Czech University of Life Sciences Prague

Faculty of Economics and Management

Department of Economics

Diploma Thesis

Comparison of the economy of two chosen states - Case study of Russia and China

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DIPLOMA THESIS ASSIGNMENT

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Thesis title

Comparison of the economy of two chosen states – Case study of Russia and China

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Objectives of thesis

The aim of the Diploma Thesis is the study of economic status in terms of Russia and China, cause identification of China economical "miracle" and slowdown causes of development of such a superpower like Russia.
The tasks of Diploma Thesis which will help us to achieve our aim are follows:
-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.

Methodology

Practical and theoretical methods, widely applied in the research process 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). 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 proposed extent of the thesis

60 – 80 pages

Keywords

China, Russia, comparison, economy, balance, cooperation, investment, potential.

Recommended information sources

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Declaration

I declare that I have worked on my diploma thesis titled " Comparison of the economy of two chosen states – Case study of Russia and China" by myself and I have used onlythe sources mentioned at the end of the thesis. As the author of the diploma thesis, I declare that the thesis does not break copyrights of any their person.

In Prague on 31 March 2017

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Nurbek Zhaanbaev

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Comparison of the economy of two chosen states - Case study of Russia and China

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.

Porovnání hospodářství dvou vybraných stavů - případová studie z Ruské Federace a Čínské Lidové Republiky

Souhrn

Diplomová práce je zaměřena na ekonomické srovnání obou zemí, pokud jde o Ruské federace a Čínské lidové republiky vzhledem ke zvláštní roli obsazené těmito zemi v globálním prostoru. Praktické a teoretické metody, široce používané v procesu výzkumu různých věd byly použity v této diplomové práci.

Teoretická část představuje rozsáhlou analýzu různých skutečností, odhaluje výrazné vzory, systematizuje skutečný materiál, jako je analýza, klasifikace, modelování, systémový přístup, statistické metody atd. Poté se práce analyzuje strukturu ekonomiky a zkoumá důvody pro řešení problémů. Ze srovnání a měření jsou praktické metody vědeckých výzkumů v této diplomové práci. Následující kapitola je zaměřena na hospodářskou spolupráci mezi oběma vybranými státy, konkrétně jsem se zaměřil na problémy a vyhlídky na ruské a čínské investiční spolupráce. Závěrečná část se soustředila na formulaci způsoby obnovy, rozvoje a zvýšení vzájemných přímých investic mezi oběma státy.

Klíčová slova: Čína, Rusko, porovnání, ekonomika, zůstatek, spolupráce, investice.

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1 Introduction

The relevance of the research topic**.** The economical comparison of two countries in terms of Russia and China" due to the special role occupied by these countries in the global space. China is the largest population empire, a global leader in the industry, electric-power industry, construction, agricultural industry, on international reserves and the world's largest exporter of goods. Russia is the largest country by area and by export of fuel and energy resources. It's important to note that China is almost realized as an economical and military superpower, who should only to admit and confirm it in its stable political influence. But Russia, which still continues to act on the world stage as a potential superpower has undergone economical major changes since the Soviet Union collapse, but these changes can be evaluated not only positively. If we estimate China, it's necessary to give an explanation for GDP rates of growth, which are from year to year make no less than 9-10 % per annum over a period of thirty years. With regard to this, China is a modern champion: there is no country on today's statistic that for 20-30 years reached an average weighted rate of the real growth over 10 %. There is an example of successful economy in this context (Vasjukhin, 2014).

It should be noted, that China is not a single country of such a region. There are enough countries in Asia-Pacific Region, which almost reached the same successes, the same rates of growth during a period of 20-30 years. The most prime example is Japan, where the annual rates of growth made 8.5 % since 50^{th} till 75^{th} years. Korea has also 8.5%; Taiwan has 9.1% - since the 60^{th}year. We should not forget about Singapore, Hong Kong, Thailand, Malaysia - all of them during the three decades are close to 9% real GDP growth. So, on the one hand, China - is a good example, and on the other - it is just the latest example of the Asian high growth rates. What accounts for such dynamics? The answer to this question is a simple formulation - the "China model" of development. Determining of key growth factors and the economical reforming character. In order to answer these questions at first it is necessary to determine what is the economic growth of China in a stage manner, to give a brief description of People's Republic of China economic success over the past 30 years since the beginning of reforming. Secondly, to

analyse exiting today's theories, giving the evaluation of growth reason. To determine the most full characterized and based on it hypothesis, to conduct the analysis of main reforms, accepted in China since the beginning of 1978th. In the third place to determine and to show the main growth factors. By combining the results of the analysis we become an answer to a question what is the "Chinese" economic development model. And in conclusion it will be considered negative sides of forcing rates of economic growth. The main are socio- economic and environmental problems. The last one is the most dangerous in the case of China. The ecosystem dysfunction and cardinal deterioration of living conditions of population may cause to the destabilization of political atmosphere in People's Republic of China and loss of public confidence to the government. For the last thirty years Russia has uneven development, following from the global closed economy, centrally planned economy to the market global integrated economical system. In the course of economic reforms in the 1990th the majority of industrial enterprises were privatized. In the meanwhile, the property right protection of Russia is still weak and the private sector is exposed to significant interference from the state. This is a strong negative factor holding an economical growth of Russia. After the collapse of the USSR the first minor growth in Russia was only in 1997. However, the Asian financial crisis has begun in 1997, which had a negative impact on Russian economy. This is largely responsible for that the government of Russia couldn't provide full payment of debt in 1998, and then there was a slump of prices of rubles highly reduced law level of average citizens. Therefore, the 1998 year has remained in the history as the year of crisis and large capital exports. Then came a sustainable economic growth era for the country, which was primary possible because of high prices of oil. This dependence on exports of raw materials lays Russia open from world economic crisis and very changeable world market prices on primary goods. The revenues from exports of raw materials traditionally make a solid part of country's budget (Vasjukhin, 2014).

The Russian today's manufactory industry is divided between manufacturers of globally competitive goods – in 2015 Russia was the largest exporter of natural gas, the second largest oil exporter and the third largest exporter of steel, primary aluminium and other less competitive branches that are focused only on internal market. Another part of the budget is arms export sales. The share of Russia in the world market of weapons is 23 %

and come short only of the United States share (32 %). Russia has a military-technical cooperation with more than 80 countries worldwide and makes designed for military use delivery for 62 countries. Over the last 30 years Russia hasn't paid the necessary attention to the industrial development, buying cheaper production abroad. Long-term problems of Russia including labour shedding, high level of corruption, difficulties in gaining access to the capital for small enterprises, non-energy companies and poor infrastructure requiring large investments. In diploma thesis will be described the current position of Russian economy and established the reasons of such a condition at one-time powerful nation that has great economical and intellectual recourses. It's also should be noted the deplorable fact. Over the 10 years China has doubled and tripled on many factors, but Russia in fact remains at the same level (Tsao, 2014).

2 Diploma Thesis Objectives and Methodology

2.1 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.

2.2 Methodology

The study methodology introduces the specific set of methods, research methods, principles of knowledge, which are used in particular science. Methods of diploma study allow us to solve set tasks and to achieve the diploma thesis research.

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 Literature Review

3.1 Approaches to revealing the concept of "state economy"

Before turning to the revealing of the concept of "state economy", it is necessary to understand more general concepts of "the state" and "the economy". For today there is no single legal definition of the term "State", fully accepted by the science and all countries of the world. The largest international organization - the United Nations - has no proper authorization to determine whether this or another is the development of the state or not.
One of few documents that give a definition of "the State" in international law - Montevideo Convention, signed in 1933, only by several US states (Glovelli, 2015).

There are four characteristics of the state, as a subject of international law confirmed in Montevideo Convention in the 1933:

- Legal population;
- Designated area;
- Own government;
- The ability to enter into relations with other states (Glovelli, 2015).

The Explanatory Dictionary of Russian language by Ozhegov gives two values: "1. The main political organization of society, carrying out its management, the protection of its economic and social structure "and" 2. The country, which is under the control of the political organization, engaged the protection of its economic and social structure (Ozhegov, 2012).
Therefore, the state is an integral part of the world, having the particular properties of geographical, economic and spiritual character that distinguish it from other countries and causing the necessity of cooperation with them (Ozhegov, 2012).
The notion "economy" is derived from the Greek oikonomike - the practice of home economy management. Explanatory Dictionary gives three interpretations of the concept of "economy":

- The complex of work relations, corresponding to a given stage of development of the society productive power; the dominant method of manufacture in society;
- The organization, structure and business life condition or of any other branch of business function (agriculture industry, etc.);

- The scientific discipline that studies any branch of business and production function (Ozhegov, 2012).

Accordingly, the state economy should be considered as:

- As the country's economy with its composition, structure and interrelations of individual elements;
- As a unified complex with various sectors of the economy and their complementary branches of industries;
- As the organizing principle, where the economic action of individuals, families, businesses, the state is characterized by a specific integration and interdependence (Williams, 2014).

Based on the above, the state's economy in general can be defined as a part of the world economy, functioning within national boundaries, with its characterized specific productive power and work relations (Williams, 2014).

In a more detailed plan the state economy is the historically developed system of social reproduction of the country, branches structure, branches of industries and territorial complexes accounting for all forms of social labour. The object of the economy state is the economic system of the country that including level and section components. The subject of the state economy is the social and economic processes of reproduction, developed in the volume pattern, rates and aspects of development. The subject of the state economy are governing boards of the economic system of the country, its branches and regions that implement such functions, tasks and objectives that facing this area of national management practices. The national economic activity is carried out by a large mass of people pursuing different conflicting aims. Motives of their activities conditioned on the one hand by the diversity of interests and needs and on the other hand by the variety of materials and methods, whereby they implement these interests and needs, and also by the difference of access capability to the necessary resources for their implementation (Chepurin, 2016).

State Economy acts as a complex and multidimensional concept that has many features described by the formula (1):

$$Ne = (A1, A2, A3 \ldots An), \qquad (1)$$

Where;

- Ne - is the state economy;
- A - (from 1 to n) is the relevant features of the state economy (Leontief, 2015).

Therefore, the state economy has no one or two, but much more definitions. Each such definition focusses only on one main feature.

A) The state economy as a technical-industrial complex.

Through the productive power the state economy acts as the structure of branches and types of production. From this perspective the state economy acts as a sole technical-industrial complex, or subsystem, extending as the result of social division of labour. This complex developed on the basis of stable interrelations between different branches of industries within a certain country (Leontief, 2015).

Technical and Production subsystem reflects the reached point of development of productive power. The technological, organizational and other development factors are implemented within its boundaries. Furthermore, this subsystem is affected by such external factors as the natural and climatic, geopolitical, integrated, geographical and so on.

The state economy is a self-regulatory system, consisting of a large number of various interrelated activities (Leontief, 2015).

The more the degree of social division of labour and business lines, the more complicated looks the state economy.

B) The state's economy as an economic environment.

On economic relations line the state of economy acts as a way of managing method, as the economic environment. Under this approach, it is necessary to deal with the state economic system. The economic system acts as regulated general economic conditions or as a factual economic order and is compulsory upon every economic entity (Leontief, 2015).

It is commonly believed today that the economic system includes:

- Economical constitution;

- Institutions and organizations that support the determinate order of economic relations (institutional structure);
- The economic order and economic performance method;
- The management method;
- Coordination framework, as the order of interest's coordination, the redistribution of the country's limited economic resources (Leontief, 2015).

The state economic system is an economic order establishing in a certain country and reflects the accepted concept of economic development. The state economic system reflects the current economic order, accepted the coordination framework, the structure of distribution relations, redistribution and assumption of the created product, the degree of openness of the country's economy to the external world (Leontief, 2015).

