and processing facilities, as well as the participation of Russian companies in projects in China. Bilateral cooperation would be more efficient if Russian companies participated in exploration and extraction projects in Chinese waters in the Bohai Bay and the East China and South China seas, as well as in the operation of the oil terminal in the ice–free Port of Dalian, through which Russian oil could be supplied via China to other Asian Pacific countries year–round.

Russia's economic interaction with the People's Republic of China plays a key role in the development of its eastern territories. It is reflected in the Programme of Cooperation between Northeast China and Russia's Far East and Eastern Siberia (2009–2018) signed in October 2009 by Vladimir Putin (then Russian Prime Minister) and Premier of the State Council of the People's Republic of China Wen Jiabao. The implementation of the Programme, particularly in the areas of energy and transport, will allow Russia to fully enjoy the advantages of its vast Asian territories.

The programme agreed upon by the Russian and Chinese governments is an important step towards enhancing Russian–Chinese cooperation. It should not only help Russia solve the problems of developing its Asian lands, but also strengthen its position in the European, or "Atlantic", sphere.

The new developments brought about by the change of leadership in the People's Republic of China do not seem to entail any material changes to the Russian–Chinese strategic partnership pattern established over the past 10–15 years. Russia should take full advantage of this generally favourable situation, building on previous positive experience and developing this partnership's potential in an effective manner. Performance of this major task is contingent upon a drastic change of mentality of the Russian society and leadership: Russia must self–identify as an Asian–Pacific power, whose policy equally prioritises the western and the eastern vectors.

The goal of "future without surprises" declared by Russia's largest partner is a rather favourable scenario for relations between the two countries. However, even though much has been achieved and cooperation between China and Russia has been strengthening, some issues remain unaddressed, including: the current bilateral trade structure, which is unsatisfactory for Russia; low investment and production cooperation activity; and differing views on the prospects of using Chinese labour force. The main challenge to Russian–Chinese relations is the gradually increasing gap in their economic scales: today, Russia's GDP is 22 per cent of China's. Fostering economic relations with China must be a part of a corruption–proof strategy with a sound financial basis.

These issues should nevertheless be viewed in the context of the significant progress already made, especially as constructive and neighbourly relations with the People's Republic of China are imperative for Russia. This was yet again proved by President Putin's visit to Shanghai in May 2014, which marked a new stage of comprehensive partnership and strategic cooperation of the two countries. The active and trust–based political dialogue was backed by a solid package of 46 agreements on trade, economic, investment, research and technological cooperation and, most importantly, the long–awaited gas deal.

For Russia, the gas contract with China was a springboard to new strategically promising Asian markets, prompting the development of new gas fields and giving the country leverage in negotiations with European consumers, who hope that shale revolution will put pressure on contract prices.

For China, Russian pipeline gas has been, and continues to be, a guarantee of safe and reliable supply, powering its mid– and long–term socioeconomic development goals (especially the development of its north–eastern industrial assets) based on the green energy strategy – shifting from coal to natural gas.

The gas deal became the symbol and the core of President Putin's visit to China. It was also compelling evidence that the attempts of certain Western groups to isolate Russia on the global scene on account of Ukraine and Crimea had totally failed. And while the official Chinese stance on Ukraine was neutral and reserved, the Russian and Chinese leaders reached a high degree of understanding on the matter. Suffice it to say that their joint statement urged global leaders to "give up the language of unilateral sanctions and any attempts to organize, aid, fund or encourage activity aimed at changing a constitutional system of a foreign country or its involvement in any multipartite association or union."[6]

The Silk Road Economic Belt project proposed by China is one of the most ground–breaking and innovative displays of modern regionalization and globalization trends. If implemented, the project will drastically change the dynamic of Russian–Chinese relations, as well as the geo–economic and geopolitical situation in Eurasia.

Russia views its participation in the Silk Road Economic Belt primarily through the prism of achieving the large–scale national goal of developing Eastern Siberia and the Russian Far East, as well as overhauling its transcontinental transport lines, and supports active cooperation and good–faith competition in servicing trade flows from the Asia–Pacific to Europe.

In this context, the revival of the Silk Road is economically substantiated by the support of the Asia–Pacific countries for Russian transport projects: the reconstruction of the Trans–Siberian Railway and the Baikal–Amur Mainline and the construction of their relief lines; the construction of the Trans–Korean Mainline to be linked with the Trans–Siberian Railway; the building of new trans–border bridges across the Amur River, as well as new ports and energy pipelines.

Russian–Chinese cooperation is an example of commitment to the mutual benefit strategy and strategic cooperation in all lines of work in their national interests rather than against the interests of a third party. Russia has actually begun the pivot towards the East that has been widely discussed lately. Further large–scale bilateral cooperation in trade and economy, as well as in the development of Eastern Siberia and the Far East reflects the awareness of Russia's leaders and society of the importance, scale and challenge of this strategic pivot.

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[6] Joint Statement of the Russian Federation and the People's Republic of China on a New Phase of Comprehensive Partnership and Strategic Cooperation. URL: http://www.news.kremlin.ru/ref_notes/1642 (in Russian).

1. Russian–Chinese Trade: Results, Challenges and Prospects

Modern Russian–Chinese trade goes back two decades. During this period, bilateral trade has been an integral part of the overall complex of relations between the two countries.

In 2014, China's leading trade partners were: the United States ($557.30 billion), Hong Kong ($376.10 billion), Japan ($312.64 billion), South Korea ($290.63 billion), Taiwan ($198.53 billion), Germany ($177.75 billion), Australia ($137.13 billion), and Malaysia ($102.06 billion). Russia ranked ninth with $95.31 billion, ahead of Brazil ($86.83 billion), Vietnam ($83.54 billion) and the United Kingdom ($80.90 billion).[7] China has been Russia's number one trade partner since 2010.[8]

In the 1990s, Russian–Chinese trade was estimated around $5–7 billion annually. It soared in 2000, topping $95 billion in 2014 (Fig. 1). In 2014, Russian exports to China amounted to $41.6 billion, while Chinese imports were at $53.7 billion. With imports higher than exports, Russia's negative trade balance was $12 billion.

In 2003–2014, the trade turnover between the two countries increased more than fivefold. However, Russia's share of China's foreign trade turnover only slightly increased over the same period – from 1.85 per cent to 2.21 per cent. Russia's share of Chinese exports during that period grew from 1.38 per cent to 2.29 per cent, while its share of imports decreased from around 2.36 per cent to 2.12 per cent. China's contribution to Russia's trade turnover grew from 8.25 per cent in 2003 to 10.57 per cent in 2013. Russian exports to China remained practically flat: 7.52 per cent vs. 7.28 per cent, but China's share of Russia's imports grew considerably, from 10.52 per cent to 15.61 per cent. The overall dynamic shows that China has been diversifying its trade, while Russia has been growing increasingly dependent on the Chinese market. Given the current tensions between Russia and a number of Western countries, Russia's import bans and the so–called "pivot to the East", this dependency is likely to increase.

Moreover, the structure of trade between Russia and China has undergone considerable transformations (Fig. 2 and 3).

