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**NATIONAL CENTER FOR  
ASIA-PACIFIC COOPERATION**

# **Produced by the National Coordination Center for Developing Economic Cooperation with the Countries of Asia-Pacific Region**

NCC APR was established by RSPP in partnership with interested Russian companies, business associations and governmental authorities in 2014 as a non-commercial partnership. The Center's members include representatives of leading Russian companies and business associations: RSPP, Chamber of Commerce and Industry of the Russian Federation, Business Russia, OPORA Russia, RENOVA, Russian Direct Investment Fund (RDIF), RUSAL, Vnesheconombank, VTB, Summa Group, Metalloinvest, Barkli.

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- development of practical business proposals for Russian governmental authorities to boost cooperation in the Asia-Pacific.

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# INTERVIEW WITH STANISLAV VOSKRESENSKY, DEPUTY MINISTER OF ECONOMIC DEVELOPMENT OF THE RUSSIAN FEDERATION

– Official signing of the Trans-Pacific Partnership (TPP) agreement took place on 4 February. Now the agreement is to be ratified by all 12 TPP member-states. According to some estimates, this process will take several years. What, in your opinion, are the TPP's implications for international relations in the Asia-Pacific region (APR) and in particular for Russia's trade and economic ties with the APR countries?

– The structure of Russia's exports, characterized by a dominant share of energy resources and other commodities, will not be affected by the TPP. Econometric models show that the projected negative effect falls within the error margin, around 0.01 percent of GDP. However, the increased regional competition caused by the TPP can affect our economic diversification and export capacity build-up ambitions.

Strategically the TPP creation alters the system of international relations in the APR. The conclusion of the TPP agreement spurred the process of new international trade rules creation, which can be finalized with conclusion of the ongoing negotiations on the free trade zones between the United States and the European Union (Trans-Atlantic Partnership), and between the EU and Japan.

However, in my view the domination of individual actors' interests will lead to unbalanced outcomes, with advantages from the new set of rules accruing to these actors.

At the same time, Russia aims to build equal and transparent cooperation with the region's economies, promoting development of mutually beneficial emerging markets and creation of fair value chains. To this end we formulated a specific agenda – to expand our export support policies, and to remove barriers to trade and investment with our partners in the Asia-Pacific region.

This agenda takes shape inter alia in our regional integration initiatives. On 1 January 2015 the Eurasian Economic Union was launched. It is a common market with a population of around 180 million people, embracing the freedoms



**Stanislav Voskresensky** Image by Sergey Savostyanov/courtesy Ministry of Economic Development of the Russian Federation

of goods, services, capital, and labor movement. In 2015 Armenia and Kyrgyzstan joined the Eurasian Economic Union.

Free movement of goods and capital within the EAEU brings closer the economies of Europe and Asia, which, by the way, coincides with the aims of the Silk Road Economic Belt initiative promoted by the Chinese authorities.

We are also actively working on our own free trade agreements. Last year we concluded the first such agreement within the framework of the EAEU — the free trade agreement with Vietnam, which is one of the TPP members. The terms of the agreement cover more than 90 percent of our trade and open up a number of lucrative export opportunities in this country, including agricultural goods, chemicals,

machinery, and steel exports. We will foster the conclusion of free trade agreements between Russia/EAEU and other APR states.

**— What are the prospects of free trade negotiations with other Asian countries?**

— Let me remind you that last year, within the framework of the Russian-Singaporean intergovernmental commission, Russia supported the proposition to start negotiations on a free trade agreement with Singapore.

In January Russia and Hong Kong agreed to launch discussions on EAEU — Hong Kong free trade area. The feasibility of a free trade agreement with India is also being studied within the Eurasian Economic Commission. Similar discussions are being held with the Republic of Korea. Additionally, a number of Asian countries proposed to start this work.

Concluded free trade agreements in the APR as well as the ones under negotiations, including the TPP, are generally conducive to creating favorable

conditions for liberalizing trade and investments in the region, and therefore will boost trade and global economic growth. The current state of Russian economy is beneficial to our exporters if only due to exchange rate margin. Of course, it is a temporary advantage, which, however cannot be wasted if we want to carve out our long-term niches in emerging markets.

**—On 3 December 2015, in his address to the Federal Assembly President Vladimir Putin announced the idea of economic partnership between EAEU, SCO and ASEAN members. What is the essence of the idea? Is this our response to the TPP?**

— It is rather an attempt to build up on our growing ties with the world's most dynamic markets. We continue to discuss the specificities of such economic partnership with our expert and business communities. This initiative may, at minimum, provide for a comprehensive agreement on trade in services and investment protection. But the task set by the President is broader: it also implies the elaboration of new approaches to regulation of emerging “new economy” markets, building efficient, safe and inclusive global value chains, as well as cooperation in high tech sphere. This agenda will define the future development pattern of international trade. So to us this initiative represents the advancement of Russia's systemic agenda in the Asia-Pacific region alongside our partners within the EAEU.

High quality integration offers benefits to all its members. The SCO and ASEAN members are enormous emerging markets with prospects of continuing robust middle class growth in medium- to long-term, which will demand an ever increasing number of quality goods and services. This creates a firm basis for a serious deepening of a dialogue with these countries.

**— How collaboration on the Silk Road Economic Belt project is going on? What are the perspectives for Russian-Chinese cooperation?**

— We are developing comprehensive and systemic relations with China based on the joint declaration on cooperation in coordinating development of the Eurasian Economic Union and the Silk Road Economic Belt signed by the Presidents of Russia and China last year.

In June 2015 the Intergovernmental Commission on Investment Cooperation co-chaired by First Deputy Prime Minister Igor Shuvalov and First-ranked Vice Premier of China Zhang Gaoli decided to start this work in the framework of a special interdepartmental working group headed by the MFAs of the two countries. The first meeting of this group to discuss actual implementation of the joint vision was held in August.

Additionally negotiations with China on a non-preferential trade agreement are about to start within the framework of the Eurasian Economic Commission.

The agreement would allow lifting a range of systemic barriers on the way of our goods to the Chinese market.

Infrastructure projects in our region will become the main basis for coordinating development. Another major issue closely connected with the first one is protection of mutual investments and trade facilitation for cross-border goods movement.

The work on coordinating development is future-oriented. Thus we focus on potential concrete agreements in high-tech sectors, including for example IT and big data, health and educational services, e-commerce and energy effectiveness. Such projects with China and other partners in Asia-Pacific have already been launched: a joint data centre with China in Siberia, DNA-diagnostics for export with Japanese universities in Tatarstan.

A meeting between the heads of government of Russia and China was held last December. The Chinese partners shared the idea that we should be moving from this ordinary cooperation to joint creation of value-added chains on mutually beneficial terms.

The world evolves and we see technological changes happening in almost all sectors of the economy. On the basis of these changes we should build mutually beneficial cooperation and agree on joint rules of new markets regulation.

E-commerce infrastructure is developing and we are working on the measures to remove administrative barriers for trade. On the AliExpress platform (AlibabaGroup subsidiary) a “show-case” of Russian producers exporting to China was created for the first time. Another large Chinese Internet trading platform JD.com is actively developing business in Russia, including by opening opportunities for our producers to export not only to China but also all over the world.

E-commerce is a new reality and this sector is growing. There are a lot of different problems, including in logistics and regulation. We will be removing these barriers together with partners on a mutually beneficial basis. These two biggest e-commerce platforms experience confirms the Chinese consumers’ interest in buying Russian goods in China.

**– What investment projects and in which sectors are being implemented with partners from China and other Asia-Pacific countries?**

At the second meeting of the intergovernmental commission with China we reached a range of important agreements to implement decisions made by the heads of state and adopted 58 bilateral investment projects in different sectors: extracting industries, manufacturing industry, agriculture, infrastructure, high-tech and others.

We work with these projects manually. I mean cooperation and assistance where real “success stories” form the basis of our future partnership.

In my view several significant deals, which never happened before, were made last year.

It is Yamal LNG project in the energy sphere. In the related chemical industry it is the acquisition of 10 percent of PJSC SIBUR HOLDING shares by Sinopec. A joint venture on nitrile butadiene rubber production is being created by PJSC SIBUR HOLDING and Sinopec Group in Shanghai.

A significant deal was concluded last year when a consortium of private Chinese investment funds acquired 13.3 percent of shares in the MMC Norilsk Nickel Bystrinsky project. It is possibly the first case of huge private funds' cooperating with a large Russian private company as a minority shareholder. It is not a secret that frequently many Asian companies, first of all the state-owned ones, aim to get a majority control in different assets at one go. It is an example of a constructive and, I emphasize this, mutually beneficial cooperation. We hope this project will be successful for both parties.

There are also smaller projects, which in my view characterize the ways our investment cooperation develops.

For example, in the high-tech sphere En+ company together with Chinese partners is building a data center in Siberia. They apply the following scheme: Chinese equipment is bought, at the same time Chinese consumers come to use the services of this data center. This is an example of cooperation in absolutely new industries. Another case is construction of an automotive plant in Lipetsk; we shall see how it develops.

We work on the agricultural projects with Japanese colleagues. It includes access of Russian production to the Japanese market, as well as Japanese investors coming to Russia, particularly the Far East, to implement joint projects to sell goods in Russia, Japan and third countries. We also prioritize medicine and health.

Japanese company JGC Evergreen started construction of a greenhouse complex in Khabarovsk with the planned amount of investment of more than USD 2 billion. The project implies building of a greenhouse complex, where cucumbers and tomatoes will be grown all year round with a harvest of 70 kilos from 1 square meter a year.

We also observe the interest from Japanese investors to cooperation with Russia in the electrical energy industry. Wind power projects in Kamchatka region are a good example, and Japanese companies' expressed interest in creating joint ventures on cogeneration in the Far East.

We continue developing projects with South Korea. For example, Russian Avtotor in cooperation with Korean Youngsan is actively promoting localization of production of components for KIA cars.

– **In January Russia and Hong Kong signed a double taxation avoidance agreement, the Stock Exchange of Hong Kong lifted restrictions on listing companies incorporated in Russia. Why is it important for us? With what other parties do we have similar agreements?**

– In a year we have signed two protocols with China and Singapore, and one agreement with Hong Kong which will expand opportunities for our companies. Last year we agreed with China and Singapore to improve conditions in our countries for avoiding double taxation, which gives us an additional opportunity to enter Asia-Pacific markets and attract funds from these markets directly, without any intermediaries.

These jurisdictions have become as attractive to Russian investors, as the traditional European jurisdictions. For the first time in the history we have signed an agreement on avoidance of double taxation with Hong Kong, and its conditions are the same as in agreements with China and Singapore. In this sense, it is continuation of a unified approach aimed at simplification of procedures for and removal of barriers to investment cooperation with Asia. This will allow Russian companies to take advantage of the Hong Kong jurisdiction when working on the Asia-Pacific markets as well as increase the attractiveness of Russian assets for Asian companies operating in Hong Kong.

As for financial cooperation, now there are no limits for the Russian companies going public on the Stock Exchange of Hong Kong, as it has removed restrictions on listing companies incorporated in Russia. In mid-January, the management of the stock exchange confirmed that Russia is now officially regarded as a so-called “acceptable” jurisdiction, whose companies may receive a listing in Hong Kong. The prerequisite for this was Russian accession to the IOSCO (International Organization of Securities Commissions).

This makes it possible for Russian legal entities to directly access capital markets of Hong Kong. Previously, only RUSAL went public in Hong Kong, but not as a Russian legal entity. Now this barrier is removed, and companies can go public directly.

Our work is focused on providing a maximum range of opportunities for Russian companies. The treaty on the avoidance of double taxation and the agreements with the Stock Exchange of Hong Kong are convenient tools for Russian companies to raise funds in the capital market.

– **What other systemic measures should be applied to make the dialogue with our Asian counterparts more effective?**

– Well, for example, at the beginning of our work we faced the reality of insufficient awareness among Russian entrepreneurs of opportunities and operating conditions in Asian countries. Insufficient knowledge at the level of economic entities leads to the shortage of “success stories”, though they do emerge.

In this regard, we work towards raising Russian and Asian entrepreneurs' awareness of the regulatory environment in our countries and conditions for cooperation, and encourage and support efforts of all interested parties involved in this work. For example, in December last year the Skolkovo School of Management launched an educational program for Russian business "U-turn to the East: A Chinese strategy for your business", which was very popular.

Such training programs are necessary and can be practically useful for improving the efficiency of Russian entrepreneurs in Asia.

Besides, in mid-January we, together with colleagues from the "Forum" analytical centre, launched the *asiavector.ru* website. It is exclusively analytical and is designed especially for people — businessmen, experts, officials — who are interested in the Asian agenda. The website contains analytical materials and main news. For example, a quick guide to the Chinese reforms and their possible impact on the Russian economy can be found there. By the way, recently a short preliminary analysis of the content of the Trans-Pacific Partnership agreement and its possible consequences for Russia was published at this site.

**— The Asian Infrastructure Investment Bank (AIIB) was recently launched. What is your vision of this bank? Are there any details on the first projects and start of financing?**

— Russia is the third largest shareholder of the bank and we have the third largest representation in the management after China and Europe. Our share of the votes is 8.74 percent of the total. The Board of Directors meeting discussing the plan for this year, the number of projects and the sum of financing has been already held. According to the preliminary agreement, the bank will finance 5–10 projects worth about USD 1 billion. We hope that additional details will appear in the coming weeks.

Many people compare the AIIB with the World Bank, however its working procedures are similar to those of the European Bank for Reconstruction and Development (EBRD). Let me remind you that Russia has traditionally been a leader in attracting money from the EBRD to finance Russian projects. Since 1991 we have attracted more than USD 25 billion from the EBRD. Therefore, I hope that the establishment of the new Asian Bank will provide another opportunity for attracting financial resources to support the most important projects.

# INTERVIEW WITH ANDREY KOSTIN, CHAIRMAN AND CEO OF VTB BANK

— **In 2015 Russian-Chinese bilateral trade fell by more than a quarter. What opportunities exist for overcoming the decline in trade cooperation?**

— Broadly speaking, today there are three important factors with the strongest impact on the situation.

The first one is volatility in the global commodity markets, which resulted in lower prices on Russia's traditional exports to China, specifically oil and gas. However, it is worth noting that while the dynamics of prices remains unfavorable to the seller, the physical volume of Russian exports to China is growing. For example, in the first three quarters of 2015 Russia's crude oil exports to China grew by more than a quarter from a year earlier.

The second factor is the slowdown of the Chinese economy itself, which reduces its "appetite" for commodities.

And, lastly, there is the factor of ruble depreciation, which has decreased the effective demand in Russia for Chinese goods. Overall, the new reality of rates and prices we live in has had its inevitable repercussions for Russia's foreign trade.

At the same time, every cloud has its silver lining. According to 2015 statistical data, China and Asia-Pacific as a whole is a growing share of Russia's foreign trade. Given the structure of our economies as well as geographical proximity of Russia and China, I suppose the current trend will turn positive sooner or later. By the way, our Chinese partners also believe that the decline in bilateral trade is only temporary.

The challenges we face today should not overshadow new opportunities. For example, China as well as the entire East Asian region is a huge market for products of Russian agricultural sector, which is now showing evidence of robust growth.