Among the requirements that apply to the state economy system it is necessary to emphasize:

- The provision of effective use of the national production factors;
- The maximum adaptation to the effect of natural and climatic and external economic conditions;
- The complete account of the developed national traditions and customs, the maximum use of the national development factors;
- An active participation in the integration processes allowing for the country to take a rightful place in the international division of labour system (Leontief, 2015).

The state economy has a form and content. The form is determined by the complex of economic relations and the content by the complex of productive power (technical and organizational relations). Therefore, if we consider only the state economy, then by the latter it should be understood the state economic system. If we consider the content of state economy, then it is necessary to pay attention to the current technical and production complex (Leontief, 2015).

That is why the following formula is correct (2):

$$Ne = At + Ae, \qquad (2)$$

Where

- At - is the technical and production complex
- Ae - is the state economy system. (Leontief, 2015)

Therefore, the state economy is the economy of a certain country, particular state, considering as a whole interconnect system between economic entities due to the production, distribution and the use of national product in order to improve the welfare of the nation. The main sectors of the state economy are the material and immaterial production, the non-production sphere (Leontief, 2015).

3.2 The structure types of the state economy

The French Economist F. Perroux believes that the state economy structure differs by rates and relations between its component parts. The proportion is the value of investigated unit of the state economy in relation to others. The relationships are the relatively stable relations between the units of the state economy, capable of change and preservation (Glovelli, 2015) (Yurajt, 2017).

The structure of the state economy is a complex of historically developed capable to reproduction functional interrelations between different units of the state economy (Glovelli, 2015).

There are the following types of structures of the state economy:

The reproductive structure - is the ratio of the individual spheres and the most important branches of the state economy taking into account the provision of national reproduction process. The main reproductive phases are the production, exchange, distribution and the consumption of economic goods. The misconduct of interaction between these phases (for example, between the production and the use, savings and investments) is the occurrence of serious problems in the provision of national reproduction (Glovelli, 2015).

The sectoral structure - is the emphasizing of economy branches and the character determination of the relations between them. The branch of the state economy is a unit of the state economy that completes similar functional tasks. Within the production it is accepted to emphasize light and food industry, the machinery-producing industry and so on. In the machinery-producing industry- heavy and light engineering industry, tractor industry, optical fabrication, etc. This type of the state economy structures is very important, because it allows to predict the economic growth (Glovelli, 2015).

The territorial structures - are the geographical distribution of the productive power within the state economy, the division of the state economy on different economical regions.

The economic region is a part of the country, which is characterized by the structure and the line of production, with the regard to natural and labour resources, as well as climatic conditions. The industrial structure develops within each region. The economic region is often working as a territorial-production complex (Glovelli, 2015).

The institutional structure - is an ordered set of specialized establishments and organizations, adopted standard of behaviour and optional adopt formation of economic behaviour coordination of the subjects of the state economy (Glovelli, 2015).

The external structure - is a degree inclusion of the state economy into the international division of labour. The external trade - the character correlation of the family groups of goods, their imports and exports are considered by the way of external structure factor.

Economic structure - is the state of economic order, the commonwealth entry conditions to the flow of work, the character of property relations (Glovelli, 2015).

Usually there are public and private sectors of the economy; as well as the real (primary), secondary and tertiary sector. The real sector of economy serves as a sphere where the economical goods are developing (object, a service, energy) in terms of stable transformational change of the substance nature. This primary sector includes agriculture, forest management, fishing and hunting industry, industry, tourism and all those industries that are related to production and bringing economic goods to the consumer. The secondary sector consists of a money-and-credit economy (monetary sector), social services (health service, education), as well as fundamental science. It is assumed that this sector serves the real economy sector, providing for it necessary economic facilities and social backgrounds. Finally, the tertiary sector - religious production - reflects the cultural and religious, and socio political activities (Table 1) (Anderson, 2013).

Table 1. Most important sectors of the state economy

Primary sector	Secondary sector	Tertiary sector
The real sector of economy (industry, agriculture, tourism etc.)	Money-and-credit, social, scientific spheres	Religious production

Source: Anderson A., Economics 3rd edition, p. 273

Social structure - is the division of the state economy for certain sectors that are interrelated to each other. The division is made according to different criteria, such as population groups, kinds of labour, income and education level. The general foundation of the state economy is infrastructure - a set of industries and branches of activities that serve the production and economy as a whole. The infrastructures of the economy are transport and communication facilities, storage facilities, power and water supply, and so on. The structure of the state economy is changing and transforming constantly. The scientific and technological progress, which changes the production character and gives a rise to new industries and sectors of the economy has a great influence on it. The changing nature of social production, the emergence of new industries, has an impact on the nature of the relationships in the state economy. Therefore, the structure of the state's economy is constantly changing, forcing to carry out a constant structural monitoring, commensurate with the actual structure of the future of its development. The structure of the particular state economy is formed under the influence of many factors - geographical, cultural, social, psychological, etc. It is specific for each particular country and couldn't be created artificially. The state can influence on it only indirectly (Yurajt, 2017).

3.3 Purposes and objectives of the state's economy

The general strategic goal of the state economy performances the more complete satisfaction society ever increasing demands. Furthermore, the achievement of strategic goal also refers to solve a number of strategic objectives, which in turn are based upon

the solution of tactical objectives. In the matter of tactical objectives, their number is usually much higher than the strategic objectives (Samuelson, 2016).

The strategic objectives of the state economy performances are:

- Stable and sustainable growth;
- The high employment, the lack of unemployment.
- The stable price level, the suppression of inflation;
- The maintenance of equilibrium in relations with the outside world, maintaining a stable exchange rate of the unit on national currency (Samuelson, 2016).

In addition to that the economy of each country is the result of interplay of external and internal national development factors. Therefore, within a given country there is a national target-setting, in the course of which a clear direction of development of the state economy is determined, taking into account the realistic conditions of the complex. The economic growth is the central task of any state economy. Under the circumstances where the national economy comes through the transformation period, it is quite acceptable to be limited to "zero" economic growth. Under the sustainable economic growth conditions, the streamlining and technology modernization of production, high-tech industrial capacity development are necessary. The economic growth is a stable and long-term capacity (improvement) of industrial potential of the national economy, increasing its ability to produce in the short term, the appropriate goods in sufficient volumes. The problem of employment of population is the second strategic objective of the state economy, as the unemployment will result a number of negative social consequences. The following tactical objectives are considered here. Firstly, the achievement of full employment, when good performance and its worthy money consideration are providing. Secondly, the replacement of rhythmic labour of generations and providing of the labour power in accordance with the requirements of scientific and technological progress. Thirdly, about the volume control of the reserve army of labour as well as the emergence of unemployment is always extremely badly perceived in any society (Samuelson, 2016).

The next strategic objective is the suppression of inflation. A direct consequence of inflation is money income reduction of home economics, discount of accumulation and a decrease in households' propensity to save, supersession from circulation of national

money, the destabilization of the national payment system, the curtailing of investment activities. Social and political instability is growing by inflation. As a result, inflationary development hinders the economic development, slow the national output. Finally, the exchange rate stability of the national currency. If inflation reflects the demonetization process of national monetary system on the internal market, the devaluation is the process of its demonetization on external market, namely in relation to other foreign exchanges (Nordhaus, 2016).

For the stable exchange rate of the national currency it is necessary to achieve the following tactical objectives:

- Provide high competitiveness of production;
- To provide the external surplus;
- To provide the availability of sufficient foreign exchange reserves;
- To provide the inflow of outside capital (Nordhaus, 2016).

Therefore, the state's economy tends to stability, efficiency through the provision of strategic objectives, namely:

- The growth stability of national economic output;
- High and stable level of employment;
- Stable price level;
- The maintenance of the equilibrium of the external balance (Nordhaus, 2016).

Tactical tasks of the state economy performance are:

- A stable and sustainable economic growth;
- High level of ordered employment of the population;
- A stable price level, the suppression of inflation;
- The maintenance of equilibrium in relations with the outside world (Nordhaus, 2016).

3.4 State economy balance

The state economy balance means the agreement between branches, between the volumes of manufactured products and the needs of them. The basis of the balance is proportionality. In reality balance and proportionality are usually unstable and are constantly violated. For example, economic growth leads to the establishment of new proportions and a new balance. Since there is no absolute compliance among industries in real life, it is constantly need full to maintain a balance by adjusting the proportions between the individual sectors of the economy, as well as within them (Chepurin, 2016).
There are a few levels in the economic system of the country:

- Place-to-place level, namely the relations of the state economy with the near and far abroad countries, with the world economic system as a whole and the economic systems of the countries.
- The national (macroeconomic) level, i. e. a level of internal relationship of the state economy as a whole.
- Regional level, namely the relationship of the economy of each region of the country.
- Complexes of the industries: agro-industrial complex (AIC), the military-industrial complex (MIC), the fuel and energy complex (FEC) and others.
- The level of individual industries of the country's economic system, i.e. industry, construction, agriculture and others.
- Intra industry level. For example, the level of the animal and crop agriculture relationship, civil, industrial and residential construction in the building, and so on.
- The level of relationships between associations, enterprises, organizations, all kinds of industrial and financial groups (Chepurin, 2016).

Macroeconomic proportions are the quantitative relations between the different departments and spheres of social production, sectors, territorial and production units of the national economy. The proportions change under the influence of scientific and technological progress (NTP), the chosen direction of economic growth (extensive or intensive), changes in the national economy requirements, emerging economic facilities. Each national economy is striving to establish the optimal proportions to ensure full satisfaction of social needs at the lowest cost of labour. Optimal proportions mean a

qualitative and quantitative agreement between the structure of social production and the structure of social needs (Fischer, 2015).

The following proportions trends inherent in most national economies can be marked:

- Improving the technical level of production, which is seen in the growth of intensity of labour, the amount of raw materials, worked over by the employees, which leads to advance volumes of the production funds in relation to the number of employees;
- The advance development of electric power industry, machine-building and instrument-making, chemical industry and other high-tech industries;
- Increasing the part of non-production sphere in comparison with the branches of material production;
- The advance development of the manufacturing industry in relation to mining one;
- More participation in the international division of labour, which is expressed in a more rapid increase in foreign trade turnover in comparison with the growth of production in the country (Fischer, 2015).

4 Practical Part

4.1 Economical industry of Russia

Russia is a unique country, except for the largest territory of all countries, it has huge reserves of natural resources and almost the lowest population density in the world. Russia covers the eighth part of the earth, e.g. 17 million square kilometres. Russia covers the area almost two and a half times more than Europe, almost twice more than the United States and China, 26 times more than France, 47 times more than Germany, 45 times more than Japan. Russia is rich in minerals. In 2014 the oil reserves in Russia were estimated at 14.1 billion tons (that is 6.1% of world reserves). Russia has the world's largest proven reserves of natural gas –that is 31.2 trillion cubic meters (more than 48% of world reserves) (Korotkova, 2015).

Mineral resources base of Russia includes almost all kinds of minerals:

- Fuel and energy resources (oil, natural gas, coal, uranium);
- Ferrous metal (iron, manganese, chrome ore);
- Colour and rare metals (copper, lead, zinc, nickel, aluminium raw material, tin, tungsten, molybdenum, antimony, mercury, titanium, zirconium, niobium, tantalum, yttrium, rhenium, scandium, strontium);
- Precious metals (gold, silver, platinum group metals);
- Diamonds;
- Non-metallic minerals (apatite, phosphates, potassium and sodium salt, fluorspar, muscovite mica, talc, magnesium, graphite, barite, piezo optic raw materials, precious and semi-precious stones (Korotkova, 2015).

