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CHINA'S ECONOMIC GROWTH AND SINO-RUSSIAN ECONOMIC RELATIONS

For more than two decades China's GDP has growing by approximately 10% a year. The rise of China is one of the most important force reshaping the world economy at the beginning of the twenty-first century. In 2010 China became the world's second largest economy and accounted for almost 20% of the world growth. As a result China became the world's top manufacture in 2010, surpassing Germany.

China contributed two thirds of the increase in world consumption of aluminum and copper and almost all the increase in world consumption of lead tin and zinc. Now China's share in global coal, zinc and aluminium consumption is more than 46%. In 2009 China's economy consumed twice as much crude steel as European Union, America and Japan combined. It bought more cars than America and more mobile phones then the rest of the world put together.[1] At the same time the Chinese products of light and textile industry are in demand in the world market because of their low cost and high quality.

Economic development of China are becoming fundamentally crucial to the health of the global economy. China's economy and its international importance have both risen exponentially since the start of the reform process and now have a profound effect on the global economy as a whole. China could become the world's largest economy sometime as early as 2025. Economic commentators are describing China as "number one", as inevitable and inexorably becoming the largest economy in the world. Although this thesis is quite debatable, the very fact of rapid economic development of a such large-scale economy, despite the influence of the world financial

	1993-2002 (average)	2003	2004	2005	2006	2007	2008	2009	2010	2011 (projections)	2012 projections)
United States	3.8	2.8	3.6	3.3	2.5	1.5	-0.6	-3.1	1.8	2.5	2.6
Euro Area	…	1.3	1.8	2.1	2.8	2.4	0.6	-2.6	0.5	1.0	1.3
Germany	1.2	0.1	-0.1	0.4	2.6	1.1	1.4	-1.8	1.9	1.9	1.6
France	1.9	2.1	2.5	2.6	2.7	3.0	0.7	-0.5	1.0	1.2	1.5
Italy	1.5	0.7	1.4	1.2	1.4	1.2	-1.2	-3.4	0.9	1.4	1.3
Japan	0.8	0.5	1.6	1.9	1.1	1.0	-1.1	-3.4	1.5	1.4	2.0
United Kingdom	3.3	2.8	3.4	2.2	2.5	2.9	-0.3	-4.3	1.0	0.8	1.6
Russia	-0.9	7.2	6.4	8.2	8.5	5.2	-7.8	4.0	4.8	4.5	4.0
China	9.8	10.0	10.1	11.3	12.7	14.2	9.6	9.2	10.3	9.6	9.5
India	5.8	6.9	8.1	9.2	9.7	9.9	6.2	6.8	10.4	8.2	7.8
Ukraine	-5.0	9.6	12.1	2.7	7.4	7.9	1.9	-14.9	4.2	4.5	4.9

Source: World Economic Outlook, April 2011, p. 185

[1] China, Asia, and the New World Economy, Edited by Barry Eichengreen, Charles Wyplosz, and Yung Chul Park, Oxford University Press, 2008, p. 4.

Table 2

Some countries shares in world's GDP, Exports of Goods and Services and Population (2010)

	World GDP	World Export of Good and Services	World Population
United States	19.7	9.8	4.5
Euro Area	14.6	26.1	4.8
Germany	4.0	8.0	1.2
France	2.9	3.5	0.9
Italy	2.4	2.9	0.9
Japan	5.8	4.6	1.9
United Kingdom	2.9	3.5	0.9
Canada	1.8	2.5	0,5
Russia	3.0	2.4	2.1
China	**13.6**	**9.4**	**19.7**
India	5.4	1.7	17.8

Source: World Economic Outlook, April 2011, p. 171.

crises, is very important. Only 10-12 years ago, the idea that China might ever overtake the U.S. in terms of scale and total output would not have been took seriously. This is no longer the case. As Table 2 shows the share of China in world's GDP, export of goods and services now is 13,6% and 9,4% accordingly. China remains a relatively poor country, with GDP per capita only about one-twelfth that of Japan and the USA (the gap will be considerably lower in terms of purchasing power parity), but Chinese are now two time richer than they were ten years ago.