Until the mid–2000s, ferrous metals and machinery accounted for a large share in Russian exports to China, but later their export weight rapidly shrank (with the exception of 2009, when a sharp drop in overall bilateral trade turnover offset the shrinkage of ferrous metals exports). Moreover, Russia started increasing its imports from China in this category. In 2013, China's export to Russia was dominated by high added value products: machinery (38 per cent), chemicals (8

[7] List of Partners Markets for a Product Commercialized by China. / Trade Map. URL: http://www.trademap.org

[8] Calculations in this chapter were made based on the following sources:

Russian–Chinese Trade and Economic Cooperation. / Integrated Foreign Economic Information Portal. Ministry of Economic Development. URL: http://www.ved.gov.ru/exportcountries/cn/cn_ru_relations/cn_ru_trade/ (in Russian);

Foreign Trade of the Russian Federation. / Federal Customs Service. URL: http://www.customs.ru/index.php?option=com_newsfts&view=category&id=51&Itemid=1977 (in Russian);

Total Value of Imports and Exports by Country (Region) of Origin/Destination / National Bureau of Statistics of China. URL: http://data.stats.gov.cn/english/easyquery.htm?cn=C01

Figure 1. Russian–Chinese Trade Dynamic in 2003–2014 (USD million)

Calculated based on the data from the Integrated Foreign Economic Information Portal, the Federal Customs Service of the Russian Federation, The National Bureau of Statistics of China and customs statistics of China.

per cent) and light industry (textiles and knitwear – 13 per cent, footwear – 6 per cent). Russian exports that year were mostly comprised of mineral products (68 per cent) and wood and wood products (7 per cent).

These main features of Russian–Chinese trade are due primarily to the low growth rate of the Russian economy and the slow changes in its structure. Based on the dynamics of the bilateral trade structure, Russian industrial products continue to lose their competitiveness in comparison with Chinese industrial product, which increases both the importance of fuel and energy exports to China and Russia's dependence on them.

It is clear that, to balance out its trade with China, Russia needs to lay the groundwork for its gradual transition to an investment and innovation–based model of bilateral trade. Such a model would be in line with the common long–term goal of reaching a bilateral trade turnover of $200 billion by 2020 declared by the countries' leaders.[9]

As we all know, Russia and China are now facing similar challenges: transitioning to an "innovative development model" (Russia) and "creating an innovative state" (China). Modernizing Russia's economy requires a complete overhaul of its production facilities and development of the national transport infrastructure, to a great extent through attracting large–scale foreign investments and importing modern technologies.

[9] Politov Y. Russian–Chinese Trade Turnover Could Reach 200 Billion Dollars. // Rossiyskaya Gazeta. October 13, 2014. URL: http://www.rg.ru/2014/10/13/medvedev–site.html (in Russian).

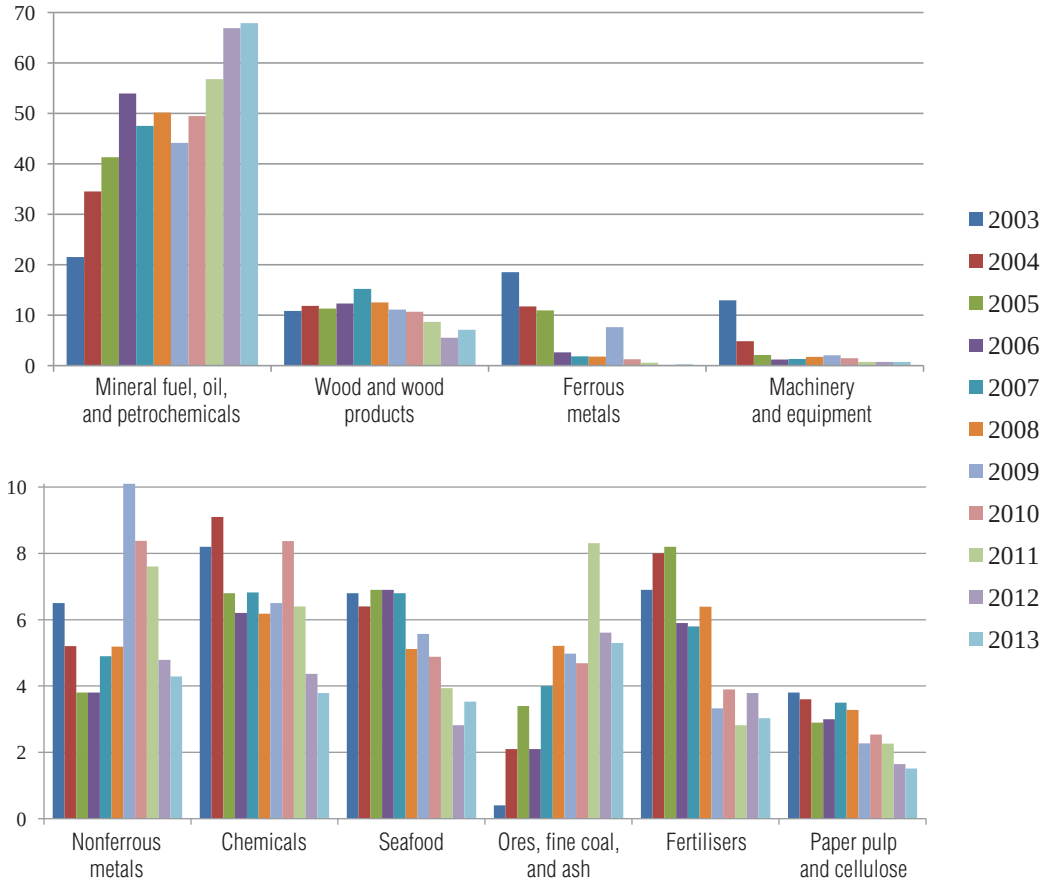

Figure 2. Share of Major Product Groups in Russian Exports to China (%)

Calculated based on the data from the Integrated Foreign Economic Information Portal and the Federal Customs Service of the Russian Federation.

Part of the problem could be solved by China, which has the world's largest gold and currency reserves (Fig. 4) and continues to increase its foreign investments (Fig. 5).

Russia's ratification of the Bilateral Agreement on the Promotion and Mutual Protection of Investments in 2009 eliminated all formal barriers for Chinese capital to enter the Russian market. Moreover, the technological and performance parameters of Chinese machinery and equipment in many segments are now close to the level of developed countries, which has allowed China to launch large–scale machinery exports, including exports to Russia.

Russia, on the other hand, has been trying hard to maintain its leadership in such areas as the air and space industry, nuclear energy and nuclear engineering. Russia will defend its interests in all these areas on the global market.