According to the specialists' research only about 20% of the mineral reserves in Russia are realized. Many fields have not been studied enough yet. Russia has considerable forest resources, which make up about 22% of global forest resources. According to recent reports the area covered by forests in Russia held 776.1 million hectares (45% of the country territory). The forest industry is one of the key sectors of the Russian economy. Rivers form the mainstay of the Russian water resources. There are more than 120 thousand rivers flowing over the country. 102 hydroelectric power stations work in

Russia, energy output of which is about 165 billion kilowatt-hours per year. According to this indicator Russia ranks the 5th place in the world. There are the huge stocks of fur skins, fur paltriest, fresh water, wild berries, herbs. It is known that the Soviet Union was the world's largest exporter of fur skins and fur paltriest. Russia has considerable human resources; the country's population is 146.2 million people. According to Europe specialists' research the Russian consumer market is the 4th biggest in the world. Russia ranks the second in Europe for the sold cars: around 2.5 million passenger cars were sold in 2014 in the Russian market. The Russian Federation is among the top three countries in the world (the 2ndand the 3rd place) for the length of the railways and for the cargo turn-overs, which is the same with China and the United States. Russia differs by its geographically advantageous location between Europe and Asia. It is the link in the international transport corridors. 6 main transport corridors lie through the territory of Russia (Kalabekov, 2014) (Rosstat, 2015).

These corridors are:

- "North – South"- The corridor joints European and Scandinavian countries, Europe part of Russia with Iran, India, Pakistan and other Middle East countries.
- "Transsib"- The corridor joints Central Europe, Moscow, and St. Petersburg with Ural (Yekaterinburg) and industrial cities and ports of Far East, eg. Cargo port of Vladivostok city. Some of corridor branches lead to Ukraine, Kazakhstan, Mongolia, Korea and China.
- "Northern sea route"- It joints Scandinavian countries and Northern Europe through the Russian sea ports (Murmansk – Arkhangelsk – Kandalaksha – Dudinka) with the Asian-Pacific Region (APR) countries, USA, Australia, New Zeland.
- "Primorye -1"- Sea ports of Kharbin – Grodekovo – Vladivostok/ Nakhodka/ Vostochniy – ports APR.
- "Primorye – 2"- Sea ports Kchunchun – Kraskino – Posyet/Zarubino – ports APR (Kalabekov, 2014).

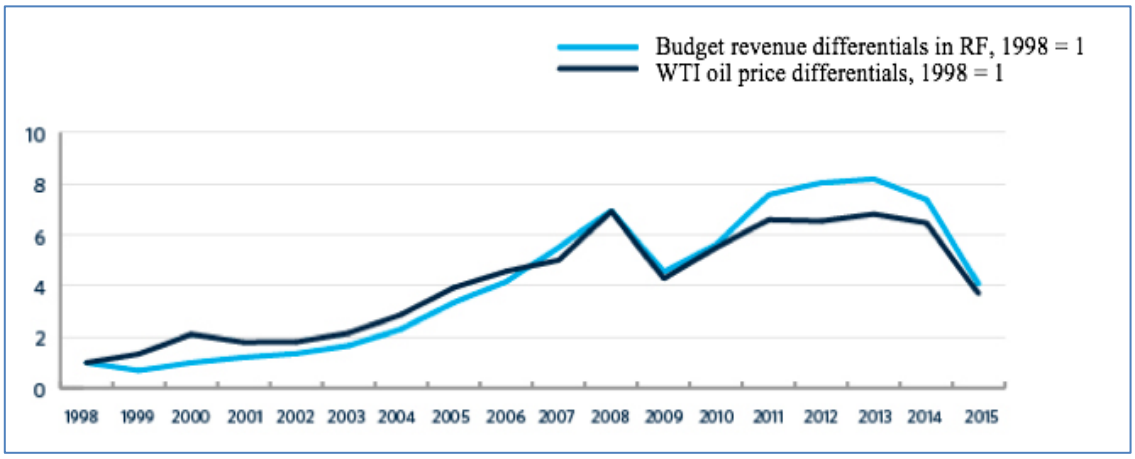
Thus Russia has unique powers. Though economic growth has definite problems. The economy of Russia takes only the sixth place (as of 2015) among the countries in the world in terms of GDP. The share of Russia's economy in the global economy takes only

3.3%, Russian Finance percentage of total global assets is only about 1% (Kalabekov, 2014).

Chinese researchers believe that the development of Russia has come to a strategic deadlock because of a structural crisis of the economy and as follows disproportionately bloated financial sector compared with the real sector, de-industrialization and the decline of agriculture (Korotkova, 2015).

Russia’s Oil dependence - as one of the world's largest oil and gas producing countries, Russia receives significant revenues from its resources. Production of oil and natural gas is 10.2% of Russia's GDP (as for 2014). 44% of the volume of export of goods is concentrated in the oil and natural gas (according to August 2012 data). The contribution of oil and gas in Russia's GDP is around 30%, in revenues it is about 50% in the volume of Russian exports - about two-thirds, wherein the share of oil and gas sales in budget revenue and GDP had been growing all last years. However now the share of oil and gas will by all appearances decrease in a budget income. Firstly, because the price will fall in foreign markets, and secondly, due to the reduction of export duties on oil and the introduction of the system of benefits and tax deductions for domestic oil. In other words, the state will receive less from the same volume of the sold producing materials. Change in world oil prices is one of the many factors that influence the growth of the Russian economy. Some economists are of the opinion that Russian economy depends strongly of “raw material". In the spring of 2014 (though not the first and not the last time), US Republican Senator Lindsey Graham said publicly: "*Russia is just an oil and gas company, pretending to be a country*." The dependence is particularly well seen in the dynamics of indicators. Figure 1 shows the change in Russia's consolidated budget revenues compared to the dynamics of WTI oil prices. The sales revenue of the Russian budget depends in fact only on the price of oil (Korotkova, 2015) (Kalabekov, 2015) (Rosstat, 2015).

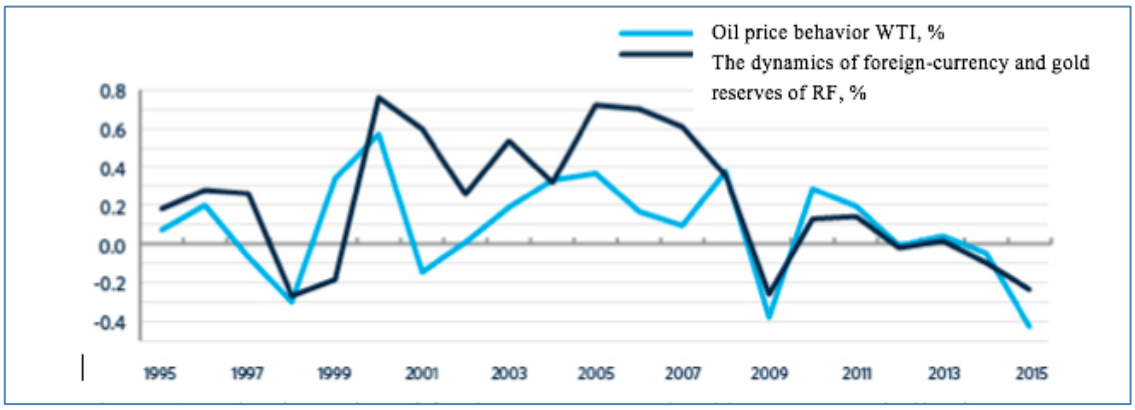
Figure 1. Russia's budget revenue and WTI oil prices dynamics (units: USD)



Source: Tradingeconomics. 2015

On figure 2 we can see how growth and decline rates of the foreign-currency and gold reserves depend on oil price dynamics. It is just the same, not even proportionality, but almost full getting in line (Trading Economics, 2015).

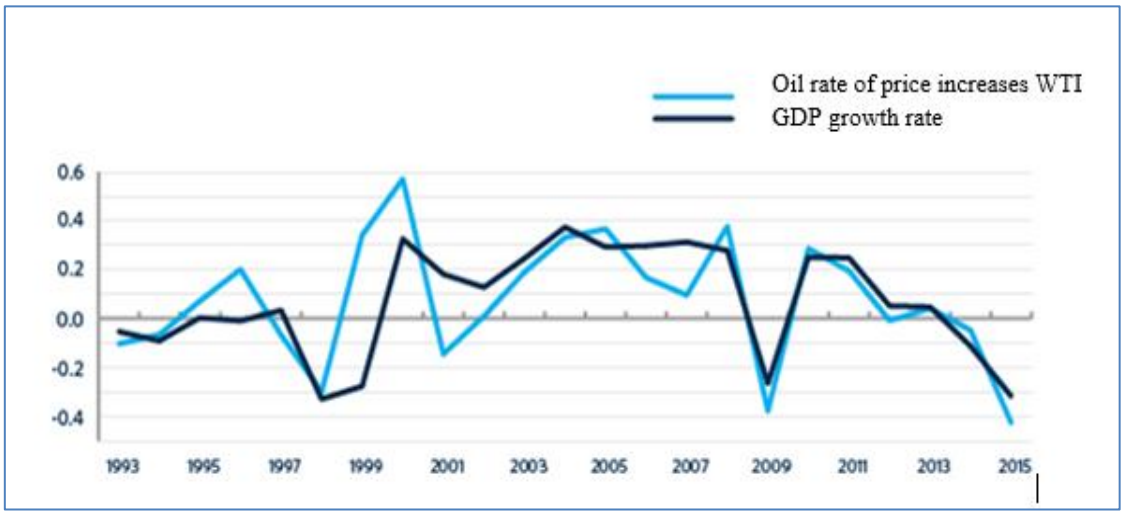
Figure 2. The dynamics of foreign-currency and gold reserves and oil price WTI (units: USD).



Source: Tradingeconomics. 2015

The growth rate of foreign-currency and gold reserves also depends on oil price hike. Since the 2008-2009[s] the dependence is almost 100 %. If (it is not very correctly, but very significantly) we take the rate of growth of Russian GDP in current US dollars and compare it with the oil price rate of change, the curves (as we can see on the diagram 3) almost get in line (Trading Economics, 2015).

Figure 3. The dynamics of GDP growth of Russia and oil price WTI (units: USD).



Source: Tradingeconomics. 2015

The GDP rate of growth in Russia in US dollars and oil prices rate of growth (as a percentage to previous year). A total compliance of numeric values is evidently. So, the British weekly newspaper «The Economist» wrote in May 2008 that oil industry of Russia is facing problems. It was also said that in the 2000 that Russia was hit of petrodollars flow, which has given for Russia more influence in the political arena and hided economic problems. In 2012 The Economist magazine offered an opinion that Russian economy is in needs of "*a balance shift to new companies, small enterprises, services and manufacturing industry*," but "*corruption, weakly property protection, the tax system, the bureaucracy dominance and the anarchy make such development almost impossible*" (The Economist Magazine, 2012).

In 2013 The Economist wrote about downfall of GDP growth and almost the full absence of direct investments and industrial production growth. The magazine explained it by the fact that significant incomes of petroleum export were mostly siphoned off to the "inefficient" government corporation projects. The magazine also notes that by the early 2010 the underemployed capacity reserve of Soviet – era was almost used, but the growth of investments to the industrial sector is not observed. The magazine explains underinvestment by means of lack title guarantee of private investors. According to Financial Times, the Russian economy rate of growth will be slower than the world average economic growth over the next 16 years (facts from 2013). The newspaper gives

the opinion of analysts, who believe that the reason of slowdown is "*Moscow's inability to improve the investment environment and give more freedom to the private sector*." The BBC, with the reference to its experts, see "the vague" future for Russian economy. Thus, according to the financier J. O'Neil the Russian economy is "*overly depended on oil and gas, affected by corruption, and there is no trustworthy legislative framework for business operations*." The economist Ya. M. Mirkin believes that the Russian economy model "has exhausted itself" and there is a bubble in the sphere of financing, which will certainly burst (Mirking, 2015).

