

Economic and Financial Coordination in the Era of Eurasia, Perspective from China and Russia

Li Wei

Finance Research Institute

Collaborative Innovation Center of

Surrounding Issues

ECNU

Motivation of my presentation,

Try to advise you,

Not to speak by the logic you think is right to the possible extent, but to speak with data.

**FDI from China to Russia,
Situation and its Possible Impact**

China investment in Russia should be aware of the China Ministry of Commerce Policy Guidance,

Fruit and Vegetable Cultivation and Timber Harvesting/

Oil and Gas Exploration/

Coal, Iron Ore, Copper Ore, Aluminum Ore, Nickel Ore, Lead-Zinc Ore and other Minerals mining/

Electronic Printing Equipment Manufacturing, Electronic Communications Equipment (Including Computers and Televisions) Production/

Wood Processing and Furniture Manufacturing/

Textile and Garment Processing/

Paper and its Products/

Tobacco Products/ Metal Products/ Plastic Products/

Production of Transport For Land and Sea

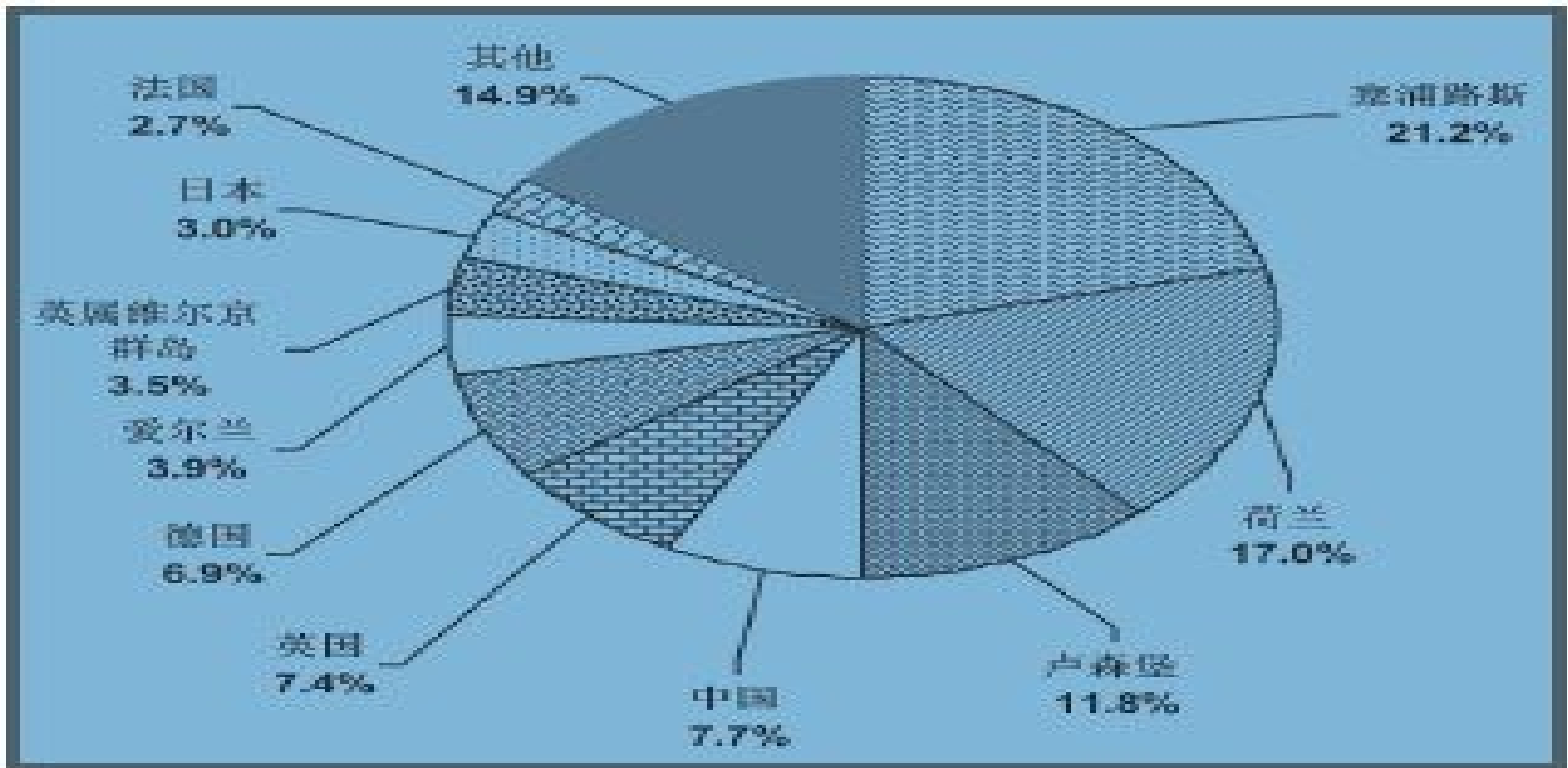


Figure 1 The proportion of foreign investment in the Russian economy for 2012

Source: <http://www.gks.ru>.

Considering the total amount of investment, China investment in Russia is relatively substantial.

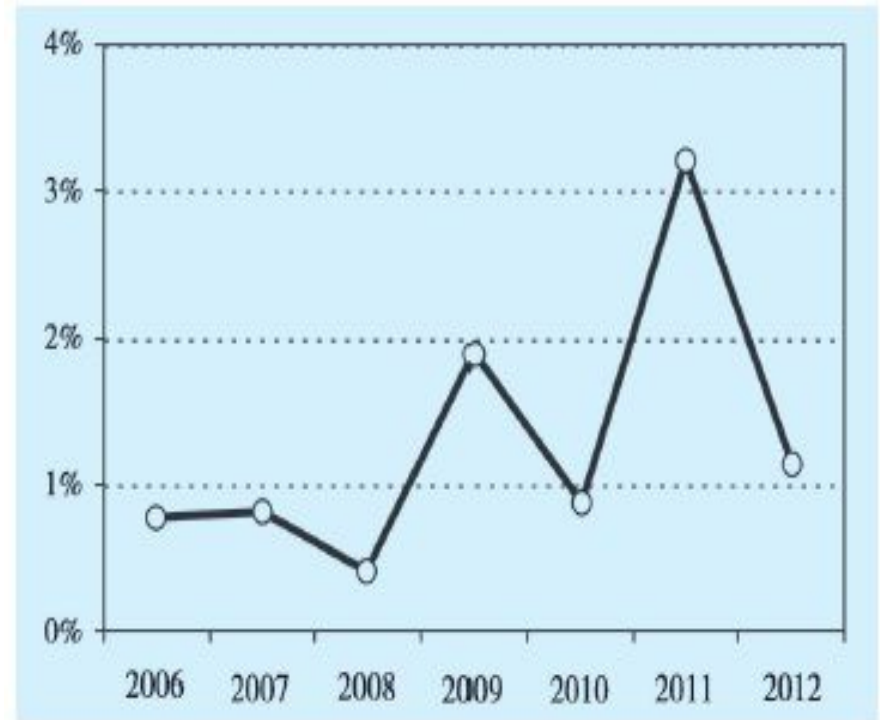
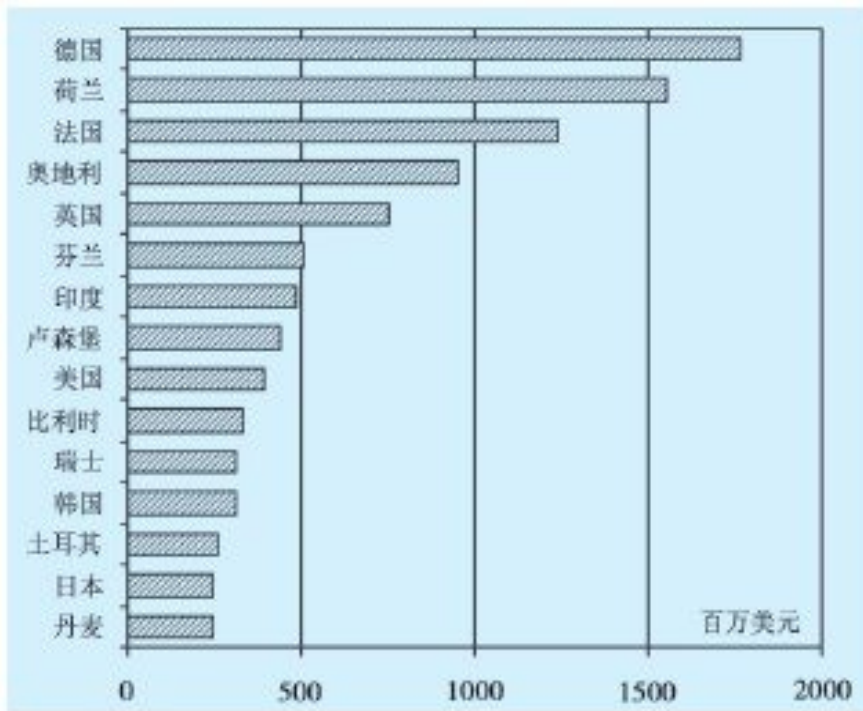


