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Abstract of Diploma Thesis

**Comparison of the economy of two chosen states -**

**Case study of Russia and China**

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## **1 Summary**

The Diploma thesis is focused on the economical comparison of two countries in terms of Russian Federation and People's Republic of China due to the special role occupied by these countries in the global space. Practical and theoretical methods were widely applied in the research process of different sciences were used in this diploma thesis.

Theoretical part introduces extensive analysis of different facts, reveals significant patterns, systematizes the actual material such as analysis, classification, modeling, system approach, statistical method, etc. Thereafter, the thesis analyses the economy structure and researches reasons for solving the problems. The comparison and measuring are the practical methods of scientific studies in this diploma thesis. Next chapter is focused on economic cooperation between two chosen states, specifically I focused on problems and prospects for the Russian and Chinese investment cooperation. Final part concentrated on formulation of the ways for restoration, development and increasing mutual direct investments between two states.

**Keywords:** China, Russia, comparison, economy, balance, cooperation, investment potential

## **2 Objectives**

The purpose of the thesis is to study the economic situation on the example of Russia and China, identify the causes of China's economic "miracle" and the causes of inhibition in the development of such a superpower as Russia.

The tasks of Diploma Thesis which will help us to achieve our aim are follows:

- Russia manufacturing industry disclosure and the state of scientific potential;
- Consideration of growth factors and disadvantages of China economic model;
- The input-output analysis of China and Russia economic impact, the state of tendency and development prospects.

The hypothesis of the study is that if the openness of China national economy led to the success of the country by means of exact positioning itself as a “world factory”, then for Russia it will be extremely difficult to achieve such rates of growth without conducting structural reforms and attracting investments.

## **3 Methodology**

Practical and theoretical methods, widely applied in the research. The processes of different sciences were used in this diploma thesis. The practical method allows to establish and to describe events, facts and the connection between them (comparison, observation, measuring, and description).

By the means of theoretical method, the extensive analysis of different facts is conducted, opening the essential common factors and systematizing factual material (analysis, classification, modelling, system approach, a statistical method, etc.). The following methods and approaches of theoretical knowledge were used in this diploma thesis: the formal logic, grouping and comparison, statistical and dynamical analysis methods. The historical and system approach, comparison study and complex approach methods were also used.

The comparison and measuring are the practical methods of scientific studies in this diploma thesis.

### **3 Recommendations**

Some preferred directions of the investment policy of Russia can be recommended for the future. The promotion of knowledge-based industries. A universal indicator of the research intensity of foreign direct investments (FDI) is the cost of expenses for research and development (R & D). Russia needs to increase the R & D costs. Capital investments are important in the competitive areas, allowing to develop and introduce advanced technology. Today the share of the R & D costs is only 0.3% of all investments in a non-financial sector. The largest gap of Russia is observed in the most capital-intensive industries (the production of equipment for information technology, automotive, pharmaceuticals and biotechnology). The indicator of the annual R & D expenditure in Russia is more than 17 times lower than in the USA. For example, in the USA, more than half of the fundamental research is realized at the expense of the state budget. It is important to ensure a normal reproduction of the scientific potential along with the increased spending for R & D.

It is necessary to formulate a strategy of the attraction of the foreign capital in the Russian economy, which will proper interests of both domestic and foreign entrepreneurs and, ultimately, to balance the overall economy.

There is necessity to establish joint organizations for the strengthening of the investment and economic cooperation between Russian and Chinese companies and providing of the information support for their business. These joint organizations will assist Chinese and Russian businessmen, provide professional consulting services to government and commercial organizations, establish direct business contacts and interaction between banking institutions, implement joint projects, protect mutual investments, settle corporate disputes, etc.

It is necessary to improve the investment climate in Russia. It requires the following:

- The elaboration of the normative and legal base;
- The creation of investment platforms with a high-quality office space and a good telecommunications infrastructure;
- The elimination of bureaucratic obstacles for the obtaining of various approvals in the region.

Specific measures are necessary to improve the judicial system, remove administrative barriers and fight against corruption. It will improve the investment climate and attract investments for the implementation of structural reforms in the economy.