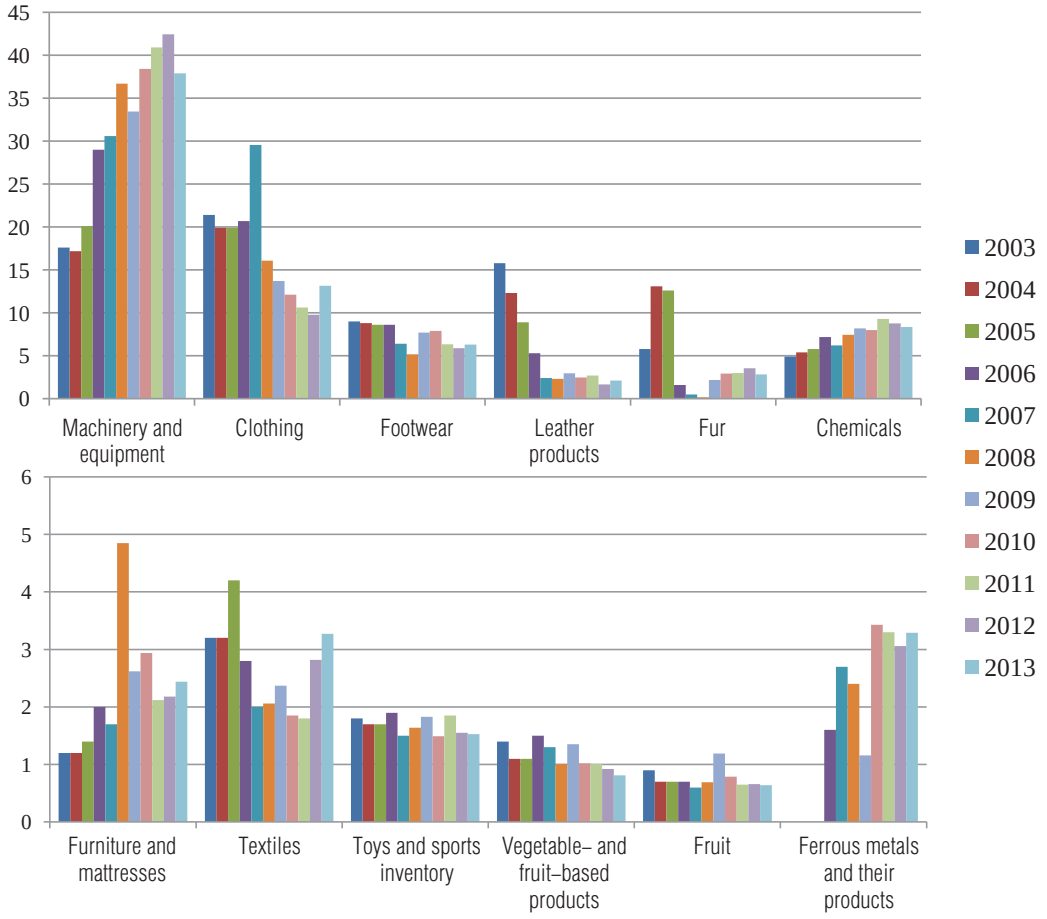

Figure 3. Share of Major Product Groups in Russian Imports from China (%)

Calculated based on the data from the Integrated Foreign Economic Information Portal and the Federal Customs Service of the Russian Federation.

Naturally, Moscow is interested in increasing its presence in the innovative and hi–tech sectors on the Chinese market – one of the largest and most dynamic markets in the world. Since some countries still enforce restrictions on technology transfers to China, Russia has a competitive advantage, which can be unlocked by creating joint ventures, including joint ventures based in Russia.

At the same time, China can also be a source of innovative technologies in telecommunications, biotechnology and aquaculture. Let us not forget that, according to most international experts, China is considerably ahead of Russia in innovation and IT ratings. For instance, the Global Innovation Index 2014 ranks China 29th, while Russia is only 49th (there is, however, an upside to this: 2014 marks the first year that Russia cracked the top 50).[10]

[10] The Global Innovation index 2014 Report / The Global Innovation Index 2014.
URL: http://www.globalinnovationindex.org/userfiles/file/reportpdf/GII–2014–v5.pdf

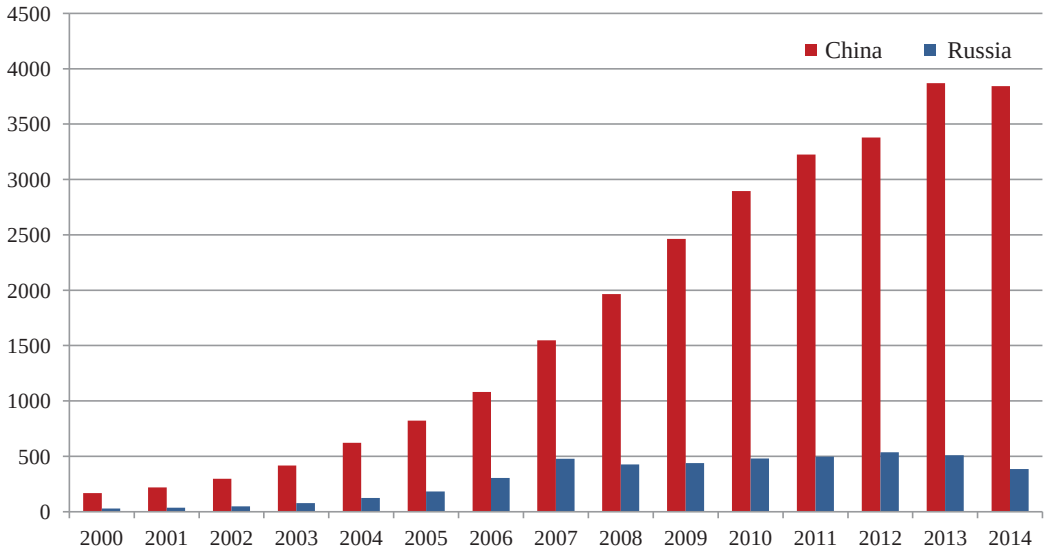

Figure 4. Gold and Foreign Currency Reserves of China and Russia: 2000–2014 Dynamics (USD billion)

Data source: UN Conference on Trade and Development (UNCTAD).
URL: http://unctad.org/en/PublicationsLibrary/tdstat38_en.pdf

The Russian–Chinese Investment Cooperation Plan approved by the heads of the two states in June 2009 could be regarded as a prototype of the innovation and investment–based model of Russian–Chinese trade and economic cooperation.[11] It clearly outlines the parties' vision of their mutual expectations. In particular, the countries intend to:

- facilitate investment projects aimed at producing and providing high added value goods and services for their subsequent sale in China, Russia, or third–party countries;
- establish processing facilities in the Russian Federation with a view to increasing the processing of Russian raw materials;
- eliminate gaps in the production chains of Russian and Chinese manufacturers, facilitating their further integration with production chains of transnational corporations;
- promote infrastructural investments driving the socioeconomic growth of the two countries;
- create new jobs for local communities, facilitate growth of workers' professional qualifications.

Positive examples of innovation–based cooperation are given in the reports of the Ministry of Commerce of the People's Republic of China: in 2010, China used 31 civil technologies from Russia in its nuclear energy, air and space, and

[11] Russian–Chinese Investment Cooperation Plan.
URL: http://www.russchinatrade.ru/assets/files/ru–ru–cn–coop/rus+china%20plan.pdf (in Russian).

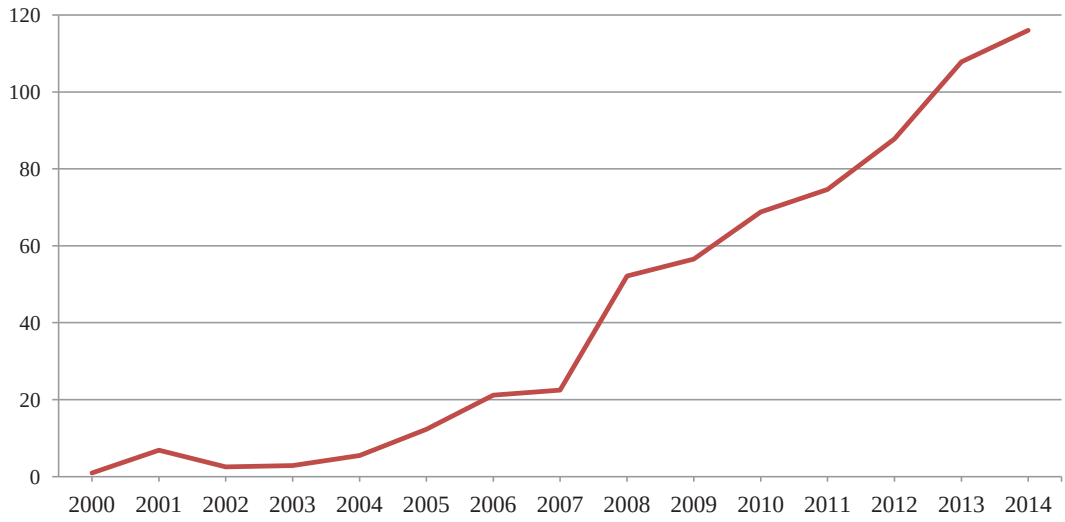

Figure 5. China's Foreign Direct Investment Dynamics in 2000–2014 (USD billion)

Data source: UN Conference on Trade and Development (UNCTAD).
URL: http://unctad.org/en/PublicationsLibrary/tdstat39_en.pdf

electronics industries, with a total contract amount of $1.75 billion. That same year, it exported $4.9 billion worth of hi–tech products to Russia.[12] Bilateral trade and economic relations between the two countries are stalled by the fact that Russia has only a vague idea about the level of research and development in Chinese companies and their real needs.