Reform absence- according to the Higher School of Economics experts (April of 2015) the reform absence can lead to the fact that the gap of Russian from developed nations will not reduce, but increase. According to them the economy needs a new growth model, and all it takes is a new model of social policy. According to the influential British Newspaper Financial Times (January of 2016), the only way out of the current commercial crisis is a "comprehensive reform to liberalize the economy and strengthen the supremacy of statute law." The newspaper notes that Russian President V. V. Putin "resists such ways, doubting that they would dim his power." Furthermore, according to the newspaper economic interest of President's team interfere the reforms (Financial times, 2016).

Ratings- in the rating of competitive power of countries in the world complied in 2015 by the Analytical group of World Economic Forum, Russia held the 45th place out of 144 countries. According to the Heritage Foundation Index of Economic Freedom, Russia had the 153th place out of 179 countries in 2016. In the rating of World Bank Institute of Knowledge Economy Index, which shows the success of various countries in the use of an invention of scientists and engineers in practice, Russia had a 55th place out of 146 countries in 2016. According to the information and communication technology index development complied by the International Telecommunication Union, Russia was on the 45th place out of 155 countries in 2015. According to the Human Development Index, Russia was on the 50th place in the list of 188 countries in 2014. In comparison the USSR was on the 26th place in 1988. In the 10th rating of the state incapability, Russia had the 85th place out of 184 countries in entered into the category of «High Warning». So we see that the dependence on oil of Russian continue for decades, not letting other

sectors of the economy (first of all industry) to go to a highest plateau. By all means it is impossible to get away from total dependence on oil and gas sector, but it is realistic and necessary to change the export policy and revenue structure. Over the last 5 years the oil demand has grown twice less than supply. By any definitions we are at the beginning of a long cycle of low oil prices. And at the end of this cycle the oil will get new efficient solar cells, more efficient engines for plains and cars, the mass distribution of electric cars, energy efficiency improvement of construction supplies and other innovations. It is necessary to direct revenues from oil and gas section to the science, to the development of enterprises, factories, to the private sector development. In the 21st century, the role of high technology and knowledge work receives a large scale. If 100 years ago, it was possible to appoint Russia to the first echelon on the basis of its size on the map and the scale of troops, now to pose on the role of worldwide leaders could barely seen on the map, but the high-tech country like Japan or Germany. The process of value rethinking has begun long ago but not yet finished, so Russia has a chance, the time and opportunity to go to the innovative development scheme (World Economic Forum, 2015) (Rosstat, 2015) (Korotkova, 2015).

4.2 The current state of the scientific potential of the country

Having abundant natural resources and a vast territory, the country should develop science and improve the industry qualitatively. It will allow to increase productivity and improve the utilization of natural resources for population growth (Schmalensee,2015).

The scientific potential of a country is characterized by:

- Funding of a scientific complex;
- The number of scientific organizations, including the academic sector of science;
- The level of the development of a material and technical base;
- Number of employees in the fields of science, including members of the Academy of Sciences, corresponding members of the Academy of Sciences, doctors and professors, Ph.D (Schmalensee,2015).

According to Rosstat data, the total number of personnel engaged in research and

development was 1,943,432 people to the beginning of the restructuring, while the number of researchers was 1,227,388 people. The total number of employees engaged in research and development decreased by 2.7 times or by 37,7 % within 24 years (Table 2) (Rosstat, 2015).

Table 2. The number of personnel engaged in research and development in Russia
(Unit: number of people)

Index/year	1990	1995	2000	2005	2010	2014	2014 / 1990, %
The number of personnel, Total included	1 943 432	1 061 044	887 729	813 207	736 540	732 274	37,7
Researchers	1 227 388	518 690	425 954	391 121	368 915	373 905	30,5
Technicians, supporting and other personnel	716 044	542 354	461 775	422 086	367 625	358 369	50,0

Source: Rosstat, 2015. Statistical Yearbook of Russia. 2015. - M. – p. 509

Experts observing the negative dynamics of the number of people employed in science and scientific services, note a decrease of the work motivation of scientists in Russia. Sociological studies of "Science Research and Statistics Center" have shown that the motivation to engage in the research sector in Russia is constrained by low wages, a low prestige of the scientist in modern conditions. The estimates of the respondents led to the conclusion of the domination of negative assessments of the prestige of working professionals in the field of science and technology. While in developed countries the share of negative assessments was 1.8%, in Russia it reached 67.5% (Areshkina, 2015) (Glisin, 2015) (Pluzhnova, 2015).

Respondents consider the necessity of strengthening the attractiveness of the research work for young scientists. Among the necessary measures of improving the situation in this sphere in order of priority they emphasize the following:

- An increase in government spending on the development of science - 67,4%;
- Bringing salaries up to the level of developed countries standards - 47,7%;

- The organization of a modern material and technical and information base - 43,8% (Areshkina, 2015).

The effectiveness of the scientific complex is linked inextricably with the result of the research of scientists and their salaries. Unfortunately, in recent years the wages of Russian scientists have decreased significantly. For this reason, the influx of young scientists in the academic sector of science decreased sharply. Young scientists depart abroad. It leads to the "aging" of the scientific potential. The lack of the modern experimental base influences on the outflow of young scientists from research institutions. There is a moral and physical depreciation of the main foundations of science. Thus, the physical depreciation of the main foundations in the academic sector of the Russian science reaches a critical value (till 65%), on condition that the experimental base of scientific institutions should be equipped with the most modern equipment and updated fully for five years. It connects with the lack of funds allocated to science. The index the share of R & D spending in GDP falls far short. In Russia, the share is 1%; in Sweden - 4; Japan - 3.1; USA and Korea - 2.6; Germany - 2.3; Great Britain and Canada - 1.9%. The index of the share of education spending in GDP is in the worse situation. According to this indicator the countries with not only a high level of human development, but many middle- and even low levels of development leave Russia behind (Rosstat, 2015) (Khalevinskaya, 2017).

Russia is the seventh top ten countries on a human development index. It is due to a low share of expenditures of the country's consolidated budget on health care and education - 4.7 and 9.5% respectively, while the figures in the UK are 17 and 12.5; Germany - 13.3 and 8.5; Portugal - 14.8 and 15.1; France - 15.4 and 12.3; Finland - 12.6 and 12.1%. Also spending on education and health care in relation to GDP is low in Russia; they are 3.5 and 2.2%, respectively [11, p. 5]. In recent years, in Russia the number of scientific organizations decreased (Table 3) (Rosstat, 2015) (Khalevinskaya, 2017).

Table 3. The number of organizations engaged in research and development in Russia. (Unit: number of organizations/institutions)

Index/Year	1995	2000	2005	2010	2014	2014/1995, %
A number of organizations - total, incl.:	4 059	4 099	3 566	3 492	3 604	88,8
Research organizations	2 284	2 686	2 115	1 840	1 719	52,3
Engineering offices	548	318	489	362	317	57,8
Engineering and survey organizations	207	85	61	36	32	15,5
Pilot plants	23	33	30	47	53	230,4
Higher education institutions	395	390	406	517	700	177,2
Research, engineering units and organizations	325	284	231	238	275	84,6
Others	277	303	234	452	538	194,2

Source: Rosstat, Statistical Yearbook of Russia. 2015. - M. – p. 507

Table 3 shows that for the analysed period the total number of scientific institutions in Russia decreased by 11.2%, including research organizations - by 47.7%. The number of engineering and research organizations by 4.5% reduced especially sharply. It should be emphasized that the worldwide scientific groundwork is implemented under the scheme: functional ideas - applied researches - practical applications. In Russia, for years of reforms the middle tier of the scheme fell as a demand for innovation was extremely low (Rosstat, 2015).

The analysis of the status and forecast prospects of the development of science and high technology in Russia shows that in the coming years if not to take urgent measures in this sphere there is a possibility of an avalanche, irrevocable reduction of scientific and technological capacity because of the natural leaving of the older generation and a very weak inflow of young people. It will lead to the loss of conquered positions of the country by scientists, engineers and workers. Forecasts show that if the current trends are not altered fundamentally, a significant underfunding of science will lead to the

strengthening of the economic downturn. As a result, the country will lag behind the world level where it cannot be ensured its security. Russia still occupies a modest place in the world economy in terms of use of technologies of the fifth technological order. Russia's share in the world market of high technologies is from 0.3 to 0.5% according to various estimates, and its share in global exports of high-tech products is 0.13%. For comparison, the corresponding figures of innovation leaders such as USA, Japan and the EU are 39, 30 and 18% respectively of the market of high technologies, and 24, 13 and 15% of high-tech products export. The costs of research and development in Russia do not correspond to the level of developed countries, and are not able to activate innovative processes. Nevertheless, Russia has a number of competitive advantages that can reduce greatly the technological gap. The country has a developed scientific and technical potential (12% of all scientists of the world live and work in Russia), modern technology in selected areas of the industry, a fundamental higher education, rich natural resources, significant foreign exchange reserves, a vast territory (13% of the world's land), a capacious internal market, etc (Nikolaeva , 2016).

The restructuring of the economy of the country, a shift from raw materials production to the production of high technology are linked closely with the need to reduce the technological backwardness of Russia from the most developed countries through the transition to an innovative way of the development. Ensuring the competitiveness of the national economy of the country should be the main task of the state and implemented on the basis of the state strategic comprehensive program. In the world practice the state of the economy is considered normal, and the prospects are favourable if science expenditures from all sources, including public and private investments make up 2.5-3% of GDP. The Law "Science and State Science Policy" was adopted in 1996. This law approves a minimum of expenditure of the federal budget dedicated to science - 4%. But this rule was cancelled in subsequent budgets (Federal Law, 1996).

It is necessary to restore the cancelled expenditure standards of the state budget for science (2% of GDP), and financing standards of education and health care, setting them at a level of 8 and 6% of GDP. It is necessary to implement a common scientific and technical policy of the conversion and use of innovation for a full and effective implementation of the scientific potential. The state's role in it is in the creation of an

environment conducive to the growth of an effective demand for science with the active influence of financial levers and instruments. 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 (Kalabekov, 2015) (Kalabekov, 2014).

4.3 The balance of the economy and the investment policy of Russia

Import and export by the country of a foreign direct investment (FDI) depend directly on the level of its economic development. In other words, there is a direct relationship between the actions of investors and a potential of the economy of the state. It is recognized that investments are a factor of an economic growth. The ultimate goal of attracting foreign investors is the increasing the rate of economic growth and well-being of the people. The world practice shows that countries with a high share of investments in GDP develop faster and more dynamic. The fastest growing region of the world economy such as the countries of Southeast Asia and the Far East supports a normal rate of the accumulation at the level of 30-40% of GDP (Japan, China and South Korea). On the contrary, the countries with a developed market economy maintaining low rates of growth such as America and Europe, the developing countries of Middle East, Latin America and Africa and Eastern European countries with a transition economy have a lower savings rate, about 20%. The decline in investment activity below the thresholds in any country is treated as a serious threat to a national security. Only dynamically growing investments are the driving force of the development of competitive production. And also through the introduction of innovations they are capable to provide high rates of an economic growth. It is obvious that the development of Russian economy requires major investments. Until now, funding for long-term projects in a modern Russian practice is characterized by such negative traits as extreme resource constraints, their high cost, a lack of access to sources of investments, as well as significant long-term investment risks. As a result, there is a difficult situation with the state of material and technical base in the real sector of the economy in Russia, from which an efficiency and competitiveness of Russian enterprises depend (Chepurin, 2016) (Khalevinskaya, 2017).