Besides, the partners retain their priorities on strategic projects in energy and transport infrastructure. Among other things, such projects also have a high multiplier effect with a strong positive impact on related industries. Soon enough new initiatives aimed at the development of Russia's Far East are to become fully operational. Certainly, all this will give an additional impetus to trade and investment cooperation with China, too.

The economies of Russia and China complement each other quite well. So, there is every reason to be optimistic about the dynamics of our future cooperation.

— **Russia and China agreed on cooperation in coordinating development of the Eurasian Economic Union (EAEU) and the implementation of the Chinese initiative “One Belt, One Road”. What is the significance of this decision? Also, among other things the “One Belt, One Road” initiative implies a serious financial component. What areas of cooperation with China in finance and banking, in your opinion, should become a priority?**

— To start with, the project of Eurasian economic integration is as much of priority for Russia, as the “One Belt, One Road” initiative for China. There is no exaggeration. That is why the decision of our leaders to coordinate efforts in implementing these two “mega-projects” in Eurasia reflects a truly high level of Russo-Chinese strategic partnership and mutual trust.

In the months to come we expect to see a road map that would guide coordinating efforts. This would allow specify the formats of possible participation of the largest Russian banks, and VTB Bank in particular, in funding certain projects, structuring deals, and launching bilateral and multilateral financial mechanisms.

The prospects of coordinated efforts among China, Russia and other Eurasian Economic union member countries in terms of integration are attractive and large-scale. In fact, it is a gradual formation process of a common economic space across the Eurasian continent.

Both politicians and business people of many countries express their deep interest in the Chinese initiative and opportunities it opens up. I know it for sure as this January I took part in a special session at the World Economic Forum in Davos devoted to this issue.

Transport and logistics components of the Silk Road Economic Belt have always been mostly visible and widely discussed. They are definitely of importance. But if you study relevant Chinese documents on the “One Belt, One Road” initiative, you can also find a whole section on financial cooperation. It articulates a lot of indispensable things like development of swaps and settlements in national currencies; closer cooperation between regulators and rating agencies; activities promotion of non-resident companies on the debt and equity capital markets, etc.

Separately noted is the importance of joint work on the full-fledged launch of the two new major international financial institutions — the Asian Infrastructure Investment Bank and the BRICS New Development Bank. I am confident that Russia’s decision to become a Founding Member and a largest shareholder of both financial institutions is absolutely right and timely. Initial practical steps of both facilities are expected to be seen already this 2016 year.

Needless to say, all these new initiatives and formats of cooperation in the financial and banking sector is consistent with the priorities set by VTB Bank in China. For instance removal of restrictions on Russian and foreign issuers

to operate on the markets of debt and equity capital of mainland China could give a strong impetus to bilateral Russo-Chinese cooperation in this field.

We understand legal qualifications set by the current Chinese legislation in this regard, but we also see that mutually beneficial agreements on such issues are achievable. For example, last year the People's Bank of China granted an approval to VTB Bank to operate on China's domestic interbank bond market, and we look forward to further liberalization of China's primary debt capital market for issuing our own debt instruments.

Establishing appropriate bilateral legal framework between Russia and China is crucial for moving ahead in finance and banking. It is an essential prerequisite for a deeper cooperation. This work is being carried out intensely.



Andrey Kostin Image courtesy VTB Bank Press Office

**– Both Russia and China are willing to increase the share of national currencies in their foreign trade. What is VTB Bank doing to promote trade in rubles and yuan between Russian and Chinese companies?**

– Indeed, the political leadership of our countries set the task to increase the volume of settlements in foreign trade operations in national currencies. According to the Russian Ministry of Economic Development, the share of the ruble and yuan settlements in mutual trade currently stands at about 7%, which, of course, does not meet the capacity the partners possess.

The reasons for this are manifold. Perhaps the most important one is the lack of economic incentives for economic operators participating in bilateral trade. Next, the ruble rate has been volatile recently. Costs of conversion and derivative transactions are also relatively high due to the lack of the ruble and yuan liquidity on the market. For example, at the end of January the Peoples' Bank of China raised its reserve requirements ratio on balances and deposits in RMB for non-residents' accounts, which added to limitations in the yuan settlements.

Finally, in conditions of Western restrictive measures against Russia, we observe an excessively conservative approach of major Chinese banks to cooperation with Russian counterparts even on standard interbank transactions like foreign exchange operations, swaps, interbank lending, etc.

For VTB Bank foreign trade between Russia and China is a very important and promising line of business. In recent years we have served about 20% of all transactions in bilateral trade and intend to increase this percentage. In 2015 the amount of VTB transactions denominated in yuan grew by more than 250% to over RMB 120 billion.

VTB branch in Shanghai has been operational since 2008. It is fully licensed for operations with yuan and ruble and other foreign currencies, and currently focuses primarily on two issues: trade financing and foreign exchange operations.

In the area of trade and export financing VTB Bank is able to provide its clients with the most convenient and profitable solutions in the Chinese market. We have relevant agreements with China's largest banks totaling over 160 billion rubles, including one with China Development Bank Corporation for 12 billion yuan, largest ever for Russian banks. In terms of conversion operations, VTB branch in Shanghai is a market maker on the pair of yuan / ruble trading with a share of almost 90% in the Chinese market.

### **– What are VTB Bank's plans in developing businesses in China and Hong Kong?**

– These days it is impossible to remain a truly international financial group without a sound presence in China. Therefore, development of business in both mainland China and Hong Kong is one of the main priorities for VTB Bank.

As I have noted, in recent years VTB has built in China a solid platform that not only secures high quality services for bilateral trade and operations in national currencies, but also allows developing other lines of business in China and East Asia as a whole.

For instance, we are interested in establishing bilateral and multilateral mechanisms to raise debt and equity finance in China, as well as in the development of full value conversion and hedging transactions with local counterparts.

Some «niche» businesses look promising, too. Among them, gold trading at the Shanghai Gold Exchange, where VTB has become the first Russian bank eligible for participation. The other one of interest is the promotion of VTB expertise for local deals in the domestic capital market.

In January 2016, on the sidelines of the World Economic Forum in Davos, VTB Bank and Alibaba Group signed an agreement on banking services and e-commerce payments in Russia. This is going to reduce transaction costs for Russian customers of Alibaba Group, while VTB Bank expects to benefit from a significant expansion of its clients' base. In the years to come financial cooperation with Alibaba Group may be extended to include retail, corporate and investment service.

– **We are witnessing a certain kind of competition between integration projects in the Asia-Pacific region. One of them is a US-driven Trans-Pacific Partnership (TPP), which is already launched. The other one is a Regional Comprehensive Economic Partnership (RCEP) promoted by China, which is still being negotiated. Do you find this competition constructive from the standpoint of creating a free-trade environment in the region?**

– Creative competition implies playing by consensual rules towards a more efficient development model.

No matter which country promotes new association or free trade area (FTA), their emergence in Asia-Pacific should further foster favorable conditions to liberalize trade and investment flows in the region. This is in line with and would back up the APEC's strategic aim, which is to establish the Asia-Pacific free-trade area.

However one should draw a clear distinction between different paths of integration efforts and basic principles of the negotiation process. The main principles are openness and transparency for all the stakeholders concerned.

It is no coincidence that the APEC Business Advisory Council, in which I have been working for a number of years, in its latest report to the APEC Leaders stresses that all negotiations concerning new FTAs in the Asia-Pacific must be “mutually supportive and inclusive”.

As you know, the Trans-Pacific Partnership was negotiated in total secrecy without participation of either Russia or China, two of the APEC's four largest economies. A formal invitation was extended to Moscow and Beijing just to observe formalities, after everything had been already agreed upon.

That is not the kind of approach we are comfortable with. First of all, if you aspire to write the new economic rules for the entire region, you should do it with all stakeholders taking part. In an interdependent world consequences will affect everyone.

Certainly, it is not the reason for Russia to feel offended or to obstruct the new association. The TPP is not in force yet. It should be thoroughly analyzed to assess how Russian interests and plans for development are concerned.

However, I deem it necessary to reiterate that the very manner in which TPP was created undermines the efforts to promote a harmonious and incremental “integration of integrations”, that Russia has always supported. Regretfully, it is yet another step towards fragmentation of the global economic space.

In my view, the increasing inclination towards establishing new exclusive trade and financial mega blocs with a pre-defined set of members is worrisome.

The TPP is not the only example. Negotiations to launch the Transatlantic Trade and Investment Partnership between the US and the European Union are in full swing. They are going on behind closed doors, too.

These are all serious symptoms of a growing “economic egoism” and re-writing rules of the game without the WTO participation and in the interests of specific players. Inter alia, the President of Russia stressed this in his speech at the UN General Assembly in September 2015.

Ultimately, the world order that has been formed in the last two or three decades is rapidly losing its universalism. We have entered a new stage of globalization. I am afraid we cannot be certain that Globalization 2.0 will be more sustainable than the previous version. In a world of closed and selected membership clubs the issue of a new geo-economic strategy for Russia and other non-Western countries is becoming truly practical.

That is why we thought it would be interesting to discuss this topic at the VTB Plenary Session at the upcoming St. Petersburg International Economic Forum in June. We hope the discussion will be intense and informative.

**— In 2016 China, a leading economy in the Asia-Pacific region, has assumed presidency in the G20. How will that influence the G20 agenda?**

— G20 agenda always has continuity, but each presiding country usually introduces its own priorities.

China is one of the world’s biggest economies and it certainly has a say on all crucial global economic and financial issues.

What catches the eye is that China declares intention to change the nature of the G20 — to turn it from an emergency response instrument into a mechanism of enhanced international economic coordination. In the opinion of our Chinese colleagues, the degree of this coordination has decreased recently. Incidentally, this is yet another sign of growing symptoms of “egoism” in the world economy.

The rising role of developing countries in global economic governance system is another important topic that we think will gain traction in the course of China’s presidency.

It will be raised in the context of both improving the system of international financial institutions — the IMF reform, as you know, is finally put in motion — and discussing the prospects and the role in the global financial architecture of new development institutions — the Asian Infrastructure Investment Bank (AIIB) and BRICS New Development Bank, first of all.

Also, China puts a special focus on the issue of creating favorable conditions to finance ecological projects. In the course of China's G20 presidency the green finance study group has begun its work.

**– What are the points of the G20 agenda that Russia can contribute to most?**

As for the financial part of the agenda, these are issues concerning the formation of the new elements of the global monetary and financial system.

Then, there are such topical issues as the promotion of public-private partnership and other instruments of financing infrastructure projects, launch of operations of the BRICS New Development Bank and the AIIB, promotion of settlements in national currencies. Highlighting them is beneficial both for Russia and for China, the current president of the G20.

**– You co-chair the B20 Financing Growth Taskforce. What are its aims for 2016?**

In 2016 B20 Financing Growth Taskforce includes representatives of more than 60 companies and financial institutions of the G20 members.

There are four main tracks of our work as we prepare our recommendations for the G20 Leaders.

First of all, it is the implementation of decisions concerning the global financial regulation. Since 2009 the G20 has done a lot in this domain. The current focus is on effective implementation. China's idea to monitor barriers impeding implementation in certain G20 economies is surely productive.

The second priority of our taskforce is a set of issues concerning the rising role of developing economies' national currencies in the global trade and cross-border capital flows.

We share our Chinese colleagues' opinion regarding the topicality of these matters. VTB is a large financial group with an international network unique for Russian banks. So, for us these issues are of practical interest from any standpoint – from trade finance to developing mechanisms of attracting stock and debt capital in national currencies.

Another important dimension of the B20 financial track under China's presidency is developing instruments of green finance, which I have already mentioned. Essentially, it is probably the first time that the G20 would carry out a comprehensive study of a system of legal, regulatory and other means and indicators to encourage green projects financing.

Finally, a big issue for 2016 is financial innovation and its effects. As new technologies and internet banking evolve, the issues of coordinating relevant practices internationally and harmonizing specific legislation will gain more importance.

As you see, the agenda is solid and there is a lot of work to do. We hope that recommendations that we are going to prepare jointly will be as useful to the G20 Leaders as before.

# INTERVIEW WITH DENIS MANTUROV, MINISTER OF INDUSTRY AND TRADE OF THE RUSSIAN FEDERATION

**– What is the potential for industrial cooperation between Russia and Asia-Pacific countries? What geographical and sectoral priorities would you identify?**

There is a strong potential for expanding Russian — Asia-Pacific trade and industrial cooperation. In accordance with the priorities of strengthening Russia's industrial potential the main focus within the region is on deepening and broadening cooperation with the economic locomotives of the Asia-Pacific region: China, South Korea and Japan.

In particular, trade volume in 2015 made up USD 63 552.2 million in the framework of Russian-Chinese cooperation, exports — to USD 28 606.4 million, imports — to USD 34 945.8 million. Points of particular interest include projects in the fields of metallurgy, energy, gas chemistry and chemical industry, wood industry, construction materials production, transportation and transport engineering, as well as the projects in the sphere of logistics infrastructure development in the Far East aimed to facilitate the delivery of Chinese goods to Russia.

In addition to energy products, Russia is ready to supply the countries of the region with the certain types of rolled ferrous metals, chemical products, machinery and technical products, especially power equipment (for nuclear power facilities), and special-purpose products. Implementation of development projects in petrochemical and wood processing industries via the establishment of joint ventures and industrial cooperation with partners from Asian countries in Eastern Siberia and the Far East, will help to attract investment, create new production capacities and modernize the existing ones. Together with our Chinese partners we implement such projects as the construction of a large Zarubino port, the development of regional airports network in the Irkutsk Region and Krasnoyarsk Territory, the construction of cross-border Russian-Chinese railway bridge Nizhneleninskoye — Tongjiang in the Jewish Autonomous Region, the wood processing and trade zone development in the Tomsk region, the modernization of the Krasnoyarsk metallurgical plant producing aluminium alloys, the construction of a timber-processing plant for the production of oriented strand boards in the Irkutsk region, the creation of a joint venture for the rare earth metals mining in the Republic of Sakha (Yakutia), the establishment



**Denis Manturov** Image by Sergey Guneev/Sputnik, courtesy Ministry of Industry and Trade of the Russian Federation Press Office

of logistic infrastructure in Siberia and the Far East for the delivery of Chinese goods to Russia.

Talking about the Russian-Japanese relations, we can describe their development as the progressive ones and their content as gradually changing. The potential of cooperation between Russia and Japan, primarily in the commercial and industrial sectors, is not fully utilized. However, there is an obvious need for this interaction and cooperation responding to the new conditions within the Asia-Pacific region and beyond. It should be highlighted that the interstate dialogue between Russia and Japan has intensified in recent years.

Japanese companies are interested in both importing Russian resources (primarily hydrocarbons) and exporting their own goods to Russia (mainly electronics and automotive equipment). In 2015 the volume of trade between Russia and Japan was equal to USD 21 312 million, decreasing by 30.7% compared to 2014. This trend is explained by a fall in Russian imports from Japan by 37.51%.

Promising areas of cooperation with Japan include wood processing, processing of fish and marine products, construction of wind power facilities in Kamchatka, cooperation for the development of coastal infrastructure and establishment of coal-chemical production. Besides, Japanese investments may be attracted to the shipbuilding, as well as joint engineering centres and industrial parks establishment and development.