In light of this, it is necessary to:

- facilitate meetings of Chinese and Russian companies (those possessing know–how) on R&D topics;
- hold joint roundtables, seminars and other research events in the framework of the Russian Academy of Sciences or other research institutions;
- create a catalogue (database) of Russian innovation companies in Chinese;
- hold innovation expos in Russia, involving Russian companies;
- promote the creation of joint Russian–Chinese research centres in Russia;
- promote the establishment of Russian–Chinese venture funds;
- create an organization to promote Russian know–how in the Chinese market, or delegate this function to a trade agency or the Federal Agency for the Commonwealth of Independent States, Compatriots Living Abroad, and International Humanitarian Cooperation (Rossotrudnichestvo), contingent upon providing targeted project financing.

[12] Commerce of China 2011, Press Office, Ministry of Commerce, People's Republic of China, pp. 24–25 (in Chinese).

It would be advisable for the Russian government to develop fiscal benefits for domestic innovation companies, which would include, for instance, reduced taxation or tax exemptions for a specified period, subsidies for R&D, subsidized energy and capital costs and expenses, preferential lending terms, etc.

Today, Russia can give its strategic partnership with China a qualitatively new economic content. The traditional factors of China's interest for Russia (it is in the interests of China's modernization to have good neighbourly relations with Russia, and Russia has a large market for Chinese goods that are in low demand elsewhere) are now complemented by a new component: China has been reinforcing its positions as a global player, and Russia can provide leverage in relations with the United States and other powers. Besides, Russia's resources are a natural advantage that can be used to balance out the structure of its economic relations with China through sound financial and investment policies. Meanwhile, Russia's tensions with several Western countries make Beijing more valuable for Moscow than vice versa.

China is a major player in the emerging markets, consequently a competitor of Russia. It is, thus, important to minimize any losses that could result from this rivalry by transforming competition into cooperation – initially, with respect to Russia's resources, and subsequently with respect to the investment and innovation–based model of Russian–Chinese trade and economic interactions.

2. Key Aspects of Cross–Border Trade and Economic Cooperation between Russia and China

In recent years, expert discussions of Russian–Chinese relations have identified the fact that economic cooperation between the two countries is lagging considerably behind their political dialogue. Notably, the obstacles to this cooperation are at the same time the main potential drivers of its development.

The first impediment to Russian–Chinese trade and economic cooperation is the underdevelopment of border infrastructure. Despite Russia's recent efforts, the progress has been slow: the facilities at most crossing points are dilapidated, and the points themselves are so few that their capacity does not support the prompt processing of goods and passengers from China.

A vivid example of this slow infrastructural development is the absence of a bridge across the Amur River between Blagoveshchensk and Heihe. An agreement on its construction was signed back in 1995 by Prime Minister Chernomyrdin and Premier of the State Council Li Peng. Construction has yet to begin, however, despite the fact that the Interregional Cooperation Programme for 2009–2018 envisages the building of a checkpoint, a motor road, a cargo dock and a terminal in the area of the future bridge, as well as the creation and coordinated operation of transport and logistics hubs in Blagoveshchensk and Heihe.

During his address to the Federal Assembly in December 2013, President Putin outlined the development objectives for Siberia and the Russian Far East. In response to the President's proposal on creating a number of priority development areas with preferential conditions for non–extractive industries, the Draft Law on Territories of Priority Socio–Economic Development of the Russian Federation was prepared and passed the first reading in the State Duma. In 2003, the Northeast China Revitalization Programme (the Liaoning, Jilin and Heilongjiang provinces) was launched. The programme prioritizes the restructuring of state–owned enterprises (primarily in the heavy and mining industries), most of which were established back in the 1950s, with assistance of the USSR. It is expected that these enterprises will use resources imported from Russia, albeit not exclusively, and their semi–finished products will be shipped to Eastern China for final processing. Having said that, any development plans in Siberia, the Russian Far East, and Northeast China must be backed by a well–developed transport infrastructure.

The major innovative strategic idea in logistics over the past few years – The Silk Road Economic Belt project – was proposed by Xi Jinping during his visit to Kazakhstan in September 2013. The project involves construction of transport corridors from the Pacific Ocean to the Baltic and Mediterranean seas. While the Silk Road is still only a concept, the transport schemes it implies have been actively designed.

The first link of the chain is the construction of a railroad via Turkey: it would start in Edirne (on the borders with Greece and Bulgaria), go through Istanbul

and Ankara and end in Kars (at the Georgian border), stretching for about 1,500 kilometres. The project was discussed during the Turkish Prime Minister's visit to China in late 2013, and Beijing promised to invest around $35 billion. According to the project the railroad is to be completed in 2023. This segment of the Silk Road could also include the Greek port of Piraeus (China's COSCO has a 35–year, $4.3 billion lease for three of its terminals). U.S. company HP, in cooperation with COSCO, chose Piraeus as the main logistics hub for selling its products in Central and Eastern Europe, North Africa, the Eastern Mediterranean and the Middle East. The transport scheme involves Greek Railways and Train OSE.

The second link of the future Silk Road is the extension of the Turkish railroad via Georgia, Azerbaijan (a port in Baku's suburbs), the Caspian Sea, Turkmenistan (Turkmenbashi International Seaport), Uzbekistan, Kyrgyzstan and Kazakhstan to Eastern China.

An agreement on the construction of the railroad was signed by Turkey, Georgia and Azerbaijan back in 2005, but due to the lack of financing the construction work did not begin until July 2008. The total length of the line is over 820 kilometres, of which only 100 kilometres will have to be built from scratch, and the rest will be modernized. The project is scheduled for completion in 2015.[13]

In its relations with Kyrgyzstan, which doesn't have enough funds to build or modernize its railroad lines, China's strategy is to secure the rights to use the mineral deposits along the line, so that the road would service not only transit traffic, but also carry minerals mined in Kyrgyzstan.

An alternative to this route is the existing China–Kazakhstan–Turkmenistan–Russia–Europe transport corridor. The segments of this road are already built.

Another alternative is to bypass Kyrgyzstan through Tajikistan. The option of bypassing the Caspian Sea through Afghanistan and Iran is being considered.

Having most of the Silk Road on its territory would be beneficial for Russia, but this would require new transport lines and checkpoints to be built at the Russian–Chinese border, and existing lines and checkpoints to be modernized. Russian rail lines connecting the Trans–Siberian Mainline to the Russian–Chinese border (Karymskaya–Zabaykalsk, Belogorsk–Blagoveshchensk) need upgrading; bridges need to be built across the Amur and the Ussuri rivers, connecting Blagoveshchensk to Heihe, Dongning to Poltavka, Tongjiang to Nizhneleninskoye, etc. An important parameter in the search for solutions here is the fact that the new Silk Road would use the standard European 1435mm gauge, while Russia and the other post–Soviet countries use a 1520mm gauge.

In view of China's increasing integration into the global economy, the need for resources to develop the areas adjacent to the road, and the current shift from an export economy model to a domestic consumption model, the new lines will service transit freight flows between China and Europe and vice versa, as well as shipments of Russian raw materials.