In recent decades, in the Russian economy the level of the depreciation of main foundations is growing; the index is close to 50%. The ratio of the update of main foundations only slightly exceeds the rate of the disposal. It indicates the absence of the tendency to update outdated material and technical base of enterprises. Moreover, the share of completely depreciated main foundations remain in operation is more than 13%. The average actual service life of the equipment in the industry is now close to 40 years, with an average norm 14 years. Today the establishment of a favourable investment climate, not "point" infusions of budget funds is required to diversify the Russian economy. It requires the measures of a state regulation which deal with the key elements of the investment climate such as the rules governing the conduct of operations by foreign investors; the standards applicable to contracts with foreign branches; the rules of the development of local markets. The State investment policy of Russia should focus on the main groups of factors which are important for investors in decision-making about a capital placement (Khalevinskaya, 2017).

These placements are:

- Social and economic policy of the country in relation to foreign direct investment;
- Measures to facilitate the conduct of investment business;
- Economic factors (Khalevinskaya, 2017).

In the early 2000s, certain conditions for improving the investment climate were appearedin the Russian economy. These conditions are:

- The increase of the capitalization of the banking system,
- The growth of an interest of foreign investors to Russian companies,
- The increase of trading volumes in the stock market (Khalevinskaya, 2017).

However, it did not solve the investment problem for the majority of Russian companies. The introduction of anti-Russian sanctions exacerbated this situation greatly. Currently, the most important factors affecting the investment climate in Russia are natural resources, infrastructure, stability and predictability of the law. According to major foreign investors operating in the country, there is no legal mechanism for the protection and security of private property in the Russian market, a high crime and corruption, hard tax regime and the indefinite state of the public debt (Khalevinskaya, 2017).

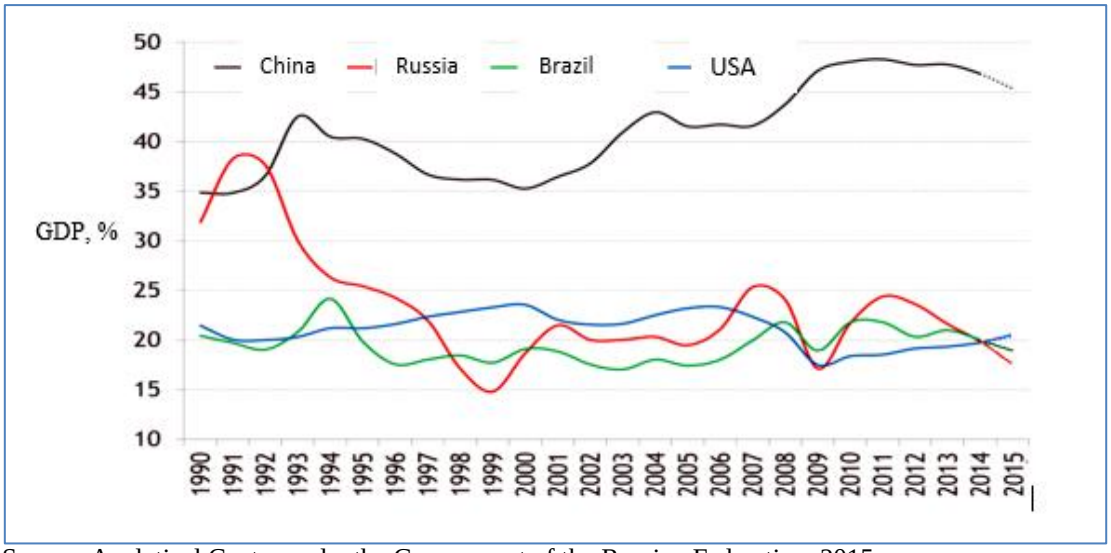
Foreign investments in Russia are located mainly in the form of direct investment (FDI). Through FDI the acceleration of an economic and technological progress, the introduction of modern forms of governance, the modernization of production, the development of competition are reached through the creation of joint ventures (sales a large share to foreign investors), the admission to the registration of enterprises with foreign capital on the territory of the Russian Federation, the signing of production sharing agreements. Portfolio investments in Russia, allowing to increase the equity capital of the enterprise and replenish the federal and local budgets are realized in stocks and bonds of Russian companies, foreign and domestic debt of the Russian Federation, as well as other government bonds. A practice shows that Russia cannot attract a large volume of foreign direct investment, because they are not backed up by the state investment policy. Significant volumes of foreign direct investment in Russia are concentrated in the financial sector. At the same time the activity of investors in such strategic industries as industrial machinery, agriculture, chemical materials, construction, biotechnology remains low year by year. It connects with the uncertainty of long-term perspectives, contradictions, inconsistencies, limitations inherent in a modern investment policy of Russia (Khalevinskaya, 2017).

Russia does not look too convincing in the rating of the investment attractiveness. For example, Russia is on the 45th place in the World ranking of global competitiveness of countries in 2015-2016. The authors of the report The Global Competitiveness Index 2015-2016 attribute the high prevalence of higher education, development of infrastructure, improvement in business regulation and internal competition to strengths of the Russian economy (World Economic Forum, 2016).

However, a low efficiency of state institutions, a lack of innovative capacity, a weak development of the financial market and a lack of investor confidence in the financial system prevent Russia to take advantage of its competitive advantages. In 2016 the weakening of domestic demand, the economic sanctions imposed by the countries of North America and Western Europe, as well as the external uncertainty about future prices of mineral resources were added to the negative factors. Business representatives indicate such main problems for the economic development in Russia as a corruption, an inefficient bureaucracy and high tax rates as in 2015. All these factors contribute to an

inefficient allocation of resources in the country and prevent the growth of competitiveness. Forecasts for the future are not optimistic. Experts note that in international comparisons Russia has always occupied the highest place in a tax policy. However, there will be a consistent increase in the tax burden, which will be more than 3% of GDP according to the data of the Ministry of Economic Development of Russia. Macroeconomic indicators are worse. The Finance Ministry plans to increase the size of the domestic debt to 1.3-1.5 trillion of rubles annually, while the current account surplus with stable oil prices can be reduced to zero last three years. Until now, there is a net outflow of capital from the private sector. A control of foreign investments is also possible due to the increased political uncertainty connected with the upcoming elections in 2018. The main indicator of the importance of foreign direct investments for the economy of the country is the indicator of the share of accumulated foreign direct investments (FDI) in GDP. According to the data of the Bank of Russia the Russian Federation has the lowest share of net FDI to GDP (Figure 4) (GCI, 2014).

Figure 4. The share of FDI to GDP, (units: in %)



Source: Analytical Centre under the Government of the Russian Federation. 2015

According to the IMF data the global average share of investments in GDP of the countries rose to 25% in 2007; it dropped to 23% in the crisis year of 2009; but since 2011 it returned to the level of 25% primarily due to the impressive Chinese indicators (more than 45%). Thus, a quarter of the world's GDP is spent on ensuring a future

economic growth (Grigoriev, 2015).

In Russia since the early 2000s the rate of the accumulation corresponds to the level of the developed countries. However, the negative aspect is that FDI in the raw material sector of Russia occupy about 57% of the total investments. The indicator of the share of investments in GDP of Russia has undergone significant fluctuations over last ten years. It exceeded 25% of GDP in 2007; it fell to 17% in 2009; it rose to 24% in 2011. In 2012 the rapid growth in Russian investments and the economy as a whole ended and an investment slump began. At the end of 2014 the rate of the accumulation in Russia fell to 20% of GDP; and in 2015 it fell less than 18%. That investment recession was one of the key reasons for the slowdown of the Russian economy. It also worsens the prospects for its return to a fast growth. 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. Russia was far behind in the global investment market (Bolaev, 2014).

The data of the rating BDO International Business Compass show the reluctance of foreign companies to invest in the Russian economy. This rating is developed annually by the Hamburg Institute of World Economy. Russia was on the hundredth place of the ranking among 174 countries in 2015. It is lower than Nicaragua, Paraguay, Vietnam and other developing countries (Byrkova, 2015).

The authors of the ranking note that the political conditions have deteriorated considerably and the administrative barriers for business have increased significantly. It connects with the effect of sanctions, as well as a marked increase in the administrative burden. Additionally, such components of the ranking have deteriorated as the level of the development of transport infrastructure and industrial production. At the end of 2014 after the imposition of sanctions many foreign investors began actively to get rid of the shares of Russian companies, because they feel hopeless business in Russia. Closing of foreign companies continued in 2015, both in industry and in the service sector, as small organizations so the largest global corporations. In 2015 the production of Opel cars closed, and already in the first half of 2016 30 car models disappeared from the Russian market. Representatives of General Motors explained it as a reluctance to invest in the market with uncertain prospects. In the IT field Google, Skype, Adobe Systems offices

were closed; Raiffeisen Bank has reduced its presence significantly. Due to the difficult economic situation Danone closed three plants in Smolensk, Novosibirsk and Tolyatti. Companies leave even the oil sector. The US Company ConocoPhillips withdrew from the project in the Russian Federation. It sold its shares because its representatives did not see prospects in the Russian market. By the end of 2015 some construction companies left the market because of the introduction of sanctions against Turkey (Byrkova, 2015).

Foreign money is not almost invested in health care, education and research. A reduction of FDI inflows to 1.5-2.0% of GDP can be expected in the result of the current geo-economic and structural shocks. As long as the economic situation stabilizes, the country will not be attractive for investment. The government should develop a strategy to attract FDI in the sphere of innovations of the Russian economy, to provide a balance in the economy as a whole (Byrkova, 2015).

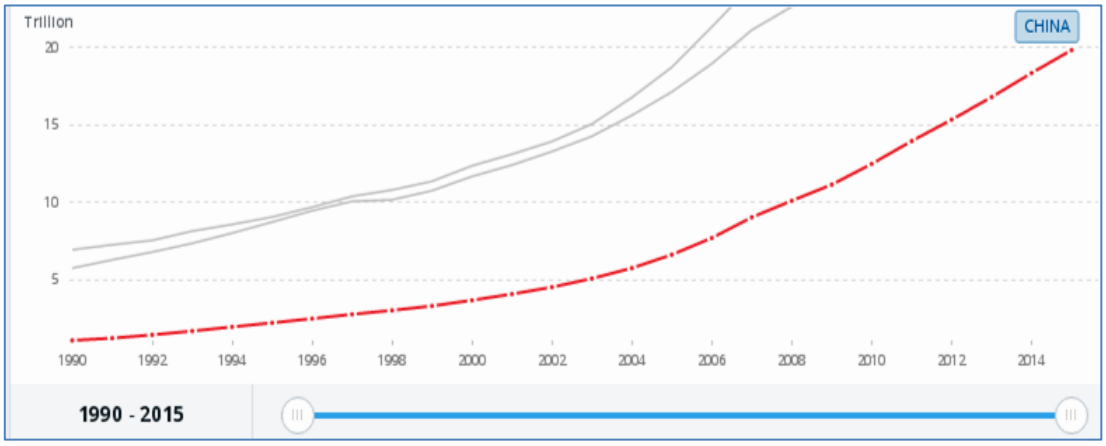
4.4 The economic growth factors of China

The Chinese People's Republic was founded in 1949 and was a backward, semi-feudal and semi-colonial country. The economy was in a complete ruin, the people lived in extreme poverty, and the average life expectancy was only 35 years old. For comparison, the average life expectancy in China in 2015 was 73.8 years. The way of China's development was very difficult. There were great achievements, but there were major flaws. In particular, the excesses in politics, the ideology led to the Cultural Revolution, which caused the state a serious moral and economic damage in the period of 1966-1976. The country was on the brink of economic collapse. In 1978 Deng Xiaoping, as the leader of the ruling party, put forward the policy of reform and a way of building a socialist market economy. China with its huge population and limited arable land could only develop in the way of socialism. Western-style capitalism would lead to the destruction of the country (Grinin, 2016).