In 2015 the trade turnover between Russia and South Korea decreased by 33.8% to USD 18 060.6 million. The fall is caused by the 49.4% decrease in Russian import volumes. The Republic of Korea is now interested both in imports of Russian resources (primarily hydrocarbons) and exports of domestic goods to Russia (mainly machinery, equipment, vehicles and tools). The former indicator decreased by 30.2% during the same period, whereas the latter fell by 55%. Korea is interested in natural gas supplies from Russia. Another priority for mutually beneficial economic cooperation between Russia and the Republic of Korea are large-scale investment projects.

Korean partners have expressed their intention to be engaged in implementation of the target programs on the Russian Far East and Siberia development, including through consolidation of investment funds of the Korea Investment Corporation, Korea's Eximbank, Vnesheconombank and the Russian Direct Investment Fund with the total assets of up to USD 2 bln. Priority within this process will be given to projects in the field of agriculture, fisheries, shipbuilding and car construction, as well as energy and transport and logistics infrastructure.

Multilateral projects in car production with the Japanese and South Korean companies successfully implemented in Russia, as well as signing of the documents on cooperation in the development of wide-body long-haul aircrafts and the production of innovative freight cars, tank containers and other goods made of composite materials with Chinese partners create the potential for Russian industry's scientific and technical parameters improvement in the medium term.

**You are the co-chairman of intergovernmental commissions with Indonesia and Thailand – our important partners in the Asia-Pacific region. How do economic relations with these countries develop? Which industries and projects are the most promising?**

Given the current growing interdependence and globalization scope, principles and rules developed in multilateral formats take into account a wide range of diverse interests. Opinions of countries concerned become ever more essential. The main problems for the most countries are connected to the economies' dependence on external conjuncture factors. An end to this dependence can be put only if we follow one of the main trends of developed countries' economic policies in recent years, namely, re-industrialization.

Raw and virtual economic models cannot create decisive competitive advantages anymore. Economic policies should be focused primarily on the real sector development.

Given the countries of the region have a vast manufacturing base in a range of industries, we actively cooperate in the field of technology transfer, civil aviation, car construction, machine building, metallurgy and mining, and expand collaboration in

light, chemical and pharmaceutical industries. We develop agricultural production, transport and energy infrastructure. We have a mutual interest with Indonesian and Thai partners to strengthen industrial, trade and economic relations.

There is an increasing demand for air transportation due to geographical factors and strengthening trade and economic relations between the Asia-Pacific countries. Russian civil aircraft manufacturers promote “Sukhoi Superjet 100” (SSJ 100) and prospective MC-21 aircrafts on the Asia-Pacific markets.

For example, JSC “UAC” has leased 3 SSJ 100 aircrafts to Indonesia. Qualified flight and technical staff was trained in the framework of joint programs, and a warehouse of aircraft spare parts was set up.

Despite some difficulties concerning the implementation of contracts for SSJ 100 supplies, Russia is extremely interested in their prompt resolution, further cooperation, expansion of SSJ 100 aircrafts supplies and their use in the route network of the region.

Russia is aware of a high appreciation of its helicopters “Mi” and “Ka” by local operators and the interest of the aviation industry representatives in Indonesia and Thailand in expanding the use of Russian-made helicopters in the region, especially in fighting the forest fires, as well as transport and construction work within the framework of large-scale infrastructure projects in remote areas.

We intend to further actively elaborate the issue of helicopters supply for civilian use both by state and municipal authorities as well as private companies operating in the Asia-Pacific region.

Important indicators of the cooperation level between our countries are the total volume of Thai investment in the Russian economy facing USD 500 million and Russian investments in Thailand reaching USD 300 million. We expect to maintain this positive dynamics, as the potential for cooperation is far from being fully used.

There is a positive outlook for the supply of Russian aircrafts to Thailand. I mean “Sukhoi Superjet 100” civilian aircraft that may be relevant for the domestic and regional transportation.

I am sure that this process will expand further in the long term - both in terms of technologies and existing areas of cooperation, and development of new projects.

It is to be stressed that our countries face similar challenges. First of all, it is infrastructure development and high-tech sector incentives. Our sectoral priorities also coincide: energy-saving and energy efficiency, new information technologies development, mechanical engineering and machine-tool construction, nuclear power, aerospace, environmental protection, production of modern

medicines and medical equipment. Russian companies have a rich experience in implementing major infrastructural projects and are ready to be engaged in the railway construction projects, as well as to take a part in freight rolling stock, track-laying and road-building machinery supplies.

**The Ministry of Industry and Trade is involved in several APEC Dialogues on various issues. How would you assess the role of APEC in promoting Russian integration into the Asia-Pacific region?**

APEC is an informal institution established to promote economic growth and expansion of trade between its 21 member economies (Australia, Brunei-Darussalam, Canada, Chile, China, Hong Kong, Indonesia, Japan, Republic of Korea, Malaysia, Mexico, New Zealand, Papua New Guinea, Peru, the Philippines, Russia, Singapore, Taiwan, Thailand, the United States, Vietnam).

APEC economies are located in the most dynamically developing region of the world, providing, since 1990, almost 70% of the global economic growth. They account for 41.4% of the world population (2.5 billion people), 57.8% of the global GDP (USD 19 trillion), 47% of the global foreign trade turnover and more than 40% of foreign direct investment.

To develop their trade and economic cooperation, APEC member economies collaborate on a wide range of areas including trade, investment, finance, energy, small and medium-size enterprises, transport, science and technology, etc.

APEC economies are committed to implementing the agreed steps in the area of regional economic integration, including their work on the creation of the Free Trade Area of the Asia-Pacific (FTAAP) as a long-term objective of the forum.

In order to strengthen Russia's position in the global market of chemical substances and facilitate foreign trade in chemicals, representatives of the Ministry of Industry and Trade of the Russian Federation take an active part in the APEC Chemical Dialogue (CD), as well as its two Virtual Working Groups on Regulatory Convergence and Cooperation and on the United Nation's Globally Harmonized System of Classification and Labelling of Chemicals (GHS).

In the framework of the Virtual Working Group on GHS established in 2012 on Russia's initiative, Russia made proposal for the CD to provide a contribution to the UN Sub-Committee of Experts on GHS work on developing an optional global list of chemicals classified according to the GHS, which was supported by a number of APEC economies.

The Virtual Working Group on GHS carries out work on the comparison of chemicals classifications in different countries, maintains the appropriate quality of information provided by the harmonized system of classification, and

elaborates the sets of criteria for comparing different classification systems to the Working Group.

The work of this group makes a significant contribution to the UN and OECD activities in the area.

The Virtual Working Groups on Regulatory Convergence and Cooperation in the framework of the APEC CD is working on creating a set of elements for the system of chemical substances regulation and products management, and the Regulatory Terms Glossary.

APEC Automotive Dialogue (AD) is actively used for sharing experiences with APEC partners in the field of state regulation of the automotive industry and developing proposals on the national and international regulatory framework development in the industry, including:

- Negotiating and reaching agreements in the field of standardization and technologies development;
- Trade liberalization and facilitation in the automotive sector;
- Identification of obstacles to growth, and development of effective mechanisms of cooperation between the APEC economies to remove or reduce these barriers.

The Russian delegation at the AD platform put forward an initiative on applying UN Regulations, adopted by the UNECE World Forum for Vehicle Regulations Harmonization (WP.29), to the automotive industry in the APEC economies. Despite the US proposal to recognize their national standards (FMVSS and EPA) as an alternative to the UN Regulations, the Russian initiative was supported by the key APEC economies — China, Japan and Malaysia.

WP.29 is a platform for coordination in the field of international technical regulation. In this regard, it is necessary to concentrate APEC economies' efforts on active participation in the WP.29 activities in order to support international harmonization of technical regulations in the field of automotive industry.

In the framework of the AD, the APEC economies also demonstrate a great interest in sharing experience with Russia in the area of imposing requirements for mandatory equipment of vehicles sold in Russia with navigation boxes and emergency alarm facilities.

APEC economies make coordinated efforts to operationalize the APEC Growth Strategy through policies creating favourable conditions for innovative growth. They have developed joint measures to promote and cultivate innovations, maintain and scale up investment in the high-tech sector, as well as measures to develop the cross-border network of innovation centres, universities and research institutions, strengthen cooperation in science and technology and identify possible areas of scientific and commercial cooperation. All these measures have a positive effect on Russia's integration into the Asia-Pacific region.

## **What initiatives does Russia propose in APEC in the areas supervised by your Ministry?**

Russian initiatives in APEC cover a wide range of issues related to the most pressing global and regional problems.

At the moment priority areas of Russian participation in APEC include trade and investment liberalization for sustainable development; creating favourable conditions on the non-ferrous metals market; achieving positive results in the field of standardization in the chemical industry, customs and transport policy as well as market access; exchange of experience on state regulation of the automotive industry and developing proposals to improve national and international regulation framework in this industry; greenhouse effect reduction and contribution to the economic development.

The key events in APEC are Sectoral Ministerial Meetings, as the decisions adopted at these meetings define the agenda of the Forum for the years ahead. The Ministry of Industry and Trade of the Russian Federation is responsible for shaping and carrying out national policies in the field of mining and metallurgy, in particular holding the Meetings of APEC Ministers Responsible for Mining.

In 2007, such decision was made to establish the Task Force on mining and metallurgy, responsible for work on the APEC Non-Ferrous Metals Dialogue issues, that should ensure the objectives of the Forum in the mining industry are achieved. Russia became the first chair of the Task Force (2008–2009) and thus for the first time chaired the APEC working body. In 2012–2013 the Russian Federation chaired the Task Force once again.

The first person's participation in the Meeting of APEC Ministers Responsible for Mining is significant given that after prolonged consultations with the partners Russia has met with their approval to hold this meeting.

Such mechanisms as the APEC Business Advisory Council (ABAC) and more than 50 of its working groups, established in accordance with the main priorities of the Forum, contribute to regional economic integration intensification, innovative progress promotion, structural reforms and economic growth, and innovative growth facilitation.

## **How would you assess the potential of the Asia-Pacific countries as a source of technologies and innovations given limited access to western technologies because of the sanctions?**

In the framework of Russian exports geographic diversification and cooperation in the field of innovation and technology transfer, it is Asia-Pacific countries that occupy the leading positions in the Russian foreign economic relations for various reasons left by the European partners.

Vast scientific and technological capacities in a number of countries of the region are a prerequisite for the cooperation development in such areas as machine-tool construction, robotics, nano-electronics, instrument making and propulsion engineering. Transfer and development of new technologies will help meet the growing demand for high-tech products.

In order to effectively carry out its foreign policy in Asia, Russia needs to strengthen and expand industrial cooperation in the region.

Existing and emerging financial institutions in the region such as the Eurasian Development Bank and the Asian Infrastructure Investment Bank can also be used in order to finance joint projects in the sphere of industry, investment, economy, and science and technology.

**What instruments for attracting investments and technologies are most attractive for companies from the Asia-Pacific countries? May specific features of doing business in these countries be taken into account in the development of these instruments?**

The Concept of the Foreign Policy of the Russian Federation largely defines further Russian actions to develop foreign economic relations with the leading Asian states, including in the field of attracting investments and technologies.

Currently, the main focus of international cooperation is made on strengthening the strategic partnership between Russia and the Asia-Pacific countries. Russian investment policy covers all the major areas of cooperation including transport, energy, e-commerce, information and communication technologies, and finance. Special attention is paid to bilateral trade development, investment cooperation and collaboration on particular projects.

The international projects, prior developing areas and industrial parks are the main instruments to achieve this goal. We also prioritize organization of business and congress events and exhibitions at the international level for our investment cooperation development.

One of the strategic objectives of Russian external economic activities in Asia is increasing the share and the volume of non-commodity exports, and attracting foreign investments into the Russian economy. Concrete joint investment projects of business communities of our countries and their regions lay the basis for this growth.

We regard the current state-of play in our mutual trade and investment as a challenge for trade development and opportunity to reach a qualitatively new level in the economic and investment cooperation.

# INTERVIEW WITH ANDREY BOKAREV, DIRECTOR OF THE DEPARTMENT FOR INTERNATIONAL FINANCE AFFAIRS OF THE MINISTRY OF FINANCE OF THE RUSSIAN FEDERATION: LAUNCHING THE ASIAN INFRASTRUCTURE INVESTMENT BANK AND BRICS NEW DEVELOPMENT BANK

— **Areas of activity of the Asian Infrastructure Investment Bank and BRICS New Development Bank largely coincide, as both institutions will finance infrastructure projects. Is there a risk of competition between the two banks? In your opinion, what are the niches for each of the banks and what are the factors which determine them?**

— We see no risks of competition between these two banks for financing infrastructure projects in Russia. Of course, the AIIB and NDB may become interested in the same project, but given the size of our country and substantial demand for large-scale projects, including in infrastructure, I believe that these banks are more likely to cooperate, complement each other and co-finance projects, rather than compete for participation in them. In the coming year the NDB will focus on financing projects in the areas of green energy, transportation and telecommunications, whereas the AIIB will mainly deal with infrastructure and water sector, including the development of port facilities. Later on, along with the development and adoption of the institutions country strategies and policies, their operational niches will be further specified. However, right now one should not speak of a rigid regulation of AIIB and NDB development. We will determine the “areas of interest” of the two banks later, and for the moment the banks should be allowed to launch full-fledged project financing in order to see what paths of development

will become natural to them. Subsequently these priorities may be adjusted, taking into account, first of all, Russia's national interests.

— **According to the Agreement on the New Development Bank, its purpose is to finance infrastructure and sustainable development projects. How is “sustainable development” interpreted in this case? In what specific areas will the Bank provide project financing? Are additional parameters, such as environmental impact, taken into account?**

— Indeed, the purpose of the Bank is to mobilize resources for infrastructure and sustainable development projects in BRICS and other emerging economies and developing countries.

In the context of “sustainable development” the NDB plans to focus initially on financing projects related to the development of renewable energy sources, clean transportation and sustainable water resources management. In future, apart from infrastructure the Bank also plans to invest, in accordance with the green finance principles, into the projects aimed at prevention of climate change and environmental pollution, depletion of natural resources; conservation of endangered species; and sustainable land use (including sustainable forestry and agriculture).

It should also be noted that one of the key factors determining the NDB activities is its adherence to the principles of sustainable growth and commitment to Sustainable Development Goals (SDG 2030).

In addition, financial goals and elements of the NDB funding strategy include its intention to issue green bonds.

The shareholders and management of the Bank emphasize the importance of compliance with best international standards and practices in this area. Social and environmental policies developed and adopted by the NDB's Board of Directors meet high standards applied by other, previously established multilateral development banks such as the International Bank for Reconstruction and Development, European Bank for Reconstruction and Development and Asian Development Bank.

The main principles of these policies are:

- Promotion of comprehensive sustainable development;
- Adherence to best practices in the areas of social policy and environmental protection;
- Due regard for climate change issues;
- Preservation of natural resources;
- Gender equality, etc.

— **Is there an understanding of the mechanisms for raising capital and financing projects, that will be used by the NDB?**

When discussing possible modalities for financing projects, the NDB Board of Directors was guided by the need to ensure maximum flexibility and consider the interests of all shareholders, taking into account the existing national practices.