## 4 Conclusion

The research of the economy of selected countries Russia and China was in the practical part of the work. Russia is a unique country. It has not only the large territory among all the countries, but also huge reserves of natural resources and almost the lowest population density in the world. The territory of Russia is one-eighth of the Earth's land area. Russia has a privileged geographical location between Europe and Asia. It is a link in the international transport corridors. However, the economic development has certain problems. Russia's economy takes only the sixth place (according to the data of 2015) among the countries in the world in terms of GDP. The share of Russia's economy in the global economy is only 3.3%, the share of finance is only about 1% of total global assets.

Chinese researchers believe that Russia has come in its development into a strategic deadlock associated with a structural crisis of the economy: a bloated disproportionately financial sector compared with the real sector, de-industrialization and the decline of agriculture.

Russia has a strong "raw" dependence. Oil dependence of Russia has retained for decades, not allowing other sectors of the economy (mainly industry) to reach a decent standard. In recent decades the level of the depreciation of fixed assets is growing in the Russian economy; the figure is closer to 50%. The country has a developed scientific and technical potential (12% of all scientists of the world live and work in Russia). But there is an outflow of young scientists of the country, and it leads to the "aging" of the scientific potential. The reforms started in the Soviet Union and China at the end of the last century. In the USSR they were intended to destroy socialism in the country and in China to turn the country into a world power. The Soviet Union was destroyed by the reformers and an oligarchic capitalism was created in Russia in the 90's. The reformers brought China in the world's leaders in terms of industrial and agricultural production, in construction, in electric power industry.

The way of the development of China was very difficult. The country was on the brink of economic collapse. Today China is becoming a powerful regional superpower, which takes swiftly the place of the leader of the Asia-Pacific region. The GDP has increased almost 66.7 times from 297.6 billions of dollars to 19,814.4 billions of dollars during 25 years. China's share of the world GDP was 17.1% in 2015. Now the problem of food and clothing has been solved; great success was achieved in the eradication of poverty. The standard of living of the population is rising rapidly. In the field of science and technology China has entered the world level or close to it in such spheres as nuclear and space technology, high-energy physics,

biology, computer engineering and telecommunications. The main reason for the rapid development of China is the nature of the pursued economic policy. The strategy of reform was thought out clearly in China. It was fully secured by economic, political and ideological measures. China's grandiose success is undeniable. However, the flip side of success has significant costs. The Chinese economy remains extensive, export-oriented and based on the very high proportion of investments. However, it continues to be extremely resource- and energy-intensive; ecologically very dirty. So today China is reviewing the country's economic strategy and slowing down deliberately the economic growth for the sake of the structural reforms in the productive forces, a rise of productivity, a reduction of resource consumption and energy intensity of the economy. China's economy is moving from the previous model, focused on investments, production and exports, to a new one based on the consumption and maintenance.

In recent years, the progress was achieved in the investment cooperation between Russia and China. Parties came to an understanding of the common areas of the cooperation in the field of investments. A joint investment fund was established for it. Nevertheless, the volume of mutual investments remains at a low level, and the problems remain which hinder the interaction in this sphere. The main factor of such "lack of development" is a mismatch of Russian and Chinese interests in the priority spheres of investments because of the differences in the models of the economic development and the potential of two countries. This fact will continue to hinder the development of the cooperation in the mutual investments between Russia and China. The influx of investments in Russia decreased by 92% in 2015 (from 20.95 billions of dollars to 1.7 billions of dollars). It connected with the complication of the geopolitical situation and the decline in an investor confidence. It is obvious that the development of Russian economy requires major investments. The establishment of a favorable investment climate is required for the diversification of the Russian economy and avoiding of the "raw material" dependence.

It is necessary to increase investments in a human capital and a social sector, to improve the quality of education, and on this basis to raise the country's scientific potential, which will contribute to raising the prestige of Russia in the world arena. Thus, the hypothesis of the thesis is confirmed. The openness of the national economy of China has led the country to the success due to its clear positioning as a "world factory". But for Russia it will be extremely difficult to achieve such a growth without structural reforms and investments.

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