Deng Xiaoping said that "*In order to build socialism, it was necessary to get rid of poverty*". China was far behind the developed countries in the level of productive forces. Therefore, China should be wide open for the world to adopt advanced management

methods, the best achievements of science and technology, attract foreign capital from all over the world in order to accelerate the development of the productive forces in the country. The implementation of the ideas of Deng Xiaoping led China to a breakthrough in the economy. Today, China is becoming a powerful regional superpower, which takes the place of the leader of the Asia-Pacific region. For 25 years, the GDP has increased almost 66.7 times (from 297.6 billions of dollars to 19814.4 billions of dollars). (Figure 5) (World Bank, 2015).

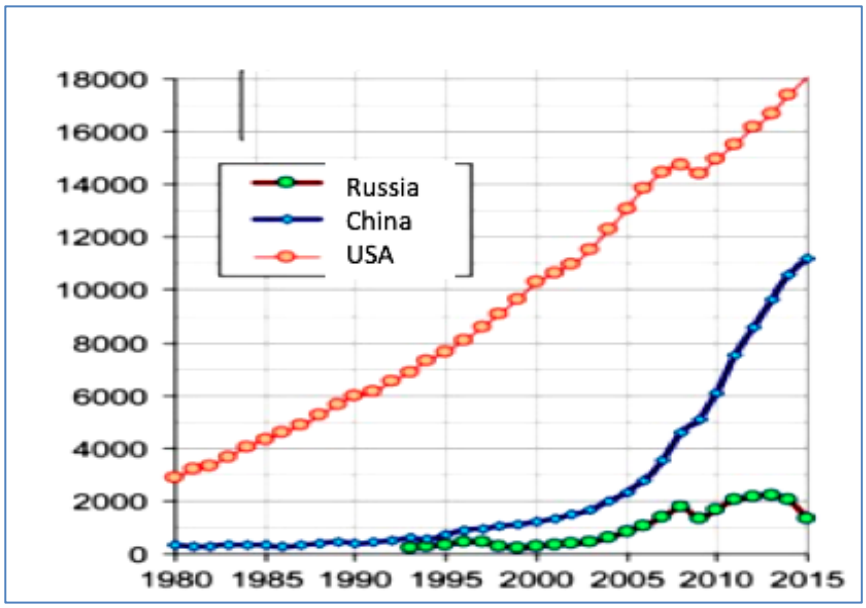
Figure 5. The dynamics of GDP of China, (units: trillions of USD)



Source: World Bank. Valuation of country GDP – China. 2014

The phenomenon of a fast economic growth has become a hallmark of the Chinese "economic miracle". China's share of world GDP was 17.1% in 2015. Achievements of China and Russia are compared with the largest economy in the world, the USA (Figure 6) (Kalabekov, 2015).

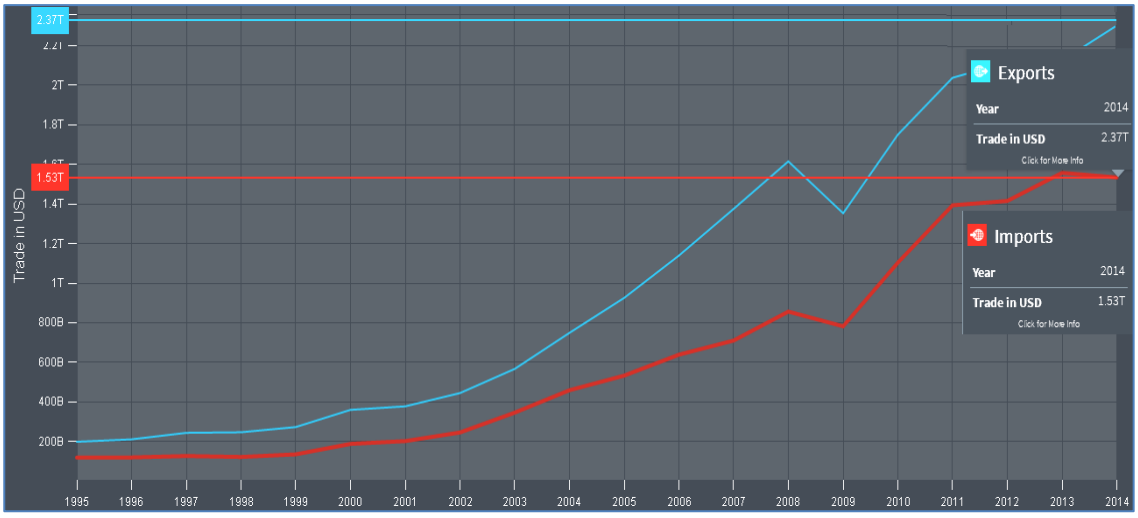
Figure 6.The dynamics of GDP of China, USA and Russia, (units: billions of USD)



Source: Kalabekov I.G. The USSR and the countries of the world in figures, 2015.p. 17.

It should be noted that a large part of the growing mass of commodities was consumed by the domestic market, and labour productivity has increased by 3.4 times over the past 30 years. The total amount of imports and exports in 2014 was 33.2 trillion of dollars, and the trade surplus was 834 billions of dollars in comparison with 79.5 billions of dollars in 1995 (Figure 7) (Simoes, 2014).

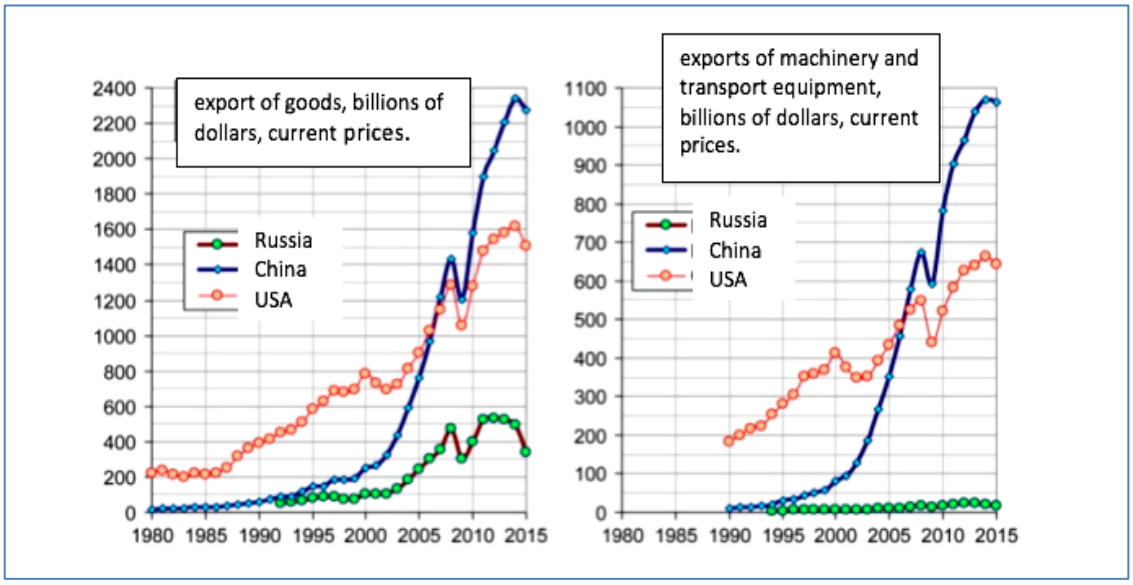
Figure 7. China's trade surplus, (units: trillion of USD)



Source: Alexander Simoes. China's trade surplus. 1995-2014

In 2014 China took the second place in the world in terms of exports, which was 20.6 trillion of dollars, and the third place in terms of imports, which was 12.6 trillion of dollars. 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. There are no shortages, an excess of supply is observed in the supply and demand of the vast majority of goods. China is ahead of all countries in the world in the production of grain, cotton, oilseeds, meat, coal, steel, chemical fiber, yarn, fabric, garments, cement, televisions and programmable switches; it takes the second place in electricity and chemical fertilizers. Export of energy and technological equipment, medical devices, automobiles, vehicles has 50.22%, which is higher than US indices (Figure 8) (Kalabekov, 2014).

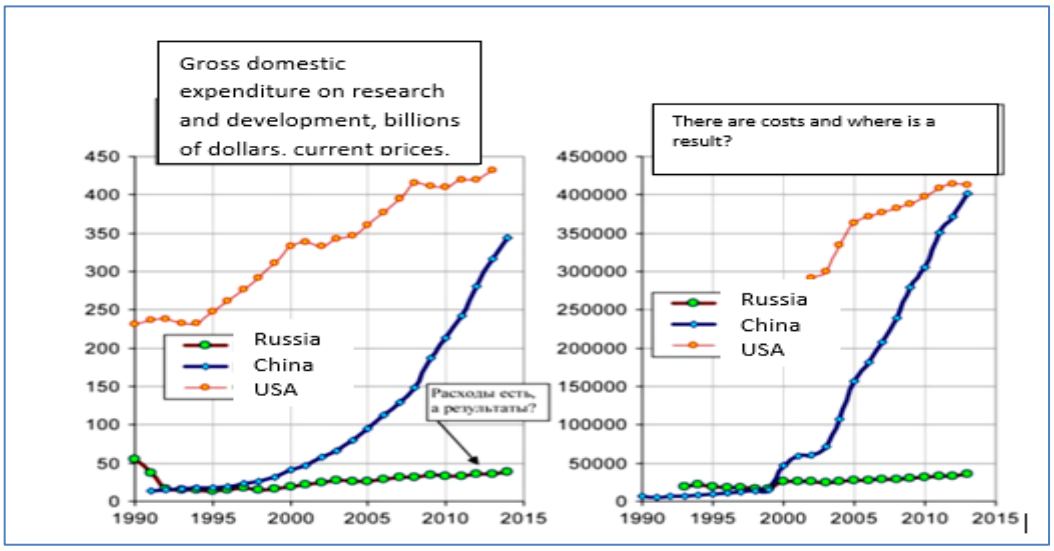
Figure 8.Goods export of China, USA and Russia, (units: billions of USD)



Source: Kalabekov I.G. The USSR and the countries of the world in figures. p.19.

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. China is catching up with the USA in research financing and equal with the USA in publications in scientific journals (Figure 9). The main reason for the rapid development of China is the nature of the pursued economic policy (Kalabekov, 2015).

Figure 9.Expenditures on science of China, USA and Russia, (units: billions of USD)



Source: Kalabekov I.G. The USSR and the countries of the world in figures. p. 20.

China carried out liberal economic reforms in the period 1979-1997. The result of the liberal economic model was the reduction of the state burden, which provided the Chinese economy record growth (Kalabekov, 2015).