Like other similar institutions, the Bank has the right to provide guarantees and loans, participate in or support public and private projects, including public-private partnerships, in any member country of the Bank which is a borrower, as well as participate in equity and issue of securities, and facilitate access to international capital markets for any company carrying out projects in such a country. The Bank may provide co-financing and guarantees for projects within its mandate, including in cooperation with other international financial institutions and commercial banks.



**Andrey Bokarev** Image courtesy Ministry of Finance of the Russian Federation

The NDB also has the right to provide other financial products, which may be attractive for the Bank's clients, for example, the so-called "project finance facility" designed to finance a group of horizontally or vertically connected projects. The Board of Directors approves this credit line, criteria for the projects and the amount that can be financed under this program. The decision on financing additional projects under the program is made by the Bank's management. Another lending instrument is a "multi-tranche financing facility". The Board of Directors approves the maximum amount of funding within this facility, the maximum volume of the first tranche and a special Facility framework agreement, disclosing basic financing conditions. At the same time, this document does not oblige the NDB to provide funding for the project in the future. This instrument allows the NDB to flexibly finance large-scale phased projects containing a large number of sub-projects and sub-components.

In addition to direct contributions from shareholders, including paid-in and callable shares, and income derived from operations, the capital of the Bank may include funds raised through selling its obligations. The NDB management has set a goal to launch financing of its first projects by the end of June 2016. Thus the management is now actively working on the strategy of funding in the national currencies on BRICS financial markets. China and India will be the first countries where obligations denominated in local currencies will be sold.

– **Japan, one of the leaders of not only the Asian but also the global economy, has not expressed its intent to participate in the AIIB activities so far. What is the impact of this decision on the Bank's efficiency?**

– I believe that the issue of non-participation of some major economies having their interests in the Asia-Pacific region in the AIIB is excessively politicized. The interest in joining the Bank showed by a number of countries (recall that 57 countries have become the AIIB Prospective Founding Members) indicates the undoubted success of this Chinese initiative, the demand for this kind of institution in the most dynamic region of the world, and the readiness to take collective action to overcome the lack of infrastructure financing.

The balance between regional and non-regional members, and between advanced and emerging economies in the AIIB should also be noted. I suppose that the combination of different views, practices and national approaches to implementation of infrastructure projects will allow the Bank to ensure the efficiency of its operations and take into account the best international experience at early stages of its work.

In this regard, one can hardly speak of a serious loss from the non-participation of Japan in the AIIB. Moreover, if the Bank's working experience in the next few years is successful, the position of the Japanese government on this issue may change. On its part, the AIIB remains open for accession and declares its interest in the widest possible representation.

– **Despite the fact that Russia is the third largest shareholder of the AIIB, the top positions in the executive structure of the bank (the President and 5 Vice-Presidents) are occupied by representatives of other countries. At the same time, the representative of Russia has got one of 12 positions in the Board of Directors. Given these conditions, is Russia able to effectively defend its interests within the AIIB?**

– In accordance with the AIIB Charter, it has a three-tier governance structure traditional for multilateral development banks. Its key decision-making bodies, including authorized representatives of the Russian Federation, are the Board of Governors and Board of Directors. Participation of Russian representatives in these bodies allows us to effectively control preparatory and decision-making processes within the Bank. We also have ample opportunities to coordinate actions with a number of other shareholders of the Bank, including BRICS countries and relevant CIS states.

The appointments to several top management positions of the Bank resulted from a serious selection from a large number of highly qualified specialists who expressed their desire to join the AIIB at the stage of its formation. Thus, a number of other large shareholders, including France, Italy, Brazil and the Arab countries, also have no representatives in the Bank's top management so far.

As the third largest shareholder, Russia makes no secret of its interest in promoting the Russian staff in this institution, including to the positions of vice-presidents. I hope that the Ministry of Finance and the Ministry of Economic Development of Russia, as authorities representing our interests in the Bank, will be able to provide a broad Russian representation.

**– Are there any prospects of engaging Russian national financial institutions in joint projects with the AIIB and NDB?**

– If you don't mind, I would rephrase this question. Is there a possibility of the AIIB, NDB and Russian financial institutions joint participation in financing some projects? The banks' Articles of Agreement provide for this option. There are several models of joint participation depending on specific projects: in some cases a syndicated loan scheme could be used, in other cases Russian financial institutions could finance execution of certain works in the framework of a project, etc. The AIIB and NDB together with other institutions involved in financing and the executor of each project will develop an individual scheme of financing, and participation of Russian financial institutions would be welcome. Given that financial participation of multilateral development banks, especially large ones, such as the AIIB or the NDB, is generally considered to be a sort of a "quality mark" for respective projects, we expect participation in projects implemented by these MDBs in the Russian Federation to be attractive for Russian financial institutions.

# SILK ROAD FUND



This article is brought to you by JSC “KPMG”, a company incorporated under the Laws of the Russian Federation, a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative (“KPMG International”), a Swiss entity, acting as an Intellectual Partner and Technical Coordinator of the National Coordination Center for Developing Economic Cooperation with the Countries of Asia-Pacific Region.

## One Belt One Road Initiative

In 2013 China announced its plans for a new Silk Road – the project aimed to improve infrastructure connectivity and boost trade and investment flows between the countries involved. Today this initiative goes by various names, most commonly used is One Belt One Road (OBOR). It covers, but is not limited to, the area of the ancient Silk Road. The initiative should ultimately lead to the emergence of new markets for Chinese companies and foreign companies operating in China.

End of March 2015, “Vision and Actions on Jointly Building Silk Road Economic Belt and 21<sup>st</sup> Century Maritime Silk Road” was issued by the National Development and Reform Commission, Ministry of Foreign Affairs and Ministry of Commerce of China. This marked the transition from top-level conception to practical cooperation. China will work with countries along the Belt and Road to carry out joint research, forums and fairs, trainings, exchanges and visits.

**Being a part of China’s economic diplomacy, the OBOR initiative enjoys strong financial support. A number of Chinese financial institutions have already allocated over USD1.3 trillion to finance more than 1,200 projects in the next years:**



### China International Trust and Investment Corporation (CITIC)

Established: 1979  
[www.citic.com](http://www.citic.com)  
**USD112.79 bln\***

State-owned conglomerate.

Funds 300 projects extending from Singapore to Turkmenistan, in the areas such as infrastructure, energy, agriculture and culture.



### China Development Bank (CDB)

Established: 1994  
[www.cdb.com.cn/english](http://www.cdb.com.cn/english)  
**over USD890 bln\***

One of China’s key policy banks.

Funds more than 900 projects involving 60 countries

Focuses on coal and gas, mining, electricity, telecommunications, infrastructure and agriculture.



### Asian Infrastructure Investment Bank (AIIB)

Established: 2015  
[www.aiib.org](http://www.aiib.org)  
**USD100 bln in authorized capital\***

Multilateral development bank.

Funds Asian infrastructure, energy and power, transportation and telecommunications, rural infrastructure and agriculture development, water supply and sanitation, environmental protection, urban development and logistics projects, etc.



### BRICS New Development Bank (BRICS' NDB)

Established: 2014  
[www.ndbbrics.org](http://www.ndbbrics.org)  
**USD100 bln in authorized capital\***

Multilateral development bank aimed to foster greater financial and development cooperation among the BRICS markets.

Unlike the World Bank, which assigns votes based on capital share, in the BRICS' NDB each participant country will be assigned one vote, and none of the countries will have veto power.

\* Reflects the amount of funds allocated to OBOR initiative



**Silk Road Gold Fund**  
Established: 2015  
USD16.1 bln\*

Initiated by Shanghai Gold Exchange (SGE).  
Involves 60 countries that lie on the Silk Road.  
Owned by Shandong Gold Group (35% of shares) and Shaanxi Gold Group (25% of shares), with the rest shares held by financial institutions.



**China Insurance Investment Fund**  
Established: 2015  
about USD48.38 bln\*

Mobilized insurance sector funds.  
Primarily invests in transportation and infrastructure projects.  
Supposed to invest in emerging industries, logistics, healthcare, information technologies, environmental protection, small and medium-sized enterprises.



**Bank of China**  
Established: 1912  
[www.boc.cn](http://www.boc.cn)  
USD3,5–4 bln\*

China's most internationalized and diversified bank.  
Made the first four-currency (USD, Euro, Singapore dollars, yuan) public bond issue aimed to support China's OBOR initiative.



**China Investment Corporation (CIC Capital)**  
Established: 2015  
[www.ciccapital.com](http://www.ciccapital.com)  
USD5 bln\*

Undertakes outbound direct investments, with a view to refine CIC's total portfolio management and enhance investment in long-term assets.



**Silk Road Fund**  
Established: 2014  
[www.silkroadfund.com.cn](http://www.silkroadfund.com.cn)  
USD40 bln\*

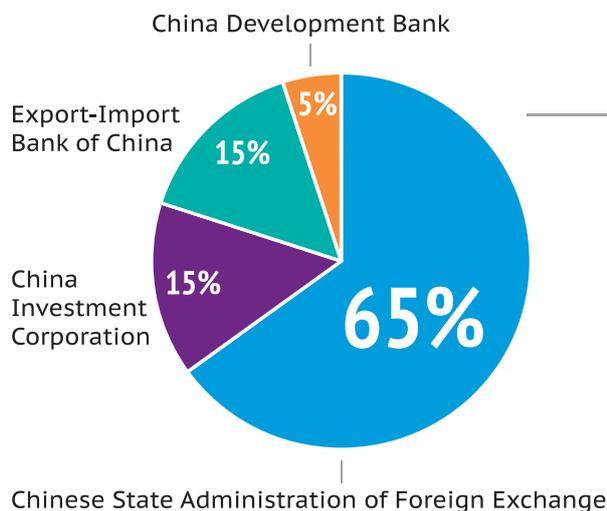
\* Reflects the amount of funds allocated to OBOR initiative

## Silk Road Fund

Recently one of the most often referred Chinese financial institutions is the Silk Road Fund (hereinafter – SR Fund), a medium- to long-term development and investment fund established in December 2014.

Unlike the large Chinese banks, providing credit resources both in dollars and in yuan, SR Fund supports projects only with foreign currency (USD, Euro).

SR Fund has the total capital of USD40 bln which shall be made in installments. The first installment of USD10 bln is the registered capital of SR Fund. The graph shows structure of this capital.



### The Board of Directors includes representatives of:

- People's Bank of China (Chairman)
- Ministry of Foreign Affairs of China
- National Development and Reform Commission
- Ministry of Finance of China
- Ministry of Commerce of China
- State Administration of Foreign Exchange of China
- China Investment Corporation
- China Development Bank
- Export-Import Bank of China
- SR Fund Executive Director
- Employee Director

## Investments of Silk Road Fund

According to the Charter, SR Fund invests in infrastructure, resources and energy development, industrial capacity cooperation and financial cooperation along the OBOR, with the focus on providing funding for major infrastructure development projects and projects that improve connectivity in this region. SR Fund invests in equity, debts and other funds. SR Fund can also work with international development organizations, domestic and overseas financial institutions to jointly set up funds. SR Fund manages entrusted assets and commissions others to invest.

SR Fund has defined an investment decision making mechanism, which includes project selection, project reserve, preliminary review, preliminary approval, final approval and post investment management. It covers all front, middle and back office functions.

**Project selection:** SR Fund pays attention to cooperation with industrial partners to make joint investment in project that promote connectivity and international industrial capacity cooperation and does not seek to have a controlling stake as a financial investor.

**Project reserve:** SR Fund actively looks for new projects, seeking investment opportunities through multiple channels, including proposal from target companies and reference from other organizations. The Fund also seeks out projects on its own and already has a reserve of potential projects.

As for the project preliminary review, preliminary approval and final investment decision, SR Fund has defined an internal protocol for thorough evaluation of the projects by the project investment team. The results of assessment are reported together with the negotiated deal terms to the Investment Committee for final review and approval.

**Project execution and management:** the middle office is in charge of risk control and post-investment management, and the back office is responsible for transaction settlement and management of SR Fund's investment.

Overall last year SR Fund allocated around USD4–5 bln. The geography and types of its activities are diversified, SR Fund itself is modeled after the western type of investment institutions.



**September 3, 2015 –** As part of the agenda for Russian President Vladimir Putin's official visit to China, the Russian Direct Investment Fund (RDIF), China's Silk Road Fund and the State Corporation Bank for Development and Foreign Economic Affairs (Vnesheconombank) signed an agreement to strengthen their cooperation in exploring investment opportunities in Russia and China.

Under the agreement, the parties agree to focus their efforts on investing in projects that will contribute to growth in cross-border trade and investment, as well as economic cooperation between the two countries. As their priority areas of cooperation, the parties identify a number of sectors, including infrastructure, industrial production, energy development and energy efficiency.

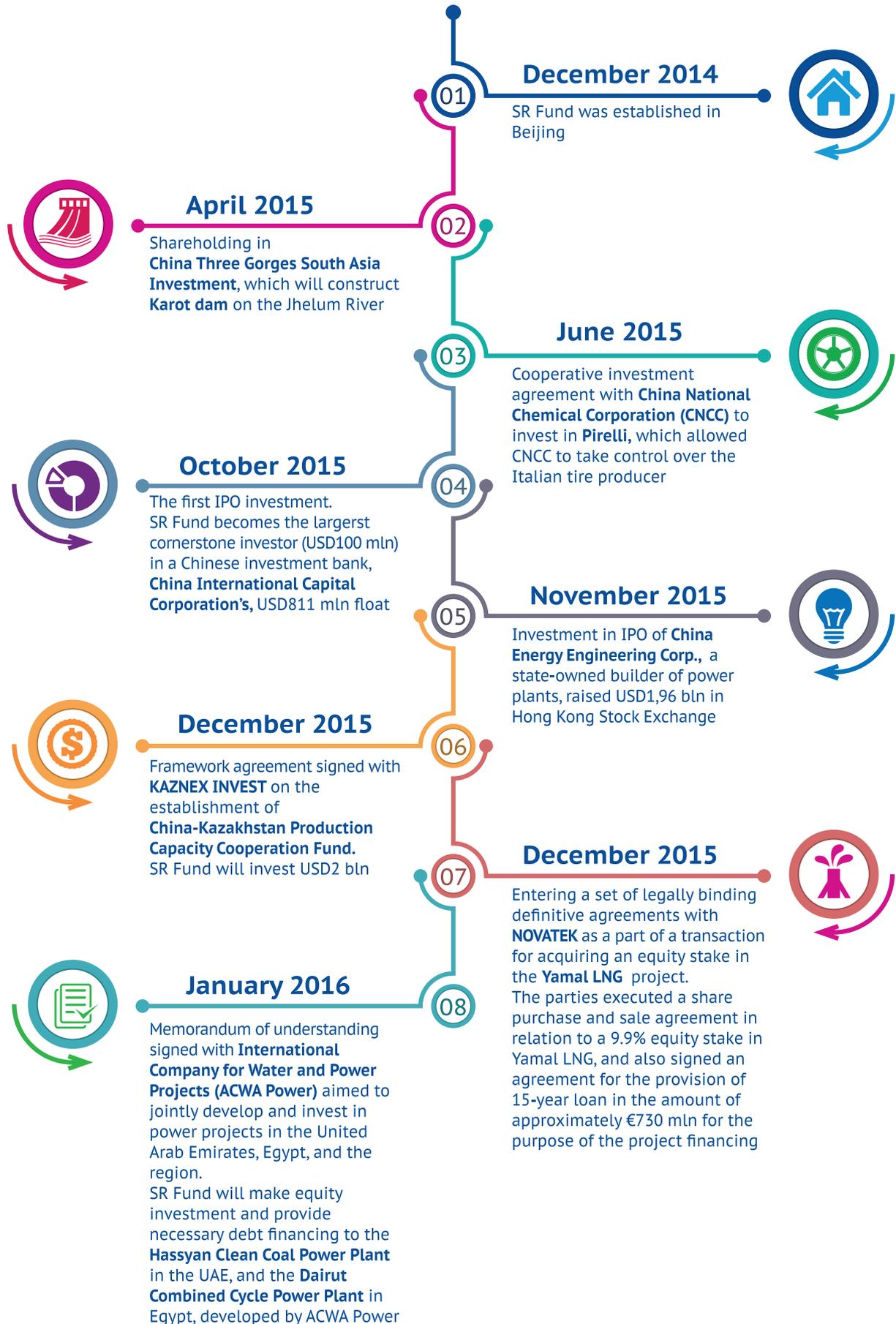
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# CONJUNCTION OF THE EAEU AND SILK ROAD ECONOMIC BELT

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The conjunction of the Eurasian Economic Union (EAEU) and “Silk Road Economic Belt” has a great potential for Eurasian States’ development. At the same time Russia’s response to the Initiative will demonstrate if it can become a truly attractive destination for both foreign investors and partners.