Trade balance of China characterized by proficiency for the last twenty years. As a result China became the first country on the sizes of currency reserves which in 2010 reached 2,6 bln. dollars. During last years currency reserves of China annually grew for 200 billion dollars and more. The surplus of external trade of China have reached 8% of GDP in 2007, but was a little reduced by 4,9% in 2009 due to the global crises. On the other hand in a number of large countries chronic deficit of trade balance is observed. For example, in the U.S. the negative balance of foreign trade in 2008 reached 6.2% of GDP.

Many economic analysts name global trading imbalances as one of reasons of the world crises. The reason for the Peoples Republic of China's efforts to increase currency reserves is the necessity to defend the country in case of regional or global financial crises. Significant currency reserves allow to support stability of national financial system and raise ability to resist the international risks and speculative impacts.

A larger China has greater implications for the world economy. Demand for food, metals, manufactured goods, energy and other resources are becoming much higher. Of special interest is China's demand for energy, especially coal and oil. As estimated, China's total demand for energy will grow at 4.1% a year to 2025, as opposed to 1.3% in the United States and 0.5% in Japan. These growth rates allow for continued increases in energy efficiency, but no major breakthroughs during the next two decades. By 2025 China will be consuming 14.2 million barrels of oil a day, well over twice Japan's consumption, and two-third that in the United States.1 At current energy prices energy consumption in China is projected to double by 2017 and triple by 2025 from its 2008 level. China affects world market prices. China's share in global oil consumption rose from 6% in 2000 to 11% in 2010.[2] Coal consumption, mainly to generate electricity by 2025 will more than double to 3.5 billion tons, 40% of total world consumption. As China grows, its dependence in imported materials will also grow. China has ample coal and is rich in some other minerals, but in general China is not a resource-rich country and it has already become dependent on imports of iron are to feed its voracious demand for steel, copper, and especially oil, where domestic exploration has so far produced only disappointing results.

Foreign direct investment (FDI) in China increased by 19,1% and reached USD106bn last year. Only in January 2011 it rose by 23.4% in comparison with January 2010 and totaled USD10.03bn, according to official data from China's Ministry of Commerce. The services sector received USD4.69bn of FDI, up to 31.8% from January last year, while FDI inflows in the manufacturing sector rose by 18.9% to USD 4.7bn.[3] Foreign direct investments play important role in external economic relations of China. It is source of new machinery and technologies that helps to maintain fast development

[2] World Economic Outlook 2011, p. 93.

[3] Beijing Review, 17 February 2011, http//www.bjreview.com/headline/txt/2011-02/17/

Table 3

Global FDI inflow, top 10 host economies, 2009 and 2010 (billions of dollars)

country	2009	2010
United States	153	228
China	**95**	**106**
Hong Kong, China	52	69
Belgium	24	62
Brazil	26	48
Germany	36	46
United Kingdom	71	46
Russia	36	41
Singapore	15	39
France	34	34

Source: World Investment Report 2011, UNCTAD, p. 4.

of economy. At the same time cooperation with foreign capital is important part of "open door policy" of Chinese government and represents a series measures, called to promote growth of competitiveness on foreign markets.

Until recently the investment activity of Chinese companies remained within the country but lately they have started to look abroad. China has gained ground as important investor in recent years as result of its rapid economic growth, abundant financial resources and strong motivations to acquire resources and strategic assets abroad. It is very important that Chinese companies are looking abroad for a few reasons: to gain access to international markets, to buy materials and to get technical expertise. In the past years China's direct investment abroad has rapidly increased. China turned into one of the biggest investors and keeps the 5 th-6th place in the world. The data of the table 4 shows that the volume of China's foreign direct investments in 2010 has reached 68 bln. dollars. So we can see the steady trend of strengthening of China's positions in the world investment process. In 2010 there were several mega-deals (over 3 bln. dollars) involving China. Examples include the purchase of resource-based Brazil's company "Repsol" by China's Sinopec Group for 7 bln. dollars.[4] China tends to host greenfield investment rather than cross-border MæAs. At the same time, Chinese companies are becoming important players in cross-border M&A markets, which several years ago were dominated by some developed countries.