Most of the foreign trade in China's north–eastern provinces is carried out through the Port of Dalian in Liaoning Province. Heilongjiang, Jilin, and the city of

[13] Baku–Tbilisi–Kars Railroad to be Constructed in 2015. // REGNUM Information Agency. November 26, 2014. URL: http://www.regnum.ru/news/economy/1870379.html#ixzz3MAQVN95X (in Russian).

Hulunbuir have no sea access. This congests the Harbin–Dalian railroad, the local motor road and the Port of Dalian (even though China has other ports).

Due to the lack of railroad border–crossing points and bridges across the Amur, Argun and Ussuri rivers, Northeast China's freight traffic is rerouted to the ports of sea provinces (Tianjin, Qinhuangdao and Qingdao).

In this situation, Russian transport corridors travelling via the Trans–Siberian Railway and the Baikal–Amur Mainline (the Skovorodino–Tynda–Vanino leg) to major Russian ports (Vanino, Nakhodka, Vostochny Port in Nakhodka, Vladivostok, Posyet and Zarubino) could, first of all, decrease transport costs for Chinese businesses in the north–eastern provinces and, secondly, provide an alternative route, increasing the reliability of deliveries.

Reaching the projected volume of Russian–Chinese trade ($100 billion by 2015 and $200 billion by 2020) will be impossible without increasing the capacity of these transport corridors.

Another serious challenge to Russian–Chinese cross–border trade and economic cooperation is the failure to properly implement the Economic cooperation programme signed by the heads of the two states in 2009. Moreover, there is a lack of coordination between the Russian Far East and Eastern Siberia Development Programme and Chinese programmes envisaging reconstruction of the industrial assets in the north–eastern provinces and promoting development of the western provinces ("Go West").

The Ministry for the Development of the Russian Far East, established in 2012, has nothing to show for its work. So far, it has not performed its main function of making the region attractive for businesses as well as for people.

There is still no clear understanding of the country the cooperation with which the Far East should focus on, and the investment climate remains unwelcoming for foreign investors.

To change the situation, the following efforts would be advisable:

- develop and modernize the cross–border infrastructure, i.e., build bridges across the Argun, Amur and Ussuri rivers, reconstruct existing bridges and build new railroads and motor roads on the frontiers of the Far East and Eastern Siberia;
- create Russian–Chinese transport corridors: river–to–sea routes via the Amur, Sungari and Ussuri rivers to Khabarovsk, an "Eastern Line" railroad corridor from China via Suifenhe and Grodekovo to Ussuriysk;
- establish a regional air service from the Harbin, Changchun, Shenyang and Hohhot international airports in China to the Russian cities of Vladivostok, Khabarovsk, Irkutsk and Yakutsk; and
- reconstruct Russian–Chinese land and water border–crossing points.

In our opinion, one of the keys to developing Russian–Chinese trade and economic cooperation is to promote interregional trade, which now accounts for a little over 15 per cent of trade between the two countries.[14]

[14] Calculations based on the data from the Russian Federal Customs Service.
URL: http://www.customs.ru/index.php?option=com_content&view=article&id=13858&Itemid=2095 (in Russian).

China's involvement in the development of the Russian Far East and Russia's involvement in the development of Northeast and Western China are absolutely essential to the development of Russian–Chinese cross–border cooperation.

To achieve this goal, it would be advisable to establish a permanent Russian–Chinese commission to coordinate plans for the socioeconomic development of Northeast China and the Russian Far East and the Baikal Region.

The commission's work should involve supervising large–scale transport infrastructure projects (railroads, airports, bridges, border crossing points, etc.), promoting information and communication technologies and building modern administrative facilities, including hotels, properly equipped for business purposes.

An important aspect of cross–border trade development is the creation of free trade zones near Russian–Chinese border. China already has such economic zones in practically all cities on the border with Russia: Heihe, Suifenhe, Manzhouli and Dongning. In the largest cities (Suifenhe and Heihe), you can order shopping tours to purchase goods that cost two or three times more on the Russian market. The most actively developing zone in Russia is at the Suifenhe–Grodekovo crossing point.

The Far East of Russia would benefit from a "small steps" policy in line with China's "open foreign economic policy" experience from the 1980s and the 1990s. This process can take place in several stages:

- establishing Russian–Chinese free trade zones at the border crossing points between Manchuria and Zabaykalsk, Grodekovo and Suifenhe, Blagoveshchensk and Heihe, etc.;
- establishing free economic zones in Russian cities next to the Chinese border (Blagoveshchensk, Khabarovsk and Ussuriysk);
- preparing and adopting a law on joint ventures in border areas, which would stipulate various benefits for such joints ventures. For instance, preferential treatment in China could include reduced tax base and reduced VAT, import tax, land tax or property tax rates. Chinese regional authorities would partially subsidize lease costs for businesses. Moreover, companies headquartered in Central China that buy real estate property can reduce their taxable income by 40 per cent. Land plots owned by these companies are registered with an expedited procedure;
- preparing and adopting a law on technological and economic development zones based on the research centres that exist in Vladivostok, Khabarovsk, Irkutsk and Novosibirsk. In China, their counterparts are territorial associations of universities, research institutes, technology parks and industrial laboratories, as well as companies developing and manufacturing hi–tech products. Residents of these zones receive state funding according to the priority areas in modern science.

It must be noted that the decisions on developing free economic zones, customs zones and technological and economic development zones must be initially supported by adequate investments in the local infrastructure. Based on the experience of the free economic zones in Shenzhen, Zhuhai and Xiamen in China,

and of the Gaoxiong and Nanzih export processing zones in Taiwan, these zones start receiving significant investments only five to six years after their creation.

The signing of the 2009–2019 Cooperation Programme was only the first step in creating and developing cooperation zones. Further development of Russian–Chinese cooperation will require creating industrial zones of research and technology cooperation in the border areas, and border trade and economic cooperation zones, which could become testing grounds (clusters) for new forms of bilateral trade and economic cooperation. Subsequently, this experience could be replicated in other areas of the Russian Far East and Siberia.

In our opinion, development of the Russian Far East and East Siberia requires substantial funding for infrastructural (transport and energy) projects and for developing mineral deposits. This funds should come both from the state budget and from joint ventures with foreign investors.

Developing the Russian Far East in the current situation calls for expanding the cooperation of Russia's border areas with the old industrial facilities in the northeast of China. This, in turn, requires guidance and support of the Russian authorities in charge of the socioeconomic development of the Russian Far East.

Promising lines of bilateral cooperation include increasing fuel and energy supply to the People's Republic of China, exchanging Russian new and high technologies for Chinese investments in major projects in transport, oil and gas, railroad, sea ports and crossing points infrastructure, etc.

It is advisable to build on the Chinese experience of creating free trade and export processing zones when establishing similar zones at the Russian–Chinese border in the Chita and Amur regions, the Jewish Autonomous Oblast, and the Primorye and Khabarovsk territories.

The following measures are necessary to boost cross–border and interregional trade:

- reinforcing transport infrastructure development and construction of border crossing points, both in Russia and in China;
- optimizing the structure of Russian–Chinese trade by increasing the share of engineering and high added value products (e.g., selling plank timber instead of round timber, etc.);
- promoting joint research and development initiatives to create new technologies and products;
- promoting the participation of Russian companies in the reconstruction of old industrial facilities in Northeast and Western China, and the involvement of Chinese companies in infrastructural and agricultural development, as well as in the reconstruction of industrial facilities in the Russian Far East and Siberia; and
- improving the status and importance of trade and economic fairs in Harbin and Urunchi (China), in particular through participation of the heads of the states, and developing similar regular fairs in the Asian part of Russia (for instance, in Novosibirsk, Irkutsk, Khabarovsk and Vladivostok).