Figure 2 Russia major foreign direct investment in 2012.

Source: <http://www.ccifr.ru>.

Figure 3 The proportion of China FDI in Russia.

Source: <http://www.gks.ru>.

Removing loans to the East Siberia-Pacific oil pipeline project and considering the "Engine" role of FDI in economic development of the recipient country, the scale of China investment in Russia is still very limited.

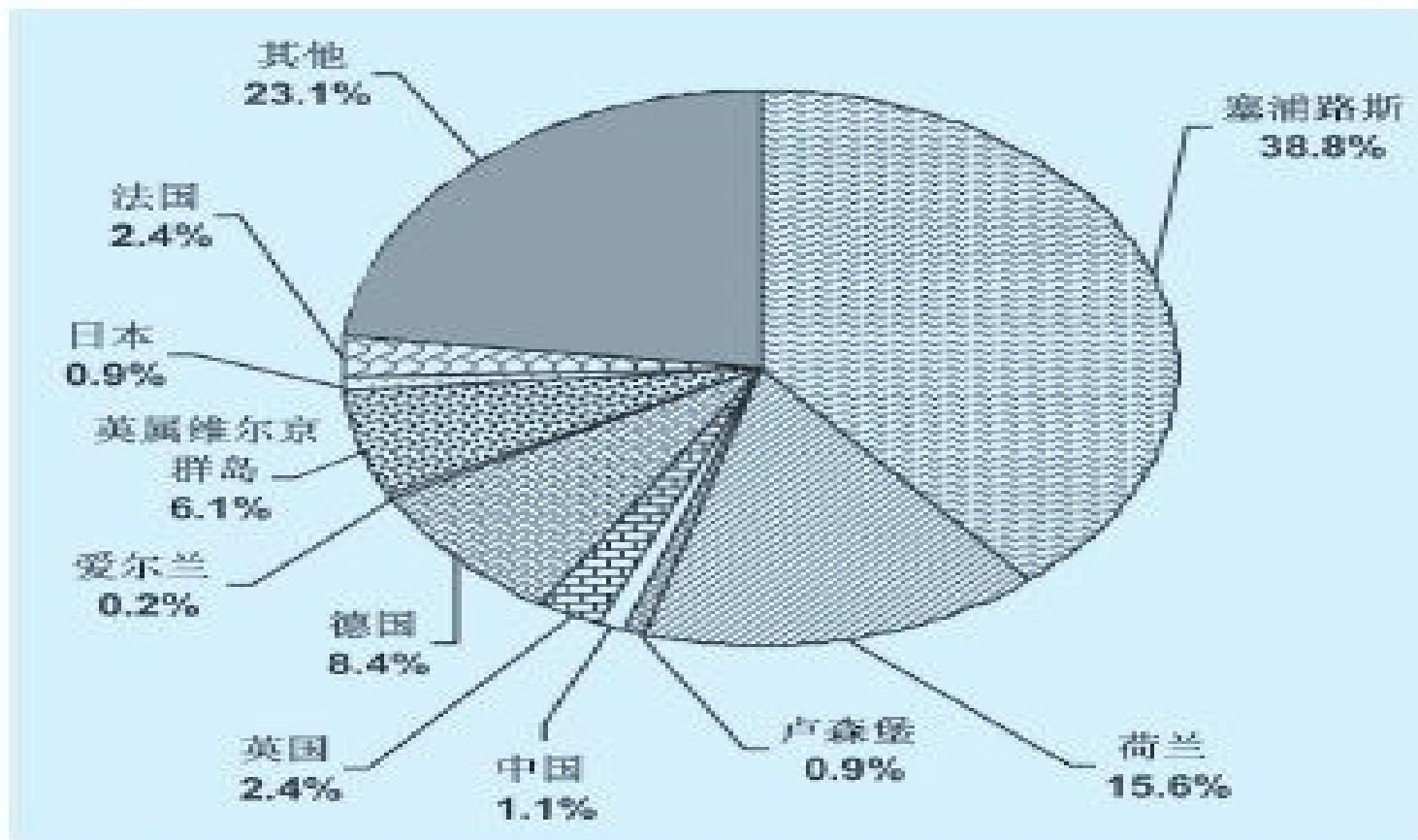


Figure 4 Cumulative proportion of FDI in Russia of 2012.