Summing up, it is necessary to distinguish several central provisions of the tactics of the reforms carried out in China:

- The strategy of reform was thought out clearly in China. It was fully secured by economic, political and ideological measures.
- The main factor in the economic support was to choose such industries which provide a quick profit, accumulation of capital, employment and serve as a basis for the development of its economy.
- A practical testing of theoretical models in individual sample spheres, sectors of the economy and territorial units was an important principle of reforming.
- The economic reform was reinforced actively by political means, which was reflected in the creation of a favourable external and internal situation in the country and the prevention of the development of negative trends.
- Finally, an important direction was the ideological support of reforms. Chinese leaders did not allow destroying the ideological attitudes, values prevalent in society, as they recognized well that it led to a loss of people's orientation (Kalabekov, 2015).

What factors contributed to the growth of China's economy?

- The level of savings. In China it is the highest level of savings among the largest countries. The overall level of savings is about 50%. This means are not spent for consumption, but for the huge rate of investment and capital accumulation. On the contrary, the USA has the lowest level of savings about 10% of GDP.
- An export-oriented growth. The second factor is the export orientation: none of the Asian countries developed quickly without very high rates of export. Why export? First, it allows to hire a lot of people, to pull labour out of agriculture, to redistribute in the industry of production and services. Second, high rates of export permit to import a lot.
- Foreign investments. China attracted 43 billions of dollars of foreign direct investments during the period 1980-2010 (Figure 10) (Kalabekov, 2015).

Figure 10. Foreign direct investments of China, USA and Russia, (units: billions of USD)

Source: Kalabekov I.G. The USSR and the countries of the world in figures. p. 21.

In China foreign investments are divided into allowed and forbidden ones. Foreign investments in agriculture, textile, chemical, petrochemical, aerospace, electronics industry, metallurgy, energy and many others are encouraged. Foreign investments in companies which produce weapons, exploration, production and processing of radioactive ores, in the construction and operation of power grids, in air transportation management, the media, etc. are prohibited (Tsao, 2014).

The share of enterprises established with foreign direct investments increased significantly in the structure of China's economy. Foreign direct investments in China's economy were 126 billions of dollars in 2015. Almost 24 thousand of new enterprises with foreign capital were registered in China during that period (Tsao, 2014).

A national idea. The main condition of success was the very purpose of the reform, which was understood by all segments of the population, appealed to patriotic and national feelings of the Chinese people to raise the country, to raise the nation, to revive China's greatness. The idea of "The revival of the Great China" brought together not only all the Chinese people, but also compatriots abroad (Tsao, 2014).

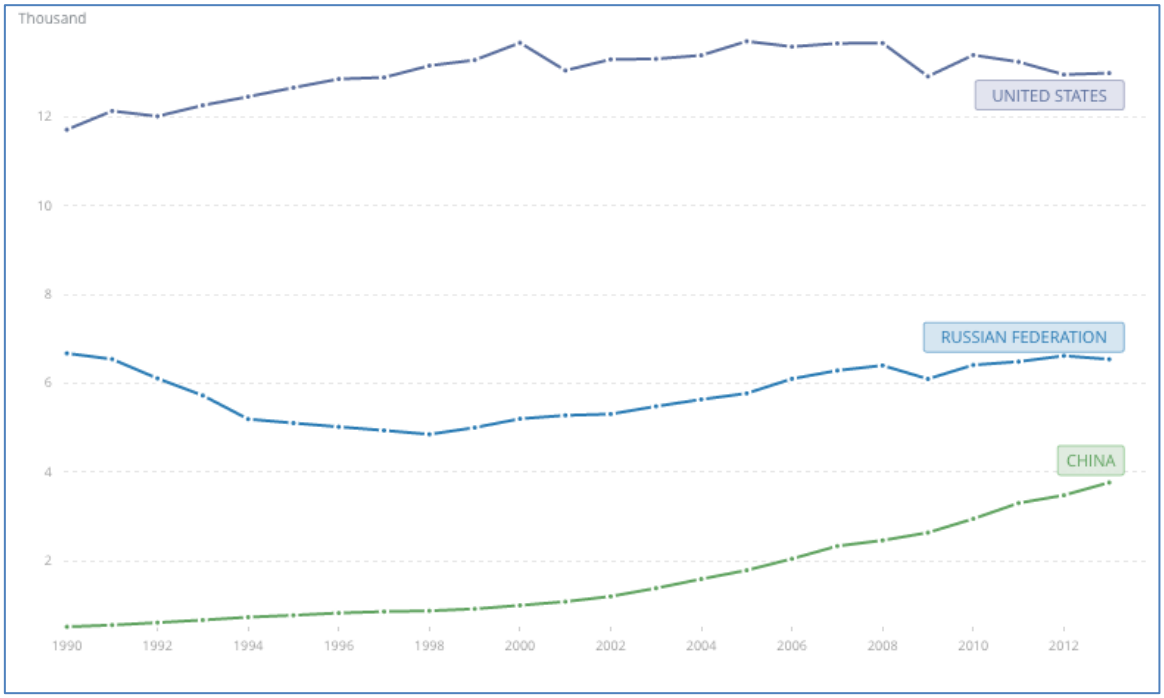
The most important resource of the Chinese growth was

- Huge market of cheap labour (low wages is an important part of the Chinese model of the rapid development);
- Rich reserves of certain types of natural resources (coal, iron ore, oil, rare metals, etc.);
- A cheap environment (a lack of due diligence on the environmental protection);
- A cheap social policy (the state does not care about pensions and benefits for the population, the high tuition fees and health services, a low level of safety in the workplace) (Tsao, 2014).

4.5 Disadvantages of the "Chinese" growth model

China's grandiose success is undeniable. However, the flip side of success has significant costs. The Chinese economy remains extensive, export-oriented, based on the very high proportion of investments, despite of the fact that its technological and innovative level rises. However, it continues to be extremely resource- and energy-intensive; ecologically very dirty. If the first decades of reforms investments brought high returns, but then they were dropped to low levels since the beginning of the 2000s. In 2009, for example, one yuan of investments had only 0.17 yuan of GDP growth (in 1994 - 0.74 yuan). In other words, it is necessary to invest 6 yuan's in order to achieve the growth in 1 yuan. Despite of the attempts to achieve efficiency in energy consumption (in particular by the legislative provisions), the amount of consumed electricity is growing roughly in line with GDP growth, and sometimes even faster (Figure 11) (Tsao, 2014).

Figure 11. Electric Power Consumption (unit: kWh per capita)



Source: World Bank, 2017

Now the limitations in the way of the ultra-high economic growth of China are marked clearly within the framework of the existing model. It is important to understand that this model is extremely difficult to change, but if it succeeds, it will mean a slowdown (Grinin, 2016).

Disadvantages of the "Chinese" growth model are as follows:

1. The lack of energy and raw materials is a hot point, as China has ceased to provide itself with energy and raw materials and depends heavily on their imports. At the same time increasing of the import of fuel, mineral and other resources in China accelerates global prices and increases the cost of China's export products. So, in 2011 the increased price of fuel led to the fact that the producers of electricity suffered losses under current tariffs for it. The state does not want to raise rates, because it will accelerate the inflation. The government power makes electricity blackouts trying to achieve a reduction in the cost of electricity. But the enterprises attempt to produce kilowatts they need using their own generators. The dependence on the energy and resource consumption will only increase in the framework of the cost-export model. Thus, in the near future the most rigid barrier to Chinese growth may be limitations of not only Chinese, but also the world's resources, or their price will be unaffordable for China. As a result, import will exceed export. The growth of consumption of resources can be reduced significantly only at the forced slowdown in the economic growth (Vasjukhin, 2014) (Grinin, 2016).

2. The coming labour shortage and the increase of its value. Despite of the unemployment rate at 4.1% in 2016, there is a shortage of skilled workers in some places. In the future, the influx of the working-age population will be smaller than its natural attrition as a result of the policy to curb the birth rate of «one family - one child». An acute labour shortage will be in the medium term, as it should be clearly understood a huge surplus of labour force (and thus its cheapness) provides the Chinese economic miracle. Therefore, any reduction in the excess will affect the growth of wages and the increasing demands of the workers, who will be less prone to exhausting work at many companies. A labour shortage in coastal provinces leads to an increase in wages, which will increase further. It will be very difficult and most likely impossible to provide a rapid growth of the economy with labour constraints and rising wages (Vasjukhin, 2014) (Grinin, 2016).

3. The inevitable rise in exports and a decrease in capital inflows. Strong restrictions in the form of the cost of energy and raw materials, labour and other costs, the revaluation of the yuan and the competition of countries with cheaper labour will be on the way of an export growth as it is difficult to change the export-oriented model. If export is slow, the flow of investments can be reduced, as the firms with a foreign participation are mainly engaged in exports. At the same time the export of capital from China can grow significantly, which also slows down the growth of the economy (Vasjukhin, 2014) (Grinin, 2016).

4. Falling returns on investments. As mentioned above, the high rate of investments, which provides 40% of the economic growth, comes across the problem of falling returns to low, and in some years very low values. At the same time the burden of maintaining the non-profit facilities increases. There is a huge amount of excess capacities in nearly all spheres in China. There are cases when the government takes a decision to close on the compulsory closure of excess capacities. But the volume of unprofitable facilities continues to grow. It causes both unnecessary costs and an excessive competition, which reduce profits. Of course, it is cannot continue infinitely, investments will be reduced sooner or later, and the growth will slow down with it (Vasjukhin, 2014) (Grinin, 2016).

5. Ecology. The situation with the environment is critical. China is ahead of the entire planet in terms of water pollution, air, soil, acid rain, the number of diseased people because of the pollution and so on. The government is concerned about this problem, but it does not enough to solve it. Very high expenses are necessary to solve this problem and they will raise the price of the cost of production and exports and affect growth rates (Vasjukhin, 2014) (Grinin, 2016).

6. The growth of social costs. An aging population, rising living standards, the need to ensure social peace and avoid too large gap in living standards, as well as a concern for the increase in domestic consumption lead to an increase in the State's obligations. Every year China will be forced to spend more money on social needs and this fact impacts now and in the medium and especially long term will be a heavy burden. The government is trying to shift costs to employers, but it will cause the increase in production costs and less willing to create new jobs (Vasjukhin, 2014) (Grinin, 2016).

7. The danger of inflation, the growth of imbalances and the need to limit the growth of inequality have become influence rigidly on the economic policy and growth. The limitation of growth connects with the need to balance between the capacity of domestic consumption (which was carried out by easing the monetary policy and an increase in the volume of credits) and inflation. Inflation, especially the fast growth of food prices, threatens the stability in the impoverished country, where there is too a great gap in income levels. Therefore, the country's leadership has chosen a course on the decline in inflation and the systematic tightening of the monetary policy. 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. And pay for it will be the closing of a large number of companies and a decline in business activity (Vasjukhin, 2014) (Grinin, 2016).

4.6 Economic cooperation of China and Russia, the condition, tendencies and development prospects.

4.7 The interleaved capital of Russia and China

Russian and Chinese investment cooperation is an important part of the economic cooperation between two countries. Now the activation of the investment cooperation is one of the priorities of the development of Russian and Chinese economic cooperation. The scale of mutual investments is far behind the two-way trade. At the same time the investments of China in the Russian economy is almost 10 times higher than the investments of Russia in China. Thus, according to the data of the Ministry of Commerce of China, at the end of 2015 the volume of accumulated Russian direct investments in China were 383.1 millions of dollars and the volume of accumulated Chinese direct investments in Russia were 8549.0 millions of dollars (Table 4) (Vasjukhin, 2014).