The “Silk Road Economic Belt” idea was first announced by the President of the PRC Xi Jinping in September 2013.<sup>1</sup> It has been focused on attaining China’s domestic policy objectives (industry and infrastructure development, highway and railway construction, creating new workplaces in the western part of the country) and achieving foreign policy goals — to provide regional political and economic stability in neighboring states through large-scale investment projects.

However, in Russian the initial response to the “Silk Road Economic Belt” was mixed. There was a great variety of different opinions on this matter. Thus, Vitaliy Vorobyov stated that the new Initiative should guarantee China a fruitful cooperation with neighboring countries and provide favorable international environment.<sup>2</sup> Furthermore, the “Silk Road Economic Belt” allows the Chinese government to mitigate a slowdown in economic growth generating demand for the country’s high-tech goods and services abroad.<sup>3</sup> Alexander Lukin thinks that China’s tough position on territorial disputes, which raises many concerns,

<sup>1</sup> President Xi Jinping delivers important speech — Ministry of Foreign Affairs of the People’s Republic of China, 2013. [http://www.fmprc.gov.cn/mfa\\_eng/topics\\_665678/xjpfwzysiesgjtfhshzzfh\\_665686/t1076334.shtml](http://www.fmprc.gov.cn/mfa_eng/topics_665678/xjpfwzysiesgjtfhshzzfh_665686/t1076334.shtml) (accessed 5 February 2016)

<sup>2</sup> Vorobyov V. Beijing’s New Foreign Policy — Russia in global affairs 2014. <http://eng.globalaffairs.ru/number/Beijings-New-Foreign-Policy-16503> (accessed 5 February 2016)

<sup>3</sup> Mikheev V., Lukonin S., Jeh S. Multivariance: Xi Jinping” big strategic answer. MEMO Journal 2015. Vol. 59. No. 12. pp. 5–14.

can constitute a significant obstacle to implementation of the Initiative.<sup>4</sup>

On the contrary, Sergey Karaganov was deeply convinced that such coordination of Central Asian States offers incredible opportunities for building Central Eurasia as a region developed in an industrial, technological, logistic and socio-cultural way.<sup>5</sup> This opinion is shared by Timofei Bordachev who declared that the policy of the Eurasian Economic Union (EAEU) and “Silk Road Economic Belt” conjunction provides tremendous benefits for all sides involved, hence the disputes on potential “China-Russia rivalry” do not have any ground. According to his opinion, both the EAEU and “Silk Road Economic Belt” would promote further international cooperation in Central Eurasia, realize its transport and logistic potential, build capacity to respond external and internal challenges they face<sup>6</sup> of a new fast-moving world.

Ultimately, in the academic and political community prevailed the opinion that “Silk Road Economic Belt” stated objectives fully conform to Russia’s interests of the Eurasian integration project — one of the flagship initiatives of Russia’s foreign policy.<sup>7</sup> It also perfectly complies with Russia’s turn to the East.<sup>8</sup> With the caveat that the EAEU, unlike the Chinese project, is the result of an integration process of five states working together towards creating a common internal market, customs union and ensuring free movement of goods, services, capital and labour within its borders, the “conjunction” policy based on a strong “China-Russia partnership” will help implement many economic programs fostering political stability in the region.

Chinese experts consider that the “Silk Road Economic Belt” has a huge potential, in particular, for maintaining good relations with neighboring countries. Dr. Feng Shaoleo asserts that the conjunction of the EAEU and “Silk Road Economic Belt” is a good sign<sup>9</sup> that Russian, China and Central Asian States are strategic partners. Therefore, the “One Belt, One Road” initiative would help to resolve the most serious disputes and ease tensions between the countries over the future of their development. However, the “conjunction” policy does not imply a fast-track movement towards establishment of an FTA agreement. As Van Tsinsun notes, most CIS countries’ sensitivity on the issues of national sovereignty remains acute.<sup>10</sup> Moreover, their national economies are not still able to compete with major Chinese industries and agriculture.

<sup>4</sup> Lukin A. Idea of the “Silk Road Economic Belt” and Eurasian integration — International affairs, 2014. <https://interaffairs.ru/jauthor/material/1101> (accessed 5 February 2016)

<sup>5</sup> Karaganov S. The promise of Eurasia — Rossiyskaya gazeta, 2015. <http://www.rg.ru/2015/10/26/karaganov.html> (accessed 5 February 2016)

<sup>6</sup> Bordachev T. Creating Eurasia together — Izvestia, 2015. <http://izvestia.ru/news/585463> (accessed 5 February 2016)

<sup>7</sup> Bordachev T. New Eurasian Momentum — Russia in global affairs, 2015. <http://www.globalaffairs.ru/number/Novoe-evraziistvo-17754> (accessed 5 February 2016)

<sup>8</sup> Toward the Great Ocean-3. Creating Central Eurasia — Valdai Discussion Club, 2015. [http://vid-1.rian.ru/ig/valdai/Twd\\_Great\\_Ocean\\_2\\_Rus.pdf](http://vid-1.rian.ru/ig/valdai/Twd_Great_Ocean_2_Rus.pdf) (accessed 5 February 2016)

<sup>9</sup> Feng S. The background and Prospects of the evolution of China’s foreign strategies in the new century Eurasia — Russia in global affairs, 2015. <http://www.globalaffairs.ru/valday/Predposylki-i-perspektivy-razvitiya-vneshnikh-strategii-Kitaya-v-novom-veke--17817> (accessed 5 February 2016)

<sup>10</sup> Van T. The highest good is like water — Russia in global affairs, 2016. <http://www.globalaffairs.ru/number/Vyshee-bлаго-podobno-vode-17939> (accessed 5 February 2016)

After many debates the “conjunction” idea finally came into force after China and Russia signed a bilateral statement on May 8, 2015.<sup>11</sup> This decision primarily aimed at avoiding a competition between the EAEU and “Silk Road Economic Belt” projects. Both countries declared their willingness to cooperate for creating a common economic and political community in Central Eurasia as well as to boost mutual trade between the EAEU countries and China. A special attention was paid to joint work in the framework of the Shanghai Cooperation Organization, Asian Infrastructure Investment Bank and Silk Road Fund.

Nevertheless, despite the initial success, we can note a slowdown in implementation of the agreement. To facilitate the process in October 2015 the Supreme Eurasian Economic Council agreed a Decision to make up a “road map” for the EAEU-China engagement by the end of 2015.<sup>12</sup> The Commissioner for Trade<sup>13</sup> was assigned the responsibility for negotiations with Chinese partners on trade and economic cooperation conditions.

However, as it becomes clear that there has been very little progress in spite of the parties’ stated conviction of the future benefits, questions arise on the reasons of the slowdown. Experts and scholars have taken up the initiative on defining the priority actions.

The format of possible expanded agreement between “the EAEU — EAEU members — China” was in the focus of debate as it would facilitate attainments of three tasks:

- expanding cooperation between China and the Union to the spheres beyond the Eurasian Economic Commission’s competencies;
- taking into consideration national interests of the EAEU members;
- ensuring that multilateral cooperation prevails over bilateral negotiations.

In addition, an institute of permanent EAEU member-states’ representatives or a intergovernmental EAEU agency could steer the process of national interests articulation and brokerage.

The EAEU-China cooperation agenda cannot be confined to the trade, as the implementation of infrastructure and investment projects requires approximation of technical regulations with due account of the specifics of each commodity group.

Effective functioning of the institutions is a success factor in implementation of the EAEU-China cooperation agenda. The Eurasian Economic Commission

<sup>11</sup> Joint declaration of the Russian Federation and China about cooperation and conjunction of the EAEU and “Silk Road Economic Belt” – The Kremlin, 2015. <http://kremlin.ru/supplement/4971> (accessed 5 February 2016)

<sup>12</sup> About cooperation of the EAEU member states on the conjunction of the EAEU and “Silk Road Economic Belt” Decision No. 58 from 14 October 2015 – Eurasian Economic Commission. <https://docs.eaeunion.org/ru-ru/> (accessed 5 February 2016)

<sup>13</sup> About questions related to negotiations with China on the trade and economic agreement between the EAEU and China. Decision No. 29 from 02 December 2015 – Eurasian Economic Commission. <https://goo.gl/NPgi1K> (accessed 5 February 2016).

competencies should be extended to include transport and investment issues by a special decision of the Supreme Council. The Commission must have the capacity to negotiate with China unification of norms and common approaches to technical regulation. However, EAEU-China negotiations on a Free Trade Zone would be premature before the EAEU members establish internal instruments of precise technical control internally.

Creating an effective arbitration or commercial court whose decisions would authority and trust among all members is another success factor. Insufficient legal protection of foreign investors and right for indemnity in the EAEU can be an obstacle for Chinese investments. Equally vital for investors is a free movement of labour, thus social protection and migration issues should also be part of the agenda.

Finally, a special attention needs to be paid to the possibility of creating meridional transportation-logistical corridors and clusters of cross-border cooperation to make sure the participation of the EAEU member states active and profitable.<sup>14</sup>

In conclusion, success of the EAEU and “Silk Road Economic Belt” conjunction directly depends on willingness of policy makers to promote implementation of the Central Eurasia countries major development initiatives. The EAEU members-states develop shared positions on a wide range of issues to ensure that multilateral cooperation is not substituted by the members-states bilateral engagement with China. Indeed, China’s recent spectacular involvement in Eurasia affairs creates both potential benefits and a significant challenge testing the EAEU member states preparedness to act as equal partners in shape the future of the region.

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<sup>14</sup> Toward the Great Ocean-3. Creating Central Eurasia. The Silk Road Economic Belt and the Priorities of the Eurasian States’ Joint Development – Valdai Discussion Club, 2015.  
<http://karaganov.ru/content/images/uploaded/7c15ceac311a5c93201dcb2a3c851be4.pdf> (accessed 5 February 2016)

# COORDINATION OF THE EURASIAN ECONOMIC UNION AND THE SILK ROAD ECONOMIC BELT AND ITS IMPLICATIONS FOR SIBERIA AND THE RUSSIAN FAR EAST

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Joint statement on cooperation on the construction of joint Eurasian Economic Union (EAEU) and the Silk Road Economic Belt (SREB) project was signed on May 8, 2015. It became a new milestone in Russia-China relations.

The EAEU is an integration project of Russia, Belarus, Kazakhstan, Kyrgyz Republic and, since 2016, Armenia. The SREB is a Chinese initiative, which implies primarily the expansion of the country investment activities in transport and logistics into Eurasian region. The EAEU-SREB coordination is not so much a transport project but a co-development initiative. The EAEU provides institutional framework of cooperation, while China provides funds for investment projects. This model would not only allow overcome potential differences in Central Asia, but also create preconditions for full-scale economic cooperation within the Greater Eurasia, that may become a new center of economic development in the coming decades.

## Goals of the Silk Road Economic Belt

The idea of the Silk Road Economic Belt was initially announced in 2013 in China. During his visit to Astana in September 2013, Xi Jinping suggested “to forge closer economic ties, deepen cooperation and expand development space in the Eurasian region... The new corridor along the Silk Road differs from traditional models of regional cooperation, because it does not imply creation of a supranational governing structure”.<sup>1</sup> In November 2014 the President

<sup>1</sup> *Tavrovskij Ju.V. Shelkovyj put' vozvrashhaetsja na kartu mira [Silk Road is back on the global map]// Nezavisimaja gazeta, 1 September 2014: [http://www.ng.ru/courier/2014-09-01/9\\_silkroad.html](http://www.ng.ru/courier/2014-09-01/9_silkroad.html)*

of the PRC announced that China would provide USD 40 billion through the Silk Road Fund in order to finance construction and modernization of roads, railroads, and pipelines. The declared goal of creating this infrastructure was intended to increase trade volumes with Europe. Later the Silk Road Economic Belt was included into the “One Belt, One Road” project, implying a full-scale transformation of logistics network of Eurasia, including marine routes in the Indian ocean (Maritime Silk Road, “String of Pearls”), logistics projects in the South East Asia, in Mongolia, Russian Primorye, and, perhaps, even the development of the Northern Sea Route.

Since 2011 economic growth rates in China have been slowing down due to the structural transformation of its socio-economic development. Thus the priority was placed on stimulating domestic consumption and inclusive growth, intensive development of central and west Chinese provinces, increasing volumes of investment and trade with Japan, Korea, ASEAN, South and Central Asia. The whole Asian region started to pass from “Asia for the World” to “Asia for Asia” model. The balance shifted from traditional ties with developed countries to intraregional trade and development of intraregional value chains. Europe itself has not succeeded in recovering stable economic growth. As a result, after the compensation of the crisis collapse, since 2011 growth rates of Europe-Asia trade have slowed down to 5–6% annually. At the same time the opportunities for import substitution of European goods and equipment substantially expanded.<sup>2</sup>

In the mid-term perspective an increase in Europe-Asia trade is not expected, the decline is possible. This trend is now accompanied by an intensive expansion of container capacity, which will further reduce the tariffs for sailing through traditional routes. According to preliminary data, an increase in marine fleet capacity in 2015 was around 7%. There is a widening gap between supply and demand for transportation — the latter grew only by 1,5–2%. As a result, there is tariffs decline, which exceeds possible effect from oil price drop.

Therefore, currently there is no crucial commercial need in creating alternative routes in order to support Europe-Asia trade. But this need is defined by the political and strategic objectives. It is related to the necessity of reducing military and political risks which are typical for conventional marine routes. These risks include a decline in international security level in Asia Pacific and instability in the Middle East (and the corresponding threat to the Strait of Hormuz and the Suez Canal), China’s growing dependence on Singapore, which controls the Strait of Malacca, piracy, growing tensions in South China Sea. In this regard China is interested in transit routes, which are alternative to conventional routes.