Source: <http://www.gks.ru>.

According to the database of 2012 Russia Bureau of Statistics, China ranks 10 from the perspective of Russia cumulative FDI.

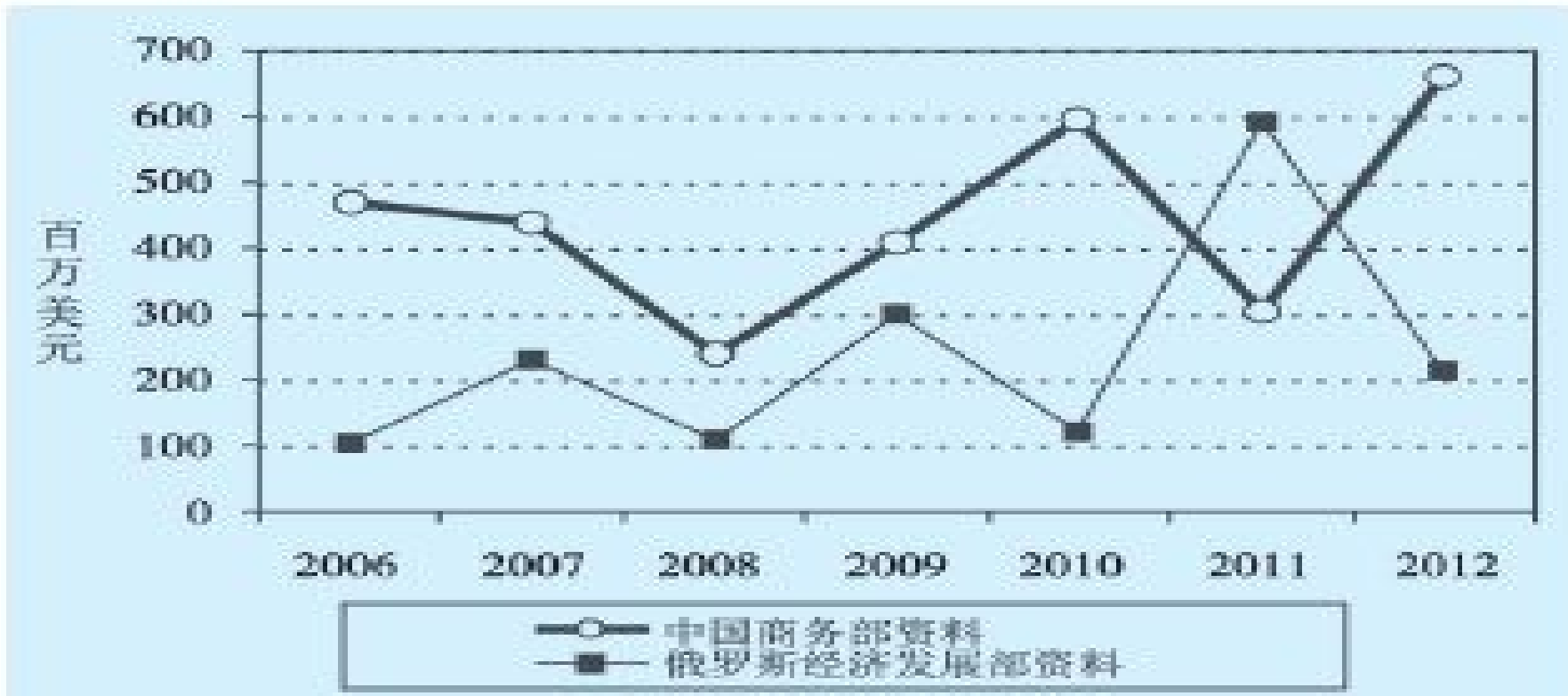


Figure 5 The proportion of FDI from China in the Russian economy.