3. Russian–Chinese Partnership for Modernization

The socioeconomic development of both China and Russia has now reached the stage of transition to an innovative growth model, yet both are still beset by the problems of the transformation stage. The countries have different demographic and geo–climatic conditions, as well as different histories, but geographic proximity gives them plenty of opportunities for cooperation, including when it comes to modernization.

China, which has been showing stable economic growth for a long time now and has proved resistant to the current global economic crisis, is becoming an increasingly sought–after economic partner. The quick expansion of China's economy and its success in accumulating funds and transforming them into capital resources make cooperation with the country promising. After China started transformation of the economy (in the early 1980s), major players in the global market had their reservations about it and dictated their conditions, preventing international economic cooperation from being governed solely by market mechanisms. The current global economic crisis somewhat changed the situation, putting China in a position to be selective about its potential partners and lines of cooperation.

Russia was one of the countries that did not have to hastily change its stance on cooperation with China based on recent economic developments. The numbers speak for themselves: today China is Russia's main foreign economic partner.

The general goals and lines of socioeconomic modernization for Russia – macroeconomic stability and growth; transitioning to an innovation–based development model; regional development; improvement of the quality of life– are largely similar to those of China. In fact, these goals are mentioned in the long–term development plans of both countries.

There is a common apprehension among Russians that Russia could turn into China's "raw material appendage". Indeed, Russian exports to China are dominated by commodities, and major joint projects in which China invests involve exploitation or transportation of natural resources. But there is no reason to be afraid of the growing export of resources.

First of all, this process is largely controllable or already controlled. The "Credit and Monetary Policy Goals" section of Russia's Strategy–2020 envisages the possibility of channelling budgetary revenues from the use of natural resources into economic growth and macroeconomic sustainability. In this context, proceeds from increased trade in natural resources with China would be beneficial for Russia's socioeconomic development.

Secondly, China has repeatedly expressed interest in importing various types of equipment (and not just arms) from Russia, which could improve Russia's export structure and is in line with modernization objectives of the country.

Unfortunately, cooperation of this type is limited because of the general lack of information about Russian equipment among Chinese companies, ignorance

among Russian companies with regard to the real needs of their Chinese counterparts, and fear of losing their technologies.

Thirdly, China, with its enormous foreign trade proceeds and a declared interest in the Russian market, according to its national Go Out policy, is not only willing to consider Russia as a place for large long–term investments, but has also been actively promoting investment cooperation. For instance, in 2011, the Russia–China Investment Fund was set up.

Moreover, the labour forces of Russia and China are largely complementary. China still has an unskilled, low–cost workforce, with a noticeable shortage of highly skilled specialists in manufacturing, engineering, etc. In contrast, Russia is experiencing a shortage of cheap labour, while it is abundant in highly–qualified personnel. However, there are still no coordinated exchange efforts in this area. Efficient use of Chinese labour in Russia could be quite beneficial for both countries.

Cooperation with China is essential to modernizing the Russian regions close to China.

The goal of the Strategy for Innovative Development of the Russian Federation 2020 is to transition to an innovation–based development track. This implies raising Russia's share of the global hi–tech products and services markets (including nuclear energy, air and space technologies and services, specialized shipbuilding and other markets) to at least 5–10 per cent in five to seven sectors (possibly more), with the share of companies using technology innovations increasing to 40–50 per cent.

The document lists the following innovation–based development priorities: air and space engineering, nanotechnologies, composite materials, nuclear and hydrogen energy, biomedical life–support technologies for humans and animals, and certain environment conservation and protection technologies.

The Chinese government has also developed programmes for transitioning to an innovation–based development model aimed at forming an innovative state and turning China into a major global player in the area of research and technology, with competitive edge in a number of hi–tech industries. Currently, there are two main medium– and long–term plans to promote innovation – the National Plan for Science and Technology Development 2006–2020 (adopted in 2006) and the Government's Proposals on the Priority Development of the "New Strategic Industries", issued in 2010 as a reaction to the global economic crisis.

The Chinese government provides substantial financial support to research initiatives following the priority lines of work included in the National Plan for Science and Technology Development 2006–2020. The list encompasses applied science initiatives in biotechnologies, agricultural processing, environmental protection, key industrial technologies, hi–tech segments, Chinese healthcare, energy and natural resource exploration and social development. The seven priority lines of research include: applied research in energy–efficient and green technologies, IT, biotechnology, heavy equipment engineering, green energy, new materials and electric vehicles.

China's national innovation policy implementation plans stress the need to build on the domestic innovations potential and internal innovative efforts.

It is clear that the Russian and Chinese plans have many common points. And this defines their common interests of cooperation in the field of innovation. International economic cooperation could also be oriented towards the general goals of transitioning to an innovation–based development model.

Moreover, as members of regional associations and leading forces and centres of development for less developed countries in their regions, Russia and China could shape the regional innovation policy through the following initiatives: establishing joint think tanks, thus facilitating the mobility of experts and researchers (for instance, setting up a visa–free regime for highly skilled specialists and researchers, who could be issued special regional IDs); forming a joint database of inventions, technologies and research results to stimulate research and technological breakthroughs in the BRICS and SCO countries and further democratize innovations; developing new communications standards (e.g. data transmission protocols) and standards of information exchange and access; analysing specific features and advantages of individual countries in cooperation efforts aimed at innovation development and developing proper national innovation policies; intensifying student and researcher exchanges to improve the quality of human capital; creating new markets at the level of regional associations (e.g. free trade of innovations areas) – the IP, knowledge, managerial and intellectual labour markets.

Both Russia and China are now at a stage in their development where they can either shift to a new type of innovation–based society, or stagnate. Cooperation with China could help Russia implement its innovation policy in the priority sectors. For instance, in its traditional areas – air and space, defence industry, and nuclear energy – Russia has a clear advantage, and its technologies present interest for China (e.g., gliders for passenger planes, military planes and helicopters, small and fast neutron nuclear reactors, etc.). These technologies can either be sold or carried out with Chinese investments.

One of the most beneficial areas of cooperation for Russia could be establishing joint ventures domestically and subsequently exporting industrial products to China through free trade zones.

In the new hi–tech segments – nano– and bio technologies, medical equipment, electric equipment and machinery – China has its own considerable research and technological basis. China is one of the world's largest exporters of hi–tech products. In 2013, its share in the global hi–tech products export was around 23.67 per cent.[15] The average annual growth of China's hi–tech exports has been around 25 per cent since 1995, reaching $457.11 billion in 2011.

The country has also been successful in taking its R&D results to market. It would be advisable to organize joint research, production and standardization in these areas, and to learn from the Chinese experience of monetizing research results and building continuous research–production–marketing chains.

Chinese experience and best practices may be also used in the development and implementation of innovations in largely horizontally structured industries (home appliances, electric energy supply for towns and villages, the agro–industrial complex, building materials and construction).

[15] Everything but Oil and Gas // Vzglyad. May 30, 2012.
URL: http://www.vz.ru/economy/2012/5/30/580961.print.html (in Russian).

As for innovations in the commodities sector, Russian–Chinese cooperation in this area needs to be developed, given the vastness of this field and the already existing long–term agreements (e.g., on increasing oil supplies and setting up natural gas supplies). Both countries would benefit from uninterrupted operation in these areas, the introduction of modern technologies and technical regulations, and the establishment and harmonization of environmental standards.

Russia and China signed a memorandum on cooperation with regard to economic modernization, listing particular sectors of strategic focus for both countries, such as energy savings and efficiency, peaceful use of nuclear energy, transport, space technologies, IT and communications, nanotechnologies, biotechnologies, environmental protection and new materials.

In the innovative cooperation area, China is interested in attracting highly skilled workers, receiving cutting–edge technologies and deriving profits from their implementation to form a new type of innovation–based development. China launched a programme to attract world's scientists through a system of grants (one–year grants start from around $100,000).