However, it is important not to overestimate the potential of such transit. Marine

<sup>2</sup> Makarov I.A., Makarova E.A., Karaganov S.A., Bordachev T.V., Kanaev E.A., Litvinova Ju.O., Lihacheva A.B., Pestich A.S., Pjatchkova A.S., Sokolova A.K., Stepanov I.A., Shherbakova A.V. (2016) *Povorot na Vostok. Razvitie Sibiri i Dal'nego Vostoka v uslovijah usilenija aziatskogo vektora vneshnej politiki Rossii* [Turn to the East: The development of Siberia and the Far East under the intensification of Asian vector of Russian foreign policy] / (ed.) I.A. Makarov. Moscow: Mezhdunarodnye otnosheniya

transportation is cheaper and the trade flows volume from inland Chinese regions to Europe is extremely limited. The idea of Silk Road Economic Belt goes far beyond transit options. It suggests a development project and has several main goals:<sup>3</sup>

1) a combination of resources (especially oil, gas and coal) and production base of Central Asia, Kazakhstan and western Chinese provinces.

2) a reinforcement of Chinese economic power in Central Asia and Kazakhstan, more intensive inclusion into “Asia for Asia” model (which implies involvement of these countries in intraregional value chains as upstream elements). The region is interesting as a resource base, as a new market (taking the EAEU into account, the economic presence in Kazakhstan and Kyrgyz Republic means access to Russian market), and in the long term, even as a region for outsourcing of production facilities (primarily energy-intensive).<sup>4</sup>

3) securing relative stability in the Xinjiang-Uighur Autonomous region (XUAR), which requires strengthening its economic ties with other Chinese provinces and with the neighboring Muslim countries.

4) guaranteeing utilization of capacity of Chinese construction firms, which during economic contraction are cramped in domestic market, where the major infrastructure projects are already implemented.

The transit goal also exists, but from the strategic perspective it is a second-order priority. The possibility of redirection of some trade flows to land routes is attractive taking into consideration increasing political risks associated with marine transportation. However, achieving really considerable volumes of transit requires much more investments in comparison to USD 40 billion, which China is ready to provide in order to support the project.

## The interests of the EAEU countries in coordination with the SREB

Attainment of the SREB goals opens up simultaneously new opportunities for EAEU countries. SREB will be developed in cooperation with Asian Infrastructure Investment Bank (AIIB), New Development Bank of BRICS and the Silk Road Fund. The main spheres of the Silk Road Fund investments are infrastructure, energy and high tech export support. SREB does not have clear geographical boundaries, which allows it to cover as many investment projects as possible.

The EAEU-SREB coordination would allow Russia to tie Russian regions, which are located along the SREB and have a high industrial and export potential, but have been isolated from the world markets due to their continental geographical position, to the new pole of growth. At the same time, SREB would create long-term infrastructure for profitable activities of many companies, interested in production and trade cooperation with foreign partners in this region and would mitigate a severe lack of viable investment projects in Russia.

<sup>3</sup> Bordachev T.V., Karaganov S.A., Bezborodov A.A., Gabuev A.T., Kuzovkov K.V., Lihacheva A.B., Lukin A.V., Makarov I.A., Makarova E.A., Skriba A.S., Suslov D.V., Timofeev I.N. (2015) K Velikomu okeanu – 3: Sozdanie Central'noj Evrazii [Toward the Great Ocean – 3: Creating Central Eurasia] / ed. S.A. Karaganov. Moscow: MDK “Valdai”

<sup>4</sup> Gabuev A.T. Iskateli privilechenij: kak zarabotat” na proekte Shelkovogo puti [In search for investment: how to make money on Silk Road project] // Forbes, 30 March 2015: <http://m.forbes.ru/article.php?id=284189>

The EAEU-SREB coordination will provide substantial benefits to Kazakhstan. Its central location in Eurasia opens up opportunities for a massive foreign investment, which would allow developing export-oriented production, modernizing transport infrastructure and extending political influence.<sup>5</sup> The major opportunity is overcoming the continental curse, and in fact transforming it into an advantage.

The Eurasian Economic Union and the Silk Road Economic Belt should be coordinated through multilateral cooperation mechanisms. The creation of new working bodies, ensuring joint implementation of real transport infrastructure projects, is much needed.

The Shanghai Organization of Cooperation (SCO) may become a cooperation center in Greater Eurasia. The promotion of coordination initiative through the SOC will allow to turn other states, searching for their place in the world or not satisfied with it, towards the great Eurasian project. It refers primarily to Eastern European countries and Caucasus, possibly — a range of other partners (for example, Iran, Mongolia, potentially the Republic of Korea), to whom Russia could suggest beneficial cooperation within a large-scale economic project. Finally, Europe could eventually join cooperation in Greater Eurasia. This will be beneficial for Russia and the EU, and this scenario is more viable than “integration of integrations” (EU-EAEU).

The priority of EAEU-SREB multilateral coordination does not reject bilateral cooperation. Kazakhstan has already announced its intention to coordinate its national infrastructure development plan “Nurly Jol” with SREB. Furthermore, similar activities are attractive for Belarus, Kyrgyz Republic and Tajik Republic. EAEU intensifies these opportunities.<sup>6</sup> Its common customs border is gradually being complemented by harmonization of norms and standards. The most urgent task now is to develop a common agenda of the EAEU in relations with China and enrich the ambitious plans of the coordination initiative with real projects.

## **Prospects for the Siberia and the Russian Far East involvement in coordination of the Eurasian Economic Union and Silk Road Economic Belt**

Russian interests in joint implementation of the initiative include infrastructure development of Russian regions — Siberia and the Far East, which is partly possible through use of Russian territories transit potential. Transit of

<sup>5</sup> *Bordachev T.V., Karaganov S.A., Bezborodov A.A., Gabuev A.T., Kuzovkov K.V., Lihacheva A.B., Lukin A.V., Makarov I.A., Makarova E.A., Skriba A.S., Suslov D.V., Timofeev I.N.* (2015) *K Velikomu okeanu — 3: Sozdanie Central'noj Evrazii* [Toward the Great Ocean — 3: Creating Central Eurasia] / ed. S.A. Karaganov. Moscow: MDK “Valdai”

<sup>6</sup> *Lukin A.V.* Ideja “jekonomicheskogo pojasa Shelkovogo puti” i evrazijskaja integracija [The idea of Silk Road Economic Belt and Eurasian integration] // *Mezhdunarodnaja zhizn*, № 7, 2014; *Bordachev T.V., Karaganov S.A., Bezborodov A.A., Gabuev A.T., Kuzovkov K.V., Lihacheva A.B., Lukin A.V., Makarov I.A., Makarova E.A., Skriba A.S., Suslov D.V., Timofeev I.N.* (2015) *K Velikomu okeanu — 3: Sozdanie Central'noj Evrazii* [Toward the Great Ocean — 3: Creating Central Eurasia] / ed. S.A. Karaganov. Moscow: MDK “Valdai”

goods from China to Europe already exists, but it does not involve Siberia and the Far East. Currently the most convenient and cheapest transit route from China to Europe is the Lianyungang — Zhengzhou — Lanzhou — Urumqi — Khorgos — Almaty — Kyzylorda — Aktobe — Orenburg — Kazan — Nizhny Novgorod — Moscow — St. Petersburg route with access to the Baltic sea ports. An important advantage of this route is that on the way from China to Europe there are only two customs borders, between China and the EAEU and the EAEU and the EU.

More attractive option for Siberia and the Far East would be one of the two alternatives: route via Urumqi to Omsk and further to the European part of Russia via the Trans-Siberian railway or the route connecting China and Russia at the Eastern border, in the area of Khabarovsk.<sup>7</sup>

The first of these two alternatives is quite viable, but its implementation requires a significant expansion of the already overloaded area of the Omsk — Novosibirsk, as well as the development of logistics centres in these cities in order to increase domestic shipments and export. Silk Road turn into Western Siberia just to transport goods from China to Europe makes little sense, as this route is longer than the route through Orenburg.

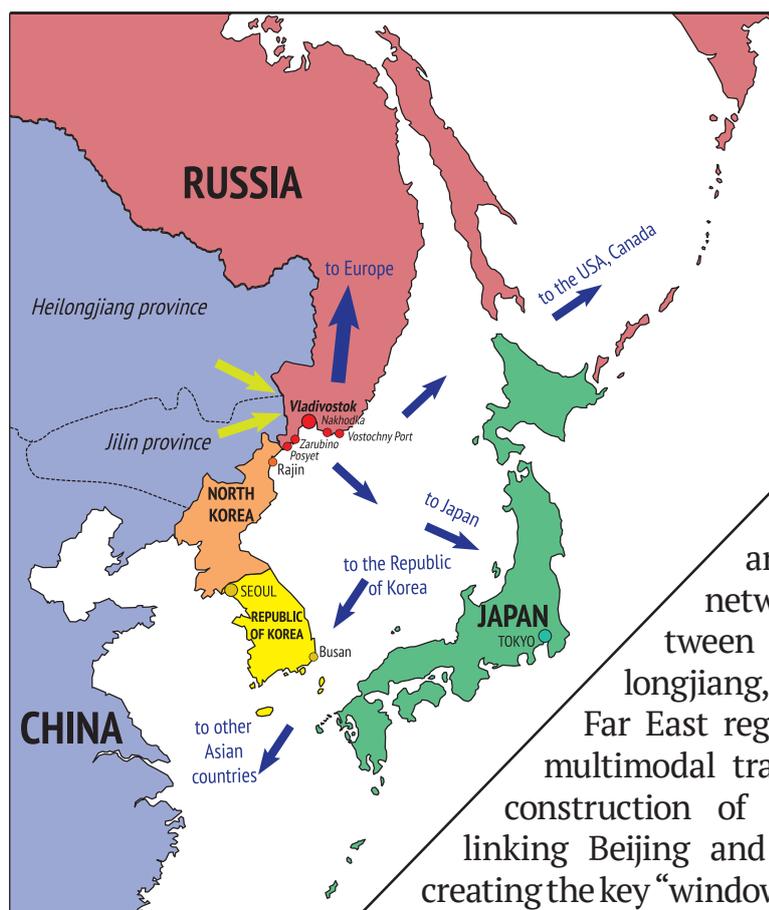
The second alternative is hardly feasible in the mid-term perspective as it competes directly with marine transportation (focused on servicing the Northeastern provinces of China, which are located not too far from the sea), and Russian plans of developing export-oriented Far East. In addition, the transport route via Khabarovsk will be more expensive and time consuming.

In 2014, plans were announced to build a high-speed railway “Moscow — Beijing” via Ekaterinburg, Astana, Irkutsk, Ulan-Bator, and Khabarovsk with Chinese funding. This initiative is also mentioned in the text “Vision and actions on jointly building Belt and Road”, which is the only Chinese document revealing the content of the initiative “One Belt, One Road”.<sup>8</sup> However, apparently, ultimately the route will follow from Astana to the northwestern provinces of China and not Eastern Siberia.

Presently, apart from the possibility of constructing a transit route through Omsk, there are two ways for Siberia and the Far East to get integrated in the “One Belt, One Road” project. The first option is the development of international transport corridors on the Russian-Chinese Far Eastern border. The Chinese plan of the “One Belt, One Road” project states: “We must derive maximum benefit from the proximity of the province of Inner Mongolia to Russia and Mongolia, improve railway communication

<sup>7</sup> Makarov I.A., Makarova E.A., Karaganov S.A., Bordachev T.V., Kanaev E.A., Litvinova Ju.O., Lihacheva A.B., Pestich A.S., Pjatachkova A.S., Sokolova A.K., Stepanov I.A., Shh erbakova A.V. (2016) *Povorot na Vostok. Razvitie Sibiri i Dal'nego Vostoka v usloviyah usilenija aziatskogo vektora vneshnej politiki Rossii* [Turn to the East: The development of Siberia and the Far East under the intensification of Asian vector of Russian foreign policy] / (ed.) I.A. Makarov. Moscow: Mezhdunarodnye otnosheniya

<sup>8</sup> Full Text: Vision and actions on jointly building Belt and Road // Global Times, 29 March 2015: <http://www.globaltimes.cn/content/914373.shtml>



**Fig. 1. The scheme of current transport corridors of Primorye.**

Makarov I.A., Makarova E.A., Karaganov S.A., Bordachev T.V., Kanaev E.A., Litvinova Ju.O., Lihachev A.A.B., Pestich A.S., Pjatachkova A.S., Sokolova A.K., Stepanov I.A., Shherbakova A.V. (2016) *Povorot na Vostok. Razvitie Sibiri i Dal'nego Vostoka v usloviyah usilenija aziatskogo vektora vneshnej politiki Rossii* [Turn to the East: The development of Siberia and the Far East under the intensification of Asian vector of Russian foreign policy] / (ed.) I.A. Makarov. Moscow: Mezhdunarodnye otnosheniya. Image recreated for the Asia-Pacific News Brief by Ignat Solovey

between Heilongjiang province and Russia and regional railway network, enhance cooperation between the Chinese provinces of Heilongjiang, Jilin, Liaoning and the Russian Far East region through land and marine multimodal transport development, and the construction of Eurasian high-speed railway linking Beijing and Moscow for the purpose of creating the key “windows’ for the northern territories”<sup>9</sup>

Among all these goals the most realistic is the development of transport corridors of Primorye (Fig. 1). “Primorye-1” has already been used to transport cargo. It connects the border railway station Suifenhe with the container terminal of Vostochny port. The total route length is 500 km, while the distance from Suifenhe to the nearest Chinese port of Dalian is about 1300 km, the Corridor has an exit to the highway Ussurijsk — Pogranichny — Gosgranica, as well as to the ports of Nakhodka and Vladivostok. Its ultimate goal is shipping of Chinese containers to the Northeast Asian countries and to the United States.

International transport corridor “Primorye-2” connects the Jilin province to the ports of Slavyanka, Zarubino and Posyet. In late June 2014 an agreement was signed between the company “Transit-DV” and the Chinese “Zhong Gong Xin”, according to which the joint construction of the Slavyanka port to carry out transit containers transportation between Russia and China. In Slavyanka containerized cargo from northeastern provinces of China will be transferred to container ships for the shipment to the South of the country. Apart from the port, a highway from Slavyanka to the border will be constructed, which will later be modified from two-lane to four-lane. In Zarubino port four terminals will be constructed: grain, alumina, container and universal. The first line is to be launched in 2018. Approximately 60% of its cargo flows would be provided by China, 30% will comprise the Russian goods for export to the Asia-Pacific region, and the remaining 10% are allocated for foreign trade operations of Russian companies.

<sup>9</sup> Ibid

There is a proposal on the organization of the transport corridor “Primorye-3” from the Chinese border to Vladivostok. A competitive advantage of this project is that the corridor is 65 km length, i.e. 2–3 times shorter than “Primorye-1” and Primorye-2”.

In the future the Primorye transport corridors can be used for the transit of Chinese goods not only to the Asia-Pacific region, but also to Europe via the Northern sea route. However, currently its feasibility is questionable as the planned cargo is dominated by containers and grain, which are difficult to transport along the NSR. And the development of the Northern sea route has stalled amid the suspension of the Arctic energy projects due to sanctions and falling oil prices.