Data sources: www.gks.ru, www.mofcom.gov.cn

Based on the China commercial statistics, the scale of China cumulative FDI to the Russia economy is much greater.

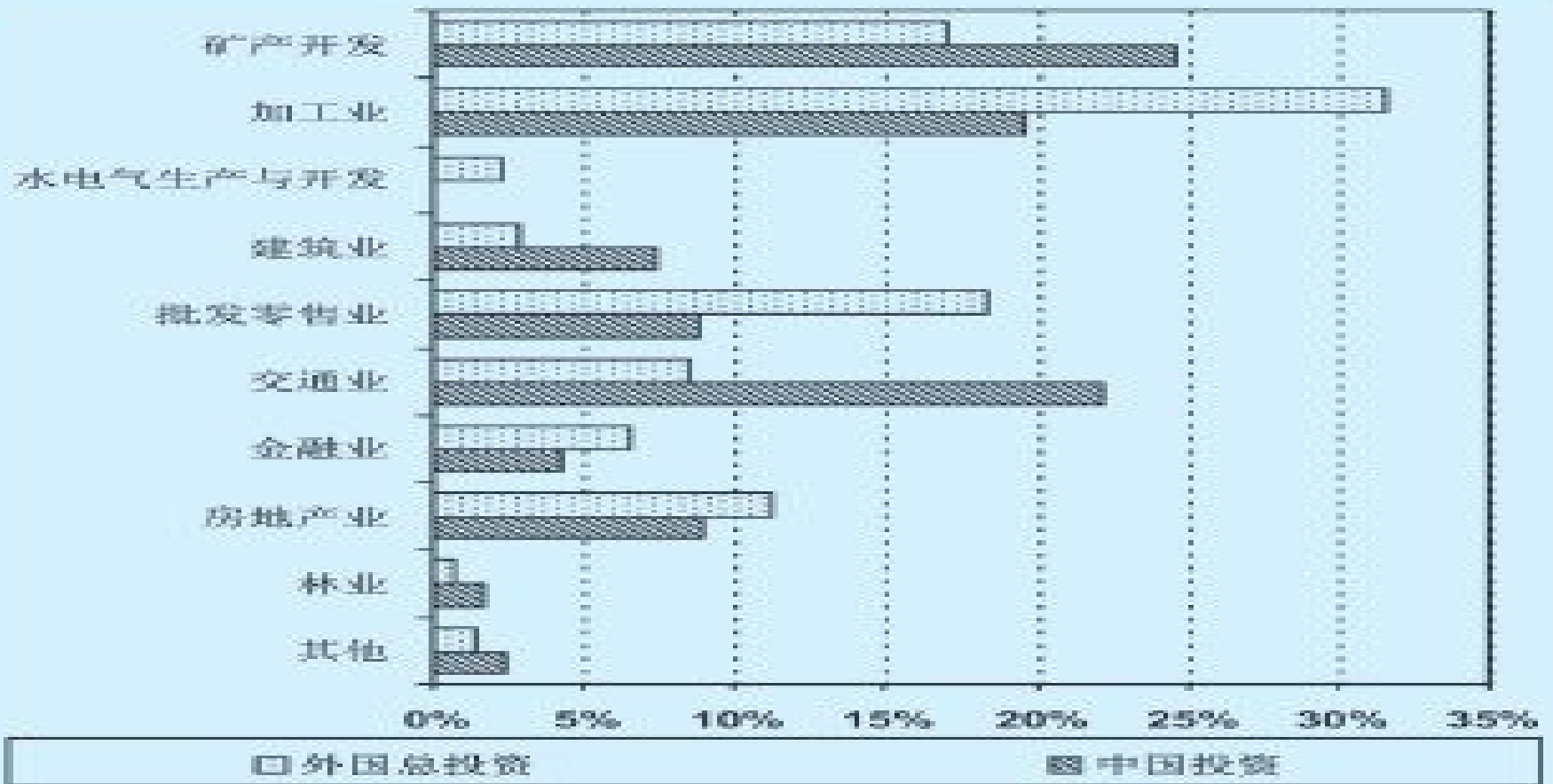


Figure 6 The main direction of Russia FDI reporting in 2012.

Data sources: Russia Ministry of economic development, <http://www.gks.ru>

The main directions of China FDI in Russia include: mineral development, forest industry, energy, trade, textile, home appliances, communications, construction and services.