On the whole, Russia and China already have the agreement framework necessary to step up their cooperation in terms of modernization and transition to an innovation–based development model. Clearly, this cooperation could be complementary, mutually beneficial or even necessary in a number of areas. In addition to these parameters, flexibility of decision–making concerning individual projects, a customized approach to their assessment and implementation, and targeted work and responsibility of the agencies, organizations and individuals in charge of the process on both sides will prove to be the factors ensuring the necessary dynamics of this cooperation.

4. Russian–Chinese Financial Cooperation

Until 2013, the main challenges to the development of Russian–Chinese currency and financial relations were infrequent use of the rouble–yuan pair in foreign trade, small number of yuan–denominated banking products and the involvement of other countries' (usually offshore) banks in financial operations. Gradual internationalization of the yuan, and the decision adopted at the Fortaleza BRICS Summit on creating the New Development Bank (NDB) and using national currencies for intragroup settlements substantially changed their dynamic.

In 2013, the renminbi for the first time outstripped the euro in foreign trade operations, accounting for 8.66 per cent of all such transactions (as opposed to 6.64 per cent for the euro and over 81 per cent for the U.S. dollar). The yuan entered the top 10 of the most traded currencies in the world, soaring from 17th place to 9th. The overall volume of yuan operations grew 113 per cent. That being said, the renminbi is only 12th in terms of global currency turnover (at 1.49 per cent).

In 2010, the Moscow Interbank Currency Exchange (MICEX) launched trading in the rouble–yuan pair, but sales were sluggish. However, in 2014 the situation changed drastically: with trade in the currency pair growing eight times, reaching 395 billion roubles (48 billion yuan) over the year.[16] Mutual investments have been growing as well, with the total volume of Chinese investments in Russia almost hitting $5 billion in late 2013, while Russian investments in China amounted to $860 million.[17] The real amount of mutual investments is probably somewhat higher than the official data, since many Russian businesses invest directly through Hong Kong banks, while Chinese businesses do the same through European banks.

The cautiousness of Russian financial organizations with regard to the Chinese currency was totally justified before China's accession to the WTO in December 2001 and the signing of the Treaty of Good–Neighbourliness and Friendly Cooperation in July 2001. After its accession to the WTO in 2001, the People's Republic of China turned into a major power integral to the global economic and political picture. As of the end of 2013, China's GDP was the second highest in the world. Despite the global economic downturn caused by the financial crisis, in late 2009 the People's Republic of China became the global leader in exports, outranking Germany and the United States.

The yuan to dollar dynamic in the 21st century shows that before 2005 the yuan was pegged to the dollar at around 8.27. But in July 2005, China removed the peg and set a rate of 8.11 to the dollar. Until the global financial crisis, the Chinese currency kept growing, and in the summer of 2008 its rate reached 6.82 to the dollar. However, in 2008–2010 the People's Bank of China froze the yuan at 6.83 to support the country's exports.

[16] Moscow Exchange Starts Rouble–Yuan Futures Trading // Finam. March 17, 2015. URL: http://www.finam.ru/analysis/newsitem/moskovskaya–birzha–nachala–torgi–fyuchersom–na–kitaiyskiiy–yuan–20150317–102719 (in Russian).

[17] Chinese Direct Investment in Russia Tops $5 billion / RBC Daily. URL: http://www.rbcdaily.ru/economy/562949989017603 (in Russian).

In June 2010, the People's Bank of China announced another reform of the currency, aimed at increasing the volatility of its rate. Due to the previous unpegging, continued Chinese exports growth, the development of trade and economic relations with various countries, and considerable growth of foreign investments, by early 2014 the renminbi rate topped 6.2 to the dollar.[18]

The yuan grew stronger to the rouble as well. In early 2008, it traded at less than 3.5 roubles; in 2009, the rate was above 4.5 roubles to the yuan; and in 2010–2013 it traded at 4.2 to 5.5 roubles.[19] The falling rouble contributed to the decrease in the monetary value of Russian–Chinese trade in 2008–2009, from $56.8 billion in 2008 to $38.8 billion in 2009 – despite the fact that, in terms of volume, Russian exports to China grew, driven by increasing sales of oil, timber and fish. In the context of the 2014 devaluation of the rouble that was triggered by the events in Ukraine and the sanctions imposed on Russia by a number of Western countries, in October the yuan traded at 7 roubles (and in December, for a short while, at 11 roubles). Given that, the advancement of the national currency settlements initiative could not come at a better time.

The trend towards the strengthening of the yuan on the global markets will continue. The Third Plenary Session of the 18th Communist Party of China (CPC) Central Committee reaffirmed the aim of liberalizing the yuan and making it freely convertible (by 2020). On the one hand, this is a challenge to the goal of increasing Russian–Chinese trade to $100 billion by 2015 and to $200 billion by 2020, because the potential of increasing trade through resources is almost exhausted, and Chinese goods could become more expensive and thus less competitive on the Russian market. On the other hand, there is a silver lining: Chinese companies striving to sell their products in Russia will open production facilities on Russian territory.

Given that, despite the constantly growing volume of Russian–Chinese trade – $38.75 billion in 2009 vs. $89.26 billion in 2013 – Russia's share of China's foreign trade remains small, at just 1.76 per cent in 2009 and 2.15 per cent in 2013.[20] Even the bilateral trade targets set in the course of reciprocal visits of the leaders of both countries ($100 billion in 2015 and $200 billion in 2020) fail to impress, because China's trade with African countries in 2012 was already $156 billion.

Banking and investment cooperation with China has been weak, creating not only lost profits but direct losses for Russia. Until 2008, Russian banks had only representative offices in China. In 2008, VTB Bank set up a branch in Shanghai, while VEB incorporated a subsidiary, VEB Asia Ltd, in Hong Kong in 2014. A subsidiary supports more local business operations than a branch. But Russian bankers are still lagging behind their Chinese counterparts – four Chinese banks already have subsidiaries in Russia: Agricultural Bank of China, Bank of China, China Construction Bank and Industrial and Commercial Bank of China.

[18] U.S. Dollar–China Renminbi Exchange Rate / Bloomberg. URL: http://www.bloomberg.com/quote/USDCNY:CUR/chart

[19] Chinese Yuan (CN¥) ⇨ Russian Ruble (RUB) / Google Finance. URL: https://www.google.com/finance?q=cnyrub

[20] Calculated based on the data from China's National Bureau of Statistics. See: Total Value of Imports and Exports by Country (Region) of Origin/Destination / National Bureau of Statistics of China. URL: http://data.stats.gov.cn/english/easyquery.htm?cn=C01

Under these conditions, it would appear advisable to create a single strong banking structure in the Russian Far East or the Baikal Region, or a consortium of banks with a cumulative asset base of at least $20 billion, in order to operate directly on the Chinese financial market under the applicable legislation of the People's Republic of China.

There is an historical precedent to that: the Russian Bank established in Irkutsk in the late 19th – early 20th centuries was the financial intermediary for the entire construction project for the section of the Trans–Siberian Railway that crosses Siberia, the Far East and China. This is why it is advisable to create a specialized regional Russian–Asian Bank in Moscow, with branches in Irkutsk, Khabarovsk, Vladivostok, Blagoveshchensk, Chita and Novosibirsk that would work directly with foreign investors in Siberia and the Far East. The functions of the Bank should include attracting investments from Asian–Pacific countries; providing loans for large–scale investment projects in Siberia and the Far East; working with regional, industry and commercial banks; and providing loans for large trade deals at the intergovernmental level, as well as for joint regional projects, including cross–border trade projects.