Table 4. Direct investments of China and Russia, millions of dollars. (Unit: millions of USD)

Period	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Investments of China in Russia	470,0	438,0	240,0	410,0	594,0	303,0	660,0	4 080,0	794,0	560,0
Investments of Russia in China	67,0	52,0	60,0	32,0	35,0	31,0	29,9	22,1	41,0	13,1

Source: Ministry of Economic Development of the Russian Federation. 2015

The following large joint investment projects are implemented:

- The active engineering and survey work on the construction of high-speed railway "Moscow-Kazan",
- The Chinese National Petroleum Corporation and the Silk Way Fund have entered to the capital of the project of the liquefaction of natural gas "Yamal-LNG",
- The Russian and Chinese investment fund with the co-investor the Chinese Investment Corporation has acquired 10% of the shares in Russia's largest network of children's supermarkets "Detsky Mir",
- "Sinopec Group" has acquired 10% of PJSC "Sibur Holding",
- PJSC "MMC "Norilsk Nickel "and Highland Fund signed a package of legally binding agreements in respect of an investment of 100 million of US dollars in the project "Bystrinsky GOK" (Vasjukhin, 2014).

Cement plants, automotive manufacturing are actively constructed and projects in the sphere of agriculture, forest products, etc. are implemented in Russia with the Chinese participation. In China a plant for the production of nitrile rubber is constructed in Shanghai with the participation of PJSC "Sibur Holding" and the production of deep processing of aluminium is created in Henan Province with the participation of the Group "Vi Holding". In 2015 the volume of investment cooperation reduced in the line with the

general negative trends in bilateral trade and economic cooperation. The share of Chinese investments in Russia decreased by 1/3 to 560 millions of US dollars in 2015; and China's economy received 13.1 millions of dollars of Russian direct investments (-68.0%) (Tsao, 2014).

The main spheres of Chinese investments in Russia are energy, agriculture, forestry, construction and construction materials production, trade, light and textile industry, household electrical appliances, services, etc.

The largest investments of the Chinese companies in the Russian assets are:

- The purchase 20% of the shares in the project "Yamal-LNG" by the Chinese National Petroleum Corporation from the company "Novatek" (valued at 810 millions of dollars);
- The purchase of 12.5% of the shares of "Uralkaliy" by the Chinese Investment Corporation (valued at 2 billions of US dollars);
- The investment by the Chinese International Engineering and Construction Company of ferrous metallurgy (NFC) in a joint project with the Corporation "Metals of Eastern Siberia" in the Republic of Buryatia (valued at 750 millions of dollars);
- The investments of the State Grid Corporation of China in joint projects with The Russian MC "Sintez" (valued at 1.1 billions of USD);
- The acquisition of 5.4% of the shares of the Moscow Stock Exchange by the Chinese Investment Corporation (valued at 100 millions of USD);
- The acquisition of 2% of the shares of VTB Bank by Construction Bank of China (valued at 100 millions of USD).
- The main directions of Russian investments in China are the manufacturing industry, construction, transportation (Tsao, 2014).

The total number of Russian projects with direct investments in China reached about 2500; it is a fairly high level of the investment activity of the Russian small and medium businesses in China. Low rates of total investments of Russian capital in the Chinese economy connect with the fact that often the money comes from Russia to China not directly, but through affiliated companies registered in Hong Kong (according to the data of the Central Bank of Russia, in 2013 Russian direct investments in Hong Kong were

187 millions of USD) or other jurisdictions with preferential taxation (Tsao, 2014).

The largest investment projects implemented by Russian companies in China are as follows:

- The construction of a plant for a vanadium pentoxide production in Shuangyashan, Heilongjiang Province with the participation of MC "Petropavlovsk" (Chinese partner – Heilongjiang Jianlong Group Co, Ltd). The production started in 2010; Russian investments were approximately 18 millions of dollars;
- The construction of a plant for the production of titanium sponge in Jiamusi in Heilongjiang Province with the participation of the MC "Petropavlovsk"; the investments were 350 millions of dollars;
- The construction of a refinery in Tianjin with the participation of JSC "NK "Rosneft" and the Chinese National Petroleum Corporation. The total investments were 5 billions of dollars (the Russian part was 49%);
- The creation of a joint venture for the development, production and sales of construction plastics and alloys «Kuibyshev Azot Engineering Plastics (Shanghai) Company»; shareholders are JSC "Kuibyshev Azot» and Shanghai trading company "Ho E"; the total volume of investments were 18 millions of dollars, including Russian investments 8.1 millions of dollars;
- The creation of a joint venture for the production and sale of electrical wires and cables «Shanghai Longxin Special Cable Company»; shareholders are the Institute of Nuclear Physics, Novosibirsk Branch of Science Academy of the Russian Federation and the Shanghai commercial and industrial company "Chzhungan"; the total investments were 4.83 millions of dollars, including Russian investments 1.1 millions of dollars;
- Logistics Company «Fesco Lines China Company» with 100% Russian capital, the investments were 1.56 millions of dollars (Tsao, 2014) (Portyakov, 2002) (Donrnbusch, 2002).

The leaders of Russia and China have tasked to bring the volume of Chinese foreign direct investments in Russia up to 12 billions of dollars to 2020. The Russian and Chinese Intergovernmental Commission on Investment Cooperation was created in 2014. Its aim

is to strengthen the coordination of bilateral cooperation in this field and eliminate systemic barriers for the investment movement. The Commission rules by First Deputy Prime Minister of Russia Shuvalov I.I, on the Russian side, and Chinese State Council Vice Premier Zhang Gaoli, on the Chinese side. The main tasks of this Commission is to exchange the information about the investment climate and business environment in Russia and China, the implementation of the Plan of Russian and the Chinese investment cooperation, monitor and facilitate the implementation of investment projects, conducting of Russian and Chinese investment forums. In addition, a number of investment projects are worked out in the framework of the Program of cooperation between the regions of the Far East and Eastern Siberia, the Russian Federation and the northeast of the People's Republic of China (2009-2018), approved by two leaders of the states in September 2009 (Portyakov, 2002) (Donrnbusch, 2002).

4.8 Problems and prospects for the Russian and Chinese investment cooperation

At the present stage the Chinese and Russian representatives explain the low level of the investment cooperation between two countries by a number of reasons. One of these reasons is the lack of awareness of business circles of two countries about the opportunities and features of doing business in the partner country market. Both Russian and Chinese entrepreneurs know poorly the current Russian and Chinese laws; have difficulties in establishing contacts and finding reliable partners (Vasjukhin, 2014).

Large claims Chinese partners make on the investment climate in Russia. To their opinion, Russia is contemptuous to foreign goods, capital, merchants and labour. Many Chinese businessmen have doubts because of the inconsistency of Russian politics. For example, after the entering of Chinese companies in the Russian Federation, the Russian side may cancel benefits promised previously; there are problems with the quota for labour. As for the large-scale investment projects suggested by China, Russia often refers to the national security interests and this fact impedes direct investments in the Russian economy. China also sees the ambiguous attitude of Russia to the cooperation in the field of high technology because of the situation of the violation of intellectual property rights

in China. A serious obstacle for investments from China in the Russian economy is the lack of coherence and detail elaboration of Russia's legal and regulatory base. Disadvantages of the regional investment legislation are noticeable particularly. In China regional governments provide investors with ready sites with infrastructure for investments. If it is a service sector, each specific region is usually provided with a high-quality office space and has a good telecommunications infrastructure. The weak prevalence and low efficiency of this practice in the Russian Federation leads to the fact that Russia, as a whole, and individual region particularly at a disadvantage in the competition for investment projects to other countries and regions. This problem is solved by the special economic zones, but it is not enough (Areshkina, 2015).

The most of the administrative barriers in the Russian economy concentrate at the regional level. This fact hinders significantly the development of the market environment and the growth of competition. As the issues concerning land acquisition, real estate, technical infrastructure, which have an especial meaning for potential investors are solved at the local level. As the Chinese experts note the leadership of the majority of Russian regions declares constantly the readiness to accept investors. In fact, the process is hampered by bureaucratic obstacles in issues related to their service. Absolutely unpredictable costs which are required for various approvals and permits in the region, a high level of unforeseen costs connecting with the development of production are "hidden factors", which influence at the investor's decision whether to continue or reduce the activity on a given territory. Russia is seen as a country with a poor investment climate, where there are no incentives for foreign investors. In addition, corruption, lack of development of financial institutions, artificial barriers created by the Russian side also hamper an investment process, which explains the modest scale of Chinese direct investments in Russia (Vasjukhin, 2014).

The main reason of the difficulties of the economic cooperation of Russia and China is a mutual distrust: Russia fears the growing influence of China, and the Chinese side, in turn, has big doubts about the transparency of the decision-making process in Russia, which can affect the implementation of already approved projects negatively. The absence of investments from Russia to China can be explained by the fact that it is difficult for Russian companies with activities outside of the raw material and energy

sectors to compete in the Chinese market. The largest Chinese state enterprises are dominated in the market and it is difficult for foreigners to break into this field. A protectionist policy of China in the respect of the local business plays a considerable role in such a small volume of investments from Russia to China. China had to provide foreign investors equal conditions with the local ones, according to the accepted commitments when joining the WTO. However, the country's authorities, using political methods, still put various barriers in the way of foreign companies. An additional factor of the low level of the investment cooperation between Russia and China is China's lack of interest in improving the competitiveness of Russia on the markets of third countries. A good example of it is the relationship between two countries in the field of fisheries (Pluzhnova, 2015).

Russia is one of the leading fishing countries of the world. It has large proven reserves of marine biological resources and the considerable scientific and technical potential in the sphere of sea-fishing, seafood and their processing. But the Russian fishing companies are under-capitalized and need in investments in the basic means of production, as most of the vessels and equipment are obsolete morally and physically. Russian and Chinese companies are competitors in the global and domestic markets of Russia and China. Therefore, the Russian and Chinese cooperation is not developed in the sphere of investments in the fisheries (Pluzhnova, 2015).

According to forecasts of both the Chinese side (CASS) and the Russian side (Ministry of Economic Development) the total volume of Chinese investments in Russia can rise to 12 billions of dollars to 2020. Now the Russian leadership as one of the urgent tasks of the economic development considers the increasing competitiveness of the State and pays a great attention to the improvement of the investment climate in Russia (Medrf, 2016).

The creation of the Russian Direct Investment Fund (RDIF) in 2011 was an important step for the implementation of investment projects mainly in Russia. The fund is aimed at the implementation of profitable investments in the capital of companies on the principles of co-investment. RDIF together with the Chinese Investment Corporation (CIC) was the founder of the Russian-Chinese investment fund (RCIF) in 2012. The main task of RKIF

is to ensure a high return on investments in the projects of the economic cooperation of China and Russia. Thus, there is a transition from a simple trade to a combination of trade deals with investments, and such investments will certainly stimulate the implementation of specific bilateral projects (Medrf, 2016).

5 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. International Bank for Reconstruction and Development indicates concerted efforts in the development of human capacity at all levels of R & D as the main reason of the economic success of China.

- The attraction of investments in those sectors of the Russian economy, which mostly need of investment in terms of the depreciation of fixed assets.
- The overcoming of the structural deformations, the facilitation of the access of investors in the food, medical industry, banking activities. The increasing of the competition culture is due to the effective investment policy.

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.

It is necessary 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.

6 Conclusion

The following conclusions were obtained during the research.

A government is an integral part of the world, possessing the specific properties of geographical, economic and spiritual character that distinguish it from other countries and causing the need to interact with them.

The economy of the government can be defined as a part of the world economy functioning within national boundaries with its specific productive forces and the production relations. The structure of the state economy is changing and transforming constantly. A scientific and technical progress has a great influence on it. An economic growth is the central task of any economy of the government.

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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