The connection of the transport infrastructure of Russia and China is important not only in Primorye, but also in other regions. In 2013, a road bridge, linking the mainland Khabarovsk territory with the Bolshoy Ussuriysky island and then with China, was opened. The construction of the railway bridge Nizhneleninskoye — Tongjiang across the Amur river between the Jewish Autonomous oblast and Chinese Heilongjiang province has been started. This will reduce the transportation distance of goods to final consumers by about 700 km. Initially the bridge was expected to be put into operation in late 2015, but due to financing difficulties in Russia beginning of its operations is delayed to 2016.

The integration of the Russian eastern territories into Chinese transport initiatives are also possible through the Chinese-Mongolian-Russian economic corridor.<sup>10</sup> The proposal was presented by the Minister of Foreign Affairs of China Wang Yi in spring 2014. He argued that the initiative means the integration of the Chinese “One Belt, One Road”, Mongolian “Steppe road”, and Russian initiative of Trans-Eurasian development corridor.

The development of the transport corridor to China via Mongolia is of great importance for Eastern Siberia, which will be able to supply products to China, avoiding the bottleneck of the “eastern polygon” of Trans-Siberian railway. Manufacturers of coal could gain an advantage. But more importantly, the meridional transport corridor may allow outsourcing water-intensive and energy-intensive production from China to Eastern Siberia, earlier partially constrained by transport barriers.

The overview of the major transport and logistics projects in Asia shows that Siberia has a limited interest for Asian partners in terms of transport, and in the Far East an important role is given only to Primorye territory, which can act as a significant transit region due to its geographical position. Consequently, the

<sup>10</sup> Makarov I.A., Makarova E.A., Karaganov S.A., Bordachev T.V., Kanaev E.A., Litvinova Ju.O., Lihacheva A.B., Pestich A.S., Pjatchkova A.S., Sokolova A.K., Stepanov I.A., Shherbakova A.V. (2016) *Povorot na Vostok. Razvitie Sibiri i Dal'nego Vostoka v usloviyah usilenija aziatskogo vektora vneshnej politiki Rossii* [Turn to the East: The development of Siberia and the Far East under the intensification of Asian vector of Russian foreign policy] / (ed.) I.A. Makarov. Moscow: Mezhdunarodnye otnosheniya

Russian infrastructure projects are still insufficiently integrated into regional and continental megaprojects (Table 1).

**Table 1.**  
**The role of Siberia and the Russian Far East in new Eurasian projects**

Project	Assumed role of Siberia	Assumed role of the Far East	Opportunities
<b>“One Belt – One Road”</b>	Involvement of Trans-Siberian railway; Russia-Mongolia-PRC corridor; in the future – involvement of Arctic regions through the Northern Sea Route	Far Eastern ports; border cooperation in Amour basin; Russia-Mongolia-PRC corridor	New meridional connections, aimed at linking Siberia to the Silk Road Economic Belt, institutional cooperation
<b>ASEAN Development Corridors</b>	None	No project content	Creation of airline hubs in Siberia; in the future – establishing supplies of energy and food, the development of new transport routes in order to guarantee these supplies
<b>The International North – South Transport Corridor</b>	None	None	The extension of the corridor to the East, which will significantly expand the trade nomenclature and will allow Siberian products to enter the markets of Central and South Asia
<b>The Eurasia Initiative of the Republic of Korea</b>	No project content	Development of port and railway connection through Russia and the Korean Peninsula	Linking Korea to international transport corridors of Primorye

**Source:** Makarov I.A., Makarova E.A., Karaganov S.A., Bordachev T.V., Kanaev E.A., Litvinova Ju.O., Lihacheva A.B., Pestich A.S., Pjatachkova A.S., Sokolova A.K., Stepanov I.A., Shherbakova A.V. (2016) *Povorot na Vostok. Razvitie Sibiri i Dal'nego Vostoka v usloviyah usilenija aziatskogo vektora vneshnej politiki Rossii [Turn to the East: The development of Siberia and the Far East under the intensification of Asian vector of Russian foreign policy]/(ed.) I.A. Makarov. Moscow: Mezhdunarodnye otnosheniya.*

Therefore, only the Russian Far East is to a certain extent included in regional infrastructure projects, while Siberia is not considered in the plans of Asian countries. Given that the transport component is one of the key in the development of Siberia and the Far East, it is vital to build effective mechanism for coordination of regional-scale, national and continental projects.

# INVESTMENT REGULATION UNDER THE AGREEMENT ON THE TRANS-PACIFIC PARTNERSHIP

**Galina KOSTYUNINA**, Doctor of Economic Sciences, Moscow State Institute of International Relations (University)

## A Brief History

The Trans-Pacific Strategic Economic Partnership Agreement was signed by the so-called transpacific quartet – Singapore, New Zealand, Brunei and Chile, and entered into force in May 2006.

The United States decided to use this agreement for its integration plans, as it covers three regions of the Pacific Rim – East, West and South. The United States joined the TPP in 2008 as well as Australia, Peru and Vietnam, and in 2010 Malaysia. 2012 was marked by the launch of negotiations on the new agreement on the Trans-Pacific Partnership in an expanded format and covering a wider range of issues. Three more states – Canada, Mexico, and Japan, joined the negotiation process.

In October 2015, the agreement was signed, and after the ratification of at least 85% of countries (which may take about 2 years) will come into force. Its aim is to form a free trade area within 12 states with the free movement of goods, services and investment, common competition and environmental policy, common labour policy, protection of intellectual property rights and the establishment of a dispute settlement mechanism.

The TPP conforms to the US interests of liberalizing market access to its goods and services in the APEC states, increasing its competitiveness and employment, and isolating China and Russia.

The economic potential of TPP is quite high and amounts to 28.4% of the world GDP, 4.0% of the territory and 11.3% of the world's population, 23.0% of exports and 22.5% of imports of the world, 28% of world FDI. It is expected that the TPP members annual GDP will increase to USD 223 billion year in 2025, the volume of export – by an average of USD 305 billion a year until 2025.

## Investment Regimes

Investment issues are defined in section IX of the Agreement. They include investment regimes, protection of investors' rights, free transfer of income from investments abroad and a dispute settlement mechanism.

Investors and investment of the participating countries are guaranteed national treatment, no less favorable than the regime for domestic investors and their investments with respect to the establishment, acquisition, expansion, management, conduct, operation and sale of investments.

Investors and investments of non-member states are provided with the most favored nation treatment (MFN) no less favorable than for investors and their investments of the participating countries of the TPP. There are exceptions to the MFN and national treatment which include government procurement, subsidies and grants, including government guarantees, and insurance.

The Agreement also provides for equal and fair treatment, and the regime of full protection and security of investments.

Investors and investments of each member country are guaranteed non-discrimination regime, with account of compensatory measures for damages or losses caused by military conflict or civil unrest.

## **Protecting the Rights and Interests of Foreign Investors**

Protection of the investors' rights is a vital feature of the investment section of the Trans-Pacific Partnership Agreement. The agreement prohibits the nationalization or expropriation of property except for the need to protect the public interest. Nationalization may be carried out with due account of provisions for the non-discrimination, in accordance with the law and on condition of a prompt, adequate and effective compensation payment. The amount of compensation is calculated on the fair market value of nationalized property in convertible currency.

The rules of the Agreement guarantee a free transfer received from investment income to the parent company. These revenues include investment, profits, dividends, bank interest, royalty payments, payments under the contract, payments on investment disputes and others. Restrictions on the funds transfer abroad can be introduced in the event of bankruptcy or creditors' rights protection, issuance and trading of securities, futures and derivatives, criminal charges, the need to retain revenues according to the financial authorities' decisions.

## **Other Investment Regulation Rules**

The Agreement prohibits putting forward special requirements on the performance of foreign investors of participating countries, such as the definition of the exports volume, the use of local content, linking the volume of exports or imports to the volume of investments, the transfer of the appropriate technology, the balance in exports and imports of goods and services, the purchase or the use of technology, and others. Thus, the norms of TPP Agreement comply with the WTO Agreement on Trade-Related Investment Measures (TRIMS), which in force since 1995.

The Agreement also prohibits prescribing the structure of the board and the nationality of its members to the investor as a condition of admission and investing in one of the participating countries. At the same time, it is implied that the majority of board members can be citizens of the country concerned, if such a requirement does not breach the investor's right to exercise control over investments.

The Agreement defines the obligations of the parties to provide information, including statistics on investment. Such data are confidential and subject to protection.

Another distinctive group of investment norms is related to the settlement of the disputes between the investor and the host State. The main mode of dispute resolution is consultations and negotiations within a period of not more than 6 months from the date of receipt of a written request for consultations. If the parties are unable to reach consensus they appeal to arbitration or an independent international judicial body such as the International Centre for Settlement of Investment Disputes, which is a part of the World Bank.

Thus, the investment provisions of the Trans-Pacific Partnership Agreement, are fully consistent with international law, the provisions of the WTO Agreement on Trade-Related Investment Measures, the recommendations of international organizations and the international practice of investment regulation at the national, bilateral and regional levels. The investment section of TPP conforms with NAFTA investment provisions which in practice are considered a standard in the investment regulatory framework of regional integration agreements.

## **Foreign Direct Investment in the Economies of the TPP**

There is no doubt that TPP will make static effect on mutual capital flows and investments from non-member states due to investment and trade liberalization, i.e. mutual investments and investments from third countries into the economy of TPP will increase. In the long run, dynamic effect will be explicit when the investment climate attractiveness will increase due to the growth capacity of domestic markets capacity, the formation of a larger common market with the number of 800 million consumers, predictability and transparency of the investment regulations.

Over the 2009-2014 period, the volume of foreign direct investment in the 12 TPP countries increased from USD 279.9 billion to USD 3.444 trillion, or 12.3 times. In 2012 and 2014, FDI flows decreased twice, due to the economic slowdown in these economies. The share of TPP constituted 28% of world imports of FDI in 2014. The main recipients are the United States, Singapore, and Canada, accounting for 62.1% of total FDI invested in the TPP economies in 2014.

**Table 1**  
**Mutual Investments in the Framework of the TPP States in 2012, USD Million**

Country	FDI in TPP	Total of FDI	Share of TPP in the World Total, %
USA	89281	311347	28.7
Canada	32194	53938	59.7
Japan	54350	122548	44.4
Australia	-697	5583	12.5
New Zealand	-811	-456	56.2
Singapore	11625	15147	76.7
Malaysia	11622	15147	67.8
Vietnam	0	1200	0
Brunei Darussalam	70	422	16.6
Mexico	3390	22470	15.1
Chile	1444	13267	12.9
Peru	131	147	91.0
<b>TPP. total</b>	<b>205.6</b>	<b>563.7</b>	<b>36.5</b>

Compiled based on UNCTAD FDI Bilateral Statistics. Country Profile. Available at:

Source: <http://unctad.org/en/Pages/DIAE/FDI%20Statistics/FDI-Statistics-Bilateral.aspx>

As can be seen from Table 1, in 2012 the total direct investments from the TPP amounted to USD 563.7 billion, while mutual FDI - USD 205.6 billion, thus the share of mutual investments amounted to 36.5%. The main investors in mutual investment cooperation are the United States, Japan and Canada. The main recipients are Peru (91%), Singapore (76.7%) and Malaysia (67.8%).

Russia's share of the total direct investment from TPP increased from 3.5% to 4.9% in 2007-2014 (See, Table 2). FDI from TPP to the Russian economy decreased from USD 1 978 million in 2007 to USD 1 111 million in 2014, or 1.78 times.

**Table 2**  
**Dynamics of FDI Inflow from TPP States to the Russian Economy, USD Million**

Country	2007	2008	2009	2010	2011	2012	2013	2014
Australia	0	0	5	4	11	6	2	3
Vietnam	0	0	36	276	7	-26	-29	-42
Canada	19	19	-13	109	-41	15	96	-14
Malaysia	0	0	0	1	-3	9	3	5
Mexico	0	0	0	4	0	0	0	0
New Zealand	0	0	0	-49	-115	-220	-86	-6
Singapore	19	7	0	3	51	577	-502	162
USA	1 860	2 161	2 296	435	276	285	485	708
Japan	80	195	272	473	369	596	369	295
<b>FDI from TPP, total</b>	<b>1978</b>	<b>2382</b>	<b>2596</b>	<b>1256</b>	<b>555</b>	<b>1242</b>	<b>338</b>	<b>1111</b>
<b>The share of TPP, %</b>	<b>3,5</b>	<b>3,2</b>	<b>1,98</b>	<b>2,9</b>	<b>1</b>	<b>2,5</b>	<b>0,5</b>	<b>4,9</b>

Source: Foreign Direct Investments in the Russian Federation. Operations on instruments and member partners. Available at: [http://www.cbr.ru/statistics/?ch=cvvk&Prtid=svs#QA\\_PAR\\_30241](http://www.cbr.ru/statistics/?ch=cvvk&Prtid=svs#QA_PAR_30241)

As can be seen from Table 2, the main investors from TPP member states are the United States, Japan and Singapore, which account for 98% in 2014.

Russian direct investments in the TPP economy amounted to 4.8% in 2014 increasing from 2.7% in 2007 (see Table 3).

**Table 3**  
**Russia's Direct Investments in the Economy of the TPP States, USD Million and percent**

Country	2007	2008	2009	2010	2011	2012	2013	2014
Australia	42	47	14	36	1 104	-64	122	148
Vietnam	0	0	41	173	91	99	16	55
Canada	181	123	20	863	279	1 105	177	-34
Mexico	0	0	0	0	-1	0	1	2
New Zealand	1	0	99	7	54	30	32	42
Peru	4	0	0	0	3	0	1	0
Singapore	1	0	0	18	155	1 262	304	817
USA	973	7 264	1 634	1 060	1 625	688	739	1 654
Japan	19	5	-2	-1	1	0	1	9
<b>FDI from Russia to TPP, total</b>	<b>1221</b>	<b>7439</b>	<b>1806</b>	<b>2156</b>	<b>3 311</b>	<b>3120</b>	<b>1393</b>	<b>2693</b>
<b>The share of TPP, %</b>	<b>2,7</b>	<b>13,4</b>	<b>4,1</b>	<b>4,1</b>	<b>4,95</b>	<b>6,4</b>	<b>1,6</b>	<b>4,8</b>

Source: Direct Investment from the Russian Federation abroad. Operations on instruments and member partners. Available at: [http://www.cbr.ru/statistics/?ch=cvvk&Prtid=svs#QA\\_PAR\\_30241](http://www.cbr.ru/statistics/?ch=cvvk&Prtid=svs#QA_PAR_30241)

The amount of Russia's direct investment to the TPP countries increased from USD 1.221 billion to USD 2.693 billion over the period from 2007 to 2014, or 2.2 times. The main recipients are the United States, Singapore and Australia.

If at the end of 2007, FDI inflows from TPP exceeded the volume of the Russian investment into the TPP economies at USD 757 million, in 2014, the situation changed — the Russia's investment exceeds the amount of TPP member states FDI into the Russian economy.

Formation of the Trans-Pacific Partnership will not significantly affect the trade and investment with the Russian Federation. Trade liberalization in the framework of TPP will result in slight decrease of trade with Russia, but the trade flows can be replaced by transferring production to the Trans-Pacific Partnership member states. Our economic relations with Vietnam are of special importance in this regards, given that it is a member of the TPP and a member of the Agreement on the Free Trade Zone with the Eurasian Economic Union (EAEU). The transfer of certain Russian industries in Vietnam will facilitate access to the markets of other countries of the Trans-Pacific Partnership.