Conclusions and Recommendations

Russian–Chinese economic and trade relations are likely to be shaped by the need for modernization in both countries. The Russian–Chinese partnership for modernization will allow China to tap into Russia's resources and leadership in certain areas of technology where it has a competitive edge. Russia, in turn, could back its own modernization efforts with China's financial and economic power and use modern technologies developed or imported by China. Modernization could thus be mutually beneficial and complementary.

Trade turnover between Russia and China could not only reach the $200 billion target to 2020, but actually reach a level comparable to those of China's trade with its key partners – the United States, Japan and South Korea. This, however, is contingent upon establishing a robust institutional structure that would manage and monitor mutual direct investments, financing and lending for large–scale joint projects, and the practical transition to national currency settlements, among other things. The progress of joint efforts in these areas needs to be continuously monitored to mitigate the negative impact of the rouble's fluctuations and other crisis phenomena in the Russian economy caused by falling oil prices or anti–Russian sanctions.

The underdevelopment of the Russian–Chinese border infrastructure (especially from the Russian side) could be a major challenge to the development of cooperation between the two countries. Joint efforts are required to ensure the availability of modern crossing points, checkpoints, roads and bridges at the border.

To resolve the current issues in Russian–Chinese trade, economic, financial and cross–border relations, the following measures are advisable:

- optimizing the structure of Russian–Chinese trade by increasing the share of engineering products and higher added value goods (e.g., plank timber instead of round timber, etc.);
- promoting the participation of Russian companies in the reconstruction of old industrial facilities in Northeast and Western China, and the involvement of Chinese companies in infrastructural and agricultural development, as well as in the reconstruction of industrial assets of the Russian Far East and Siberia;
- improving the status and importance of trade and economic fairs in Harbin and Urumchi (China), in particular through participation of the heads of the states, and developing similar regular fairs in the Asian part of Russia (for instance, in Novosibirsk, Irkutsk, Khabarovsk, and Vladivostok);
- developing and modernizing cross–border infrastructure, i.e., building bridges across the Argun, Amur and Ussuri rivers, reconstructing the existing ones, and building new railroads and motor roads on the frontiers of the Far East and Eastern Siberia;
- creating Russian–Chinese transport corridors: river–to–sea routes via the Amur, Sungari and Ussuri rivers to Khabarovsk, an "Eastern Line" railroad corridor from China via Suifenhe and Grodekovo to Ussuriysk;

- establishing a regional air service from the Harbin, Changchun, Shenyang, and Hohhot international airports in China to the Russian cities of Vladivostok, Khabarovsk, Irkutsk and Yakutsk in Russia; and
- reconstructing Russian–Chinese land and water border–crossing points.

The development of Russian–Chinese cross–border cooperation hinges upon China's maximum involvement in the development of the Russian Far East, and Russia's involvement in the development of China's north–eastern and western regions.

To achieve this goal, it would be advisable to establish a permanent Russian–Chinese commission to coordinate the socioeconomic development plans of Northeast Chinese and the Russian Far East and the Baikal Region. The Far East of Russia would benefit from a "small steps" policy in line with China's "open foreign economic policy" experience from the 1980s and the 1990s. This could be done in a number of stages:

- establishing Russian–Chinese free trade zones at the border crossing points between Manchuria and Zabaykalsk, Grodekovo and Suifenhe, Blagoveshchensk and Heihe, etc.;
- establishing free economic zones in Russian cities on the Chinese border (Blagoveshchensk, Khabarovsk and Ussuriysk);
- preparing and adopting a law on joint ventures in border areas, which would stipulate various benefits for such joints ventures. For instance, preferential treatment in China could include reduced tax base and reduced VAT, import tax, land tax or property tax rates. Chinese regional authorities would partially subsidize lease costs for businesses. Moreover, companies headquartered in Central China that buy real estate property can reduce their taxable income by 40 per cent. Land plots owned by these companies are registered with an expedited procedure;
- preparing and adopting a law on technological and economic development zones based on the research centres that exist in Vladivostok, Khabarovsk, Irkutsk and Novosibirsk. In China, their counterparts are territorial associations of universities, research institutes, technology parks and commissioning laboratories, as well as companies developing and manufacturing hi–tech products. Residents of these zones receive state funding according to the priority areas in modern science.

It is also advisable to create industrial zones for research and technology cooperation in the border areas, as well as border trade and economic cooperation zones, which could become testing grounds (clusters) for new forms of bilateral trade and economic cooperation. Subsequently, this experience could be replicated in other areas of the Russian Far East and Siberia.

The "Credit and Monetary Policy Goals" section of Russia's Strategy–2020 envisages the possibility of channelling budgetary revenues from the use of natural resources into economic growth and macroeconomic sustainability. In this context, proceeds from increased trade in natural resources with China would be beneficial for Russia's socioeconomic development.

As members of regional associations and leading forces and centres of development for less developed countries in their regions, Russia and China could shape the regional innovation policy through the following initiatives:

- facilitating the mobility of experts and researchers (for instance, setting up a visa–free regime for highly skilled specialists and researchers, who could be issued special regional IDs);
- forming a joint database of inventions, technologies and research results to stimulate research and technological breakthroughs in the BRICS and SCO countries and further democratize innovations;
- developing new communications standards (e.g., data transmission protocols) and standards of information exchange and access; analysing specific features and advantages of individual countries in cooperation efforts aimed at innovation development and developing proper national innovation policies
- intensifying student and researcher exchanges to improve the quality of human capital;
- creating new markets at the level of regional associations (e.g., zones of free innovation trade) – the IP, knowledge, managerial and intellectual labour markets;
- facilitate meetings of Chinese and Russian companies (those posessing know–how) on R&D topics;
- hold joint roundtables, seminars and other research events in the framework of the Russian Academy of Sciences or other research institutions;
- create a catalogue (database) of Russian innovation companies in Chinese;
- hold innovation expos in Russia, involving Russian companies;
- promote the creation of joint Russian–Chinese research centres in Russia;
- promote the establishment of Russian–Chinese venture funds;
- create an organization to promote Russian know–how on the Chinese market, or delegate this function to a trade agency or the Federal Agency for the Commonwealth of Independent States, Compatriots Living Abroad, and International Humanitarian Cooperation (Rossotrudnichestvo), contingent upon providing targeted project financing.

It would be advisable for the Russian government to develop fiscal benefits for domestic innovation companies, which would include, for instance, reduced taxation or tax exemptions for a specified period, subsidies for R&D, subsidized energy and capital costs and expenses, preferential lending terms, etc.

To step up banking and investment cooperation, it would appear advisable to create a single strong banking structure in the Russian Far East or the Baikal Region, or a consortium of banks with a cumulative asset base of at least $20 billion, to operate directly on the Chinese financial market under the applicable legislation of the People's Republic of China.

For working directly with foreign investors in Siberia and the Russian Far East, it would be advisable to create a specialized regional Russian–Asian Bank in Moscow,

with branches in Irkutsk, Khabarovsk, Vladivostok, Blagoveshchensk, Chita and Novosibirsk. The functions of the Bank should include attracting investments from Asian–Pacific countries; providing loans for large–scale investment projects in Siberia and the Far East; working with regional, industry and commercial banks; and providing loans for large trade deals at the intergovernmental level, and for joint regional projects, including cross–border trade projects.

Recently, shares of several Russian oil companies have been acquired by Chinese oil and gas corporations. The transfer of such large shareholdings to Chinese partners must be accompanied by an adequate compensation in the form of access to transport infrastructure and processing facilities, as well as the participation of Russian companies in projects implemented in China, including exploration and extraction projects in Chinese waters in the Bohai Bay and the East China and South China seas, as well as in the operation of the oil terminal in the ice–free Port of Dalian, through which Russian oil could be supplied via China to other Asian Pacific countries year–round.

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Notes

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