Today China's participation in global investment is just 8%, mainly in major developed countries' government bonds; but tomorrow this money can be spent to acquire companies and protect China against other countries' possible defaults and devaluations.

China's FDI outflow has been actively encouraged by the Chinese government as part of its policy of gradual capital account liberalization. Since 2002, some measures have been taken each year to ease restrictions on FDI outflow. Chinese government has encouraged FDI outflows not only to advanced economy, such as the United States and Western Europe, but to some countries in Asia and Latin America in order to ensure more reliable sources of raw materials and upstream products for processing in China. Many of these capitals go to Hong Kong and represent so- called round tripping investments which return back to China to take advantages of preferential tax treatment of foreign investment relative to domestic investment. The United States has over the past decades accounted for about 10% of China's capital outflow.

Still some experts consider Chinese expansion as a risk: for example, the US tries to control Chinese access to its market. Under these circumstances investments in Europe and Russia is another options for China.[5] This strategic choice has great impact for the Russian market. Although two thirds of Russia's land is located in Asia, culturally Russians perceive themselves more European than their Asian neighbours. China has developed into Russia's most important and valuable neighbours, due its scale, the size of the common border and its likely impact on development.

Economically speaking China has developed into Russia's key partner, in particular in the development of Russia's Siberia and Far East. In 2010 trade volume topped USD56bn, making China Russia's third biggest trade partner, though this is below the level of China's trade with a number of other partners. In 2009 trade declined, but China reported significant trade growth with Russia

[4] World Investment Report 2011, UNCTAD 2011, P. 10.

[5] Russia and India Report, 24 September 2010 ("Russia and China Boost Ties", Alexander Lukin).

Table 4

Global FDI outflow, top 10 home economies, 2009 and 2010 (billions of dollars)

country	2009	2010
United States	283	329
Germany	78	105
France	103	84
Hong Kong, China	64	76
China	57	68
Switzerland	33	58
Japan	75	56
Russia	44	52
Canada	42	39
Belgium	38	42

Source: World Investment Report 2011, UNCTAD, p. 9

in 2010. Bilateral trade last year increased by 43.1% and reached its pre-crises level.[6]

The preferred currency between China and Russia is US dollars. However, due to the US financial crisis and the increasing volatility of both US dollar and euro, both countries are exploring ways to avoid dollar trade settlement. The Russian rouble is now trading against Chinese yuan in the Chinese interbank market. Moreover the Chinese renminbi which was until recently a domestic Chinese currency and not convertible, will this year be allowed to trade against the rouble in Russia. The Russia-Sino Chamber of Commerce of Machinery and electronic Products has been set up to optimize their trade structure and change the model of trade development.[7]

Nevertheless, Russia is concerned about its growing import/export ratio, declining equipment exports, and low levels of mutual investment. Thus the completion of a new pipeline from Russia to China, scheduled for last autumn, will allow Russia to double its oil exports to 30 million tonnes a year and make Russia one of the China's top-three crude oil suppliers alongside Saudi Arabia and Angola. The 1,000-km-long pipeline will transport 15 million tons of crude oil from Russia to China per year from 2011 until 2030, according to an agreement signed between the two countries. About 72 kilometers of the pipeline is in Russia, while 92km of it is in China. The first 42,000 tons of crude oil flowed on Sunday morning, 2nd January 2011. The pipeline, which starts in the far-eastern Amur region in Russia, enters China at the Mohe and terminates at the northeast China's Daqing City. In return for 300 million tons of Russia oil over 20 years, China agreed to lend Russian oil pipeline company Transneft USD15bn and state-run company Rosneft USD10bn. Until recently oil was transported mainly via a slow and expensive railway route.

The energy sector especially has great economic potential for both countries. Russia is continuously looking for new outlets, not only in the West but in the East as well. Due to the Chinese energy dependency, ties between both countries can become closer and more stable. The two countries are now working on a number of other major projects in the energy sector. Still one of the most important issues is the price on Russian gas export to China. (Russia asks a price for Gazprom gas deliveries equal to that charged to European customers and Beijing wants a discount). Due to the dependency and impact on each others' economy, both China and Russia have avoided direct political confrontation, on problems such as North Korea, territorial disputes with Japan, and Russia's ties with other countries in the region. Subsequently hundreds of political, economic, cultural and other bilateral events were held in 2010-2011. Although, there are difficulties in Sino-Russian relations, due to impact of conflicts to both economies they rarely become the subject of public debate.

Significant progress has been made in investment and technological co-operation and the two countries have agreed on mid and long term co-operation plans in investment, energy, nuclear power, aerospace, and science. There are a few Russian-Chinese investment projects in high technology linked to the creation of joint technology parks both in Russia and China.

In 2009 Russia and China signed a programme for co-development of Russia's Siberia and the Far East and China's northeastern provinces. The plan involves numerous cooperation projects between particular regions

[6] Ministry of Commerce People's republic of China, http:// mofcom.gov.cn/
[7] Russia and India Report, 24 September 2010 ("Russia and China Boost Ties", Alexander Lukin).

to develop 158 facilities in Russia and Chinese border areas. It covers wood industry, chemicals, construction, infrastructure, agriculture, and several energy export projects. Thus, there is a good foundation for mutual co-operation. There are, however, some point of concern, one of the most important being the competition from former Soviet countries, who also have oil and gas reserves. Oil pipeline projects have been negotiated between China and Kazakhstan, and oil is already being shipped. Chinese companies have been into Kazakh oil assets since the end of 1990s. Now their share in total oil production in Kazakhstan is about 25%. China took part in the building of 1,000km pipeline in Kazakhstan, which was opened in 2007 and goes from the central region to the north western border. Now this pipeline is being extended through the whole territory of Kazakhstan and will lead to the Caspian Sea with its enormous oil resources.

Kazakhstan is becoming less Russia-oriented and tries to diversify its co-operation with other countries. It views China as one of its major economic partners. In February 2011 President Nazarbaev and Chinese leader Hu Jintao signed several agreements in different fields. They reached beyond the energy sector and included co-operation in the fertilizing industry, in construction of high-speed railroad between Astana and Almaty, Chinese loans for Kazakhstan's petrochemical complex and an agreement to supply 55,000 tons of uranium from Kazakhstan to China.[8]

Such developments present direct competition with Russia. Furthermore, some experts have argued that this economic rally could one day lead to serious conflict, as Russia tries to sustain its historical domination in Central Asia in the face of growing Chinese influence.[9]

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Kotlyarov N. N. China's Economic Growth and Sino-Russian Economic Relations

The article examines the main aspects of China's economic growth and its impacts on the world economy. By using latest statistical dates the author analyzes the main trends and changes in China's participation in the development of the global economy, world trade and foreign direct investment flow. Special attention is given to China's economic relation with Russia.

Key words: China, Russia, world economy, natural resourses export, crises, foreign investment, economic development.

Котляров М. М. Китайське економічне зростання й китайсько-російські економічні відносини

У статті розглянуто головні аспекти китайського економічного зростання та його зіткнень у світовій економіці. Використовуючи найостанніші статистичні дані, автор аналізує головні тенденції і зміни китайської ролі в розвитку глобальної економіки, світовій торгівлі й іноземного прямого інвестиційного потоку. Особлива увага приділена китайським економічним відносинам з Росією.

Ключові слова: Китай, Росія, світова економіка, експорт природних ресурсів, кризи, іноземні інвестиції, економічний розвиток.

Котляров Н. Н. Китайский экономический рост и китайско-российкие экономические отношения

В статье рассмотрены главные аспекты китайского экономического роста и его столкновений на мировой экономике. Используя самые последние статистические данные, автор анализирует главные тенденции и изменения китайского участия в развитии глобальной экономики, мировой торговли и иностранного прямого инвестиционного потока. Особое внимание уделено китайским экономическим отношениям с Россией.

Ключевые слова: Китай, Россия, мировая экономика, экспорт природных ресурсов, кризисы, иностранные инвестиции, экономическое развитие.

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