In the short term, the formation of a free trade area and investment liberalization within the TPP will stimulate the flow of investment from outside the FTA, including Russia. The growth rates of TPP's investments into non-participating countries including Russia may be expected to decline. This effect has been proven in the experience of other integration agreements such as the EU or NAFTA.

# ESTABLISHMENT OF JOINT VENTURES IN RUSSIA: PRACTICAL ISSUES

**Arthur ILIEV**, Partner, Corporate practice, Clifford Chance  
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**Egor EFIMIKOV**, Associate, Corporate practice, Clifford Chance

The reform of the Civil Code of the Russian Federation (CC RF) has hit stride in 2014–2015. Among other things, the statutory provisions on legal entities and the general rules on contracts have undergone substantial amendments. This was largely intended to incentivise investors to create joint ventures in the Russian Federation by making a range of instruments available to investors that are either completely new to the Russian law or significantly improve the existing mechanisms.

Establishing joint ventures in foreign jurisdictions and subsequently setting up a business in Russia as a wholly owned subsidiary will undoubtedly remain popular amongst investors. This is partially due to the fact that some of the new provisions are subject to varying interpretation and an absence of settled case law, as the courts apply (and indeed have already begun applying) the new concepts and mechanisms. It is worth noting that the Russian judicial system remains one of the main areas of concern among potential foreign investors.

With the so-called “turn to the East” we are seeing a tendency towards higher numbers of joint ventures (JVs) between Russian businesses and Asia-Pacific investors — primarily China, Hong Kong and Singapore. The latter two jurisdictions continue to be popular for setting up a joint business, as their legal systems allow for the advantages of common law, while a developed system of arbitration institutions guarantee a high standard of dispute resolution.

That said, an increasing number of businesses are prepared to test and use Russian jurisdiction for the establishment of JVs. This has become particularly relevant for companies with state participation and quasi-foreign investors, i.e., foreign companies controlled by Russian beneficiaries. It has been spurred by the initiative for deoffshorisation of the Russian economy, as well as the U.S. and European Union sanctions imposed on certain Russian individuals and legal entities.

The choice of Russian jurisdiction is shaped not only by those restrictions, but also by the fact that Russia is especially interested in attracting Chinese investment, including in the framework of projects aimed at development of Russia’s Far East regions.

As our experience has shown, many joint ventures now being established between Russian and, for example, Chinese companies bear out the fact that proper risk assessment at an early stage of negotiations over the establishment of a JV produces realistic expectations on the part of the partners and better prospects for the joint business. One example is the cooperation between State Grid Corporation of China and PJSC ROSSETI, which are currently forming a JV to modernise and build power grid infrastructure in Russia and other countries.

Given foreign partners' keen interest in the Russian market, below we analyse some of the most important new aspects of the CC RF affecting the establishment and activities of JVs in Russia and which tend to give rise to the majority of questions from foreign investors.

### **Choice of Incorporation Form**

Historically, among foreign investors, the most popular corporate form for doing business in Russia has been the limited liability company (LLC), because from a legislative standpoint such companies were afforded a large degree of freedom in terms of corporate governance. After "closed" joint-stock companies (JSCs) were replaced with "non-public" JSCs in Russian corporate law, the choice of form of incorporation became less clear-cut, because non-public JSCs were provided with considerable new advantages, such as the possibility to disapply any pre-emptive rights in respect of the sale of shares to third parties and the ability to prohibit the sale (lock up) of shares for up to 5 (five) years. Another advantage is that transfers of shares in JSCs can still be completed without involving a notary. On the other hand, LLCs offer flexibility in terms of financing their activities, no time limit on the duration of the lock-up period, and simplified registration procedures. That said, since the disposal of any participatory interest in an LLC must be notarised, the relative simplicity of the sale and purchase of shares in a non-public JSC often tips the scales in favour of the latter form of incorporation.

### **Corporate Agreements**

For most JV investors, the possibility of entering into fully fledged corporate agreements has only become a viable option since the reform of the CC RF. Although the case law involving corporate agreements is only just beginning to be formed, we are already seeing positive judicial decisions that would have been virtually impossible earlier. For instance, arbitrazh courts in various regions have ruled that in cases where a company's participants hold equal participatory interests, the corporate agreement can stipulate that one of the participants is appointed the company's single-person executive body, and that after a company is wound up, its assets can be distributed other than pro rata to the participants' respective participatory interests. There have also been decisions ruling that it is possible to recover the amount of financing specified in a corporate agreement from a participant that undertook an obligation to provide such financing, as well as the possibility of recovering fines from a participant that voted at a

general meeting in breach of the terms of the corporate agreement.<sup>1</sup> On the whole, it is plain to see that a positive approach towards enforcing the terms of corporate agreements is being taken by the courts.

## **Corporate Governance**

With the differentiation of Russian companies into public and non-public companies it has become possible for businesses to redistribute the authority of their management bodies either from the “top down” (i.e., from the general meeting of participants to the board of directors) or from the “bottom up” (i.e., from the board of directors to the general meeting of participants). Nevertheless, the most crucial aspects of a company’s activities (corporate reorganisation, liquidation etc.) remain within the competence of the general meeting of participants by operation of law, and this new development is really in line with the corporate governance principles accepted in other jurisdictions.

## **Covenant not to compete or to establish most-favoured status**

We note that many foreign investors are keen to include a covenant not to compete in corporate agreements. As a rule, it is foreign investors in Russian JVs that push for the inclusion of such a clause, as they fear a separate business of their Russian partner may compete with the JV. However, a so-called “non-compete clause” or covenant not to compete remains not fully enforceable under Russian law (save for certain types of agreements such as commercial concession contracts), and this problem has not been resolved with the reform of the CC RF. Such provisions can be included in a joint venture agreement (corporate agreement) only if cleared with the Russian antitrust authorities. Such clearance may be granted if the covenant not to compete has grounds that may benefit the Russian market or economy as a whole – for example, furthering the development of an entire industry or sector, or enabling Russia to become more self-sufficient and reduce reliance on imports.

At the same time, we note that foreign investors often also wish to secure certain preferential terms for their JV with the Russian partner in relation to another (or even the main) business of that Russian partner. Such provisions often contradict Russian statutory provisions and must be checked on a case-by-case basis for compliance with the legislation regulating the procurements of goods, work and services and the antitrust legislation.

## **Dispute Resolution**

Amendments to the Arbitrazh Procedure Code of the Russian Federation and some other Russian laws, as well as the new Federal Law “On Arbitration

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<sup>1</sup> See: judgment of the Arbitrazh Court of the Novosibirsk Region in case No. A45-9733/2015 dated 23 November 2015; decree of the 7th Arbitrazh Appellate Court in case No. A45-12229/2015 dated 22 October 2015; judgment of the Arbitrazh Court of the Novosibirsk Region in case No. A45-12277/2015 dated 12 October 2015; decree of the Ninth Arbitrazh Appellate Court in case No. A40-44056/2013 dated 27 February 2015

(Arbitral Proceedings) in the Russian Federation” No. 382-FZ of 29 December 2015 will come into force from 1 September 2016. These are aimed at bringing some certainty that particular corporate disputes can be considered through arbitration. In our view this is intended to make Russian JVs more attractive to investors by enabling them to choose their dispute resolution forum.

Under the aforementioned amendments, arbitration clauses may enter into force starting from 1 February 2017 for certain corporate disputes. However, it is still open to question whether arbitration clauses set out in existing corporate agreements will be deemed valid and enforceable or not.

# KEY BUSINESS FORUMS AND OTHER EVENTS IN THE EAEU AND APR MEMBER COUNTRIES IN THE FIRST HALF OF 2016

**Elizaveta SAFONKINA**, Expert, National Coordination Center for Developing Economic Cooperation with the Countries of Asia-Pacific Region, Researcher, Center for International Institutions Research (CIIR), Russian Presidential Academy of National Economy and Public Administration (RANEPA)

## **Second Russian-Chinese Forum “Big Opportunities of Small and Medium Business” Sochi, Russia, April 14–15, 2016**

The Forum is aimed to be a platform for direct communications between business representatives of Russia and China as well as organizations engaged in improving business climate and contribute to SMEs cooperation development between the two countries.

The Forum will be attended by representatives of SMEs, federal and regional governmental authorities, development and financial institutions as well as non-governmental organizations and unions, research and educational institutes of Russia and China.

*For more information please contact:*

*Deputy General Director of Russian Agency for Small and Medium Business Support Mr. Evgeny G. Zhivoglazov. Tel.: +7 (499) 783-49-28, mobile.: +7 (903) 799-79-51, e-mail: [zhivoglazov@siora.ru](mailto:zhivoglazov@siora.ru)*

## **Russia – ASEAN Business Forum Sochi, Russia May 19, 2016**

Russian Union of Industrialists and Entrepreneurs (RSPP), National Coordination Center for Developing Economic Cooperation with the Countries of Asia-Pacific Region (NCC APR), Chamber of Commerce and Industry of the Russian Federation and other interested business associations participate in Russia – ASEAN Business Forum organization. The Forum will be held on the sidelines of the 20th anniversary Russia-ASEAN summit. The Forum will be attended by CEOs of leading companies of Russia and the countries of the Association of Southeast Asian Nations (ASEAN) as well as high-level representatives of governmental authorities.

The Forum will contribute to promotion of business relationships between entrepreneurs of Russia and ASEAN and strengthening economic cooperation.

The discussions in the event will focus on contribution of business to Russia-ASEAN Economic Partnership; economic integration and connectivity, perspectives of the Eurasian Economic Union – ASEAN free trade zone, development and implications of free trade zones in the Asia-Pacific, harmonization of technical regulation and standardization, transport infrastructure development; as well as energy and innovative cooperation issues.

It is expected that the President of the Russian Federation Vladimir Putin will meet with the business leaders during the Forum.

*If you are interested in participating in the Russia – ASEAN Business Forum, please contact us by phone +7 495 663 04 04 ext. 1233 or e-mail: [SafonkinaEA@rspp.ru](mailto:SafonkinaEA@rspp.ru) (Ms. Elizaveta Safonkina).*

### **3<sup>rd</sup> Russian-Chinese EXPO** **Yekaterinburg, Russia** **July 2016**

Russian-Chinese EXPO is an international exhibition platform aimed at contributing to development and strengthening of Russian-Chinese bilateral cooperation through diversification of forms and areas of transregional cooperation between Russian business and business community of other countries, attraction of Chinese companies as investors to bilateral projects in innovation sphere and presentation of investment potential of the subjects of the Russian Federation.

Russian-Chinese EXPO organizational issues are set up in the Memorandum of Understanding signed in December 2015 by the Ministry of Economic Development of the Russian Federation, the Ministry of Commerce of People's Republic of China, the People's Government of Heilongjiang province of People's Republic of China.

Since the first EXPO in 2014 the exhibition became one of the most important international events. In 2015 the exhibition was attended by about 1300 organizations of 100 countries. Russian delegation to the event included 6000 persons, in particular more than 500 representatives of governmental authorities and large business. A total number of the exhibition attendees starting from its creation is more than 200 000. An opening ceremony is traditionally held by the governmental leaders of Russia and China.

In 2016 Russian-Chinese EXPO will be held for the third time. The participants will have an opportunity to present their production and technical developments, discuss joint projects and establish new business relationships.

*For further information on participating in the Russian-Chinese EXPO please contact NCC APR by phone +7 495 663 04 04 ext. 1233 or e-mail: [aprcenter@rspp.ru](mailto:aprcenter@rspp.ru)*

## **7<sup>th</sup> Russian-Kazakhstan Industrial Exhibition “Expo-Russia Kazakhstan” and 5th Almaty Business Forum, Almaty, Republic of Kazakhstan June 15–17, 2016**

The Exhibition is held since 2010, Business Forum – since 2012. The event is aimed at developing economic, scientific, and technical, cultural cooperation between the Russian Federation and the Republic of Kazakhstan, establishing and strengthening relations between the countries and promoting business partnerships and mutual investments.

Presentations of the regions of the Eurasian Customs Union and thematic roundtables will be held in the framework of the event. The roundtable themes will include energy cooperation development in the context of the Eurasian Customs Union members accession to the WTO; Russia – Kazakhstan cooperation in telecommunications and transport, healthcare, pharmacology, agriculture; and interuniversity cooperation between the two countries.

On June 16, 2016, Business Contacts Exchange in B2B format will be held.

The companies of Russia, Kazakhstan, Armenia, Belarus, Kyrgyzstan, Turkmenistan and Uzbekistan will attend “Expo-Russia Kazakhstan 2016” and Almaty Business Forum.

Media partners of the event include more than 100 leading Russian and Kazakh media.

*For further information on the event please contact OJSC “Zarubezh-Expo” by phone: +7 (495) 637-50-79, 637-36-33, 637-36-66, +7 (499) 766-99-17, 766-92-82 or e-mail: [info@zarubezhexpo.ru](mailto:info@zarubezhexpo.ru)*

*Application form is available at OJSC «Zarubezh-Expo» web-site:  
<http://zarubezhexpo.ru/uchERK/>*

## **Anniversary 20<sup>th</sup> session of the China International Fair for Investment & Trade (CIFIT) Xiamen, Fujian, China September 8–11, 2016**

The event is held under the aegis of the Ministry of Commerce of the People’s Republic of China with support of the UN bodies (United Nations Conference on Trade and Development (UNCTAD)), United Nations Industrial Development Organization (UNIDO)), Organisation for Economic Co-operation and Development (OECD) as well as International Finance Corporation (IFC), World Association of Investment Promotion Agencies (WAIPA) and China Council for the Promotion of International Trade (CCPIT).

The CIFIT is one of the most important fairs in China which focuses on the cutting-edge economic sectors. The programme of the event includes a wide range of business events, thematic workshops and presentations.

The CIFIT is usually attended by the leading representatives of business and governmental authorities of China and other countries, particularly US, Japan, Germany, Republic of Korea, UK, Italy and Netherlands.

In 2016 CIFIT will be held under the theme “One Belt, One Road: Toward Global Collaboration”.

The last year Fair was attended by about 100000 businessmen representing 4000 companies of 105 countries. 30000 projects were presented to the participants and more 400 various events were organized.

*Official web-site of the Fair:* <http://www.chinafair.org.cn/english/>

## **Business Forum Yerevan, Republic of Armenia October 26–28, 2016**

The event is aimed at developing economic, scientific, and technical, cultural cooperation between the Russian Federation and the Republic of Armenia, establishing and strengthening relations between the countries and promoting business partnerships and mutual investments.

Thematic sections of the exhibition will include energy, machinery, metallurgy, instrument engineering, transport and logistics, geology and mining, construction, chemical industry, telecommunications, IT, innovation and investment, banking and insurance, agriculture and food, healthcare and education.

The programme of event will include roundtables on transport and communications, energy and natural resources, agriculture, health, science and education to be held in the relevant ministries of Armenia.

*For more information on the event please contact OJSC “Zarubezh-Expo” by phone: +7 (495) 637-50-79, 637-36-33, 637-36-66, +7 (499) 766-92-82 or e-mail:*

***info@zarubezhexpo.ru***

*Application form is available at OJSC “Zarubezh-Expo” web-site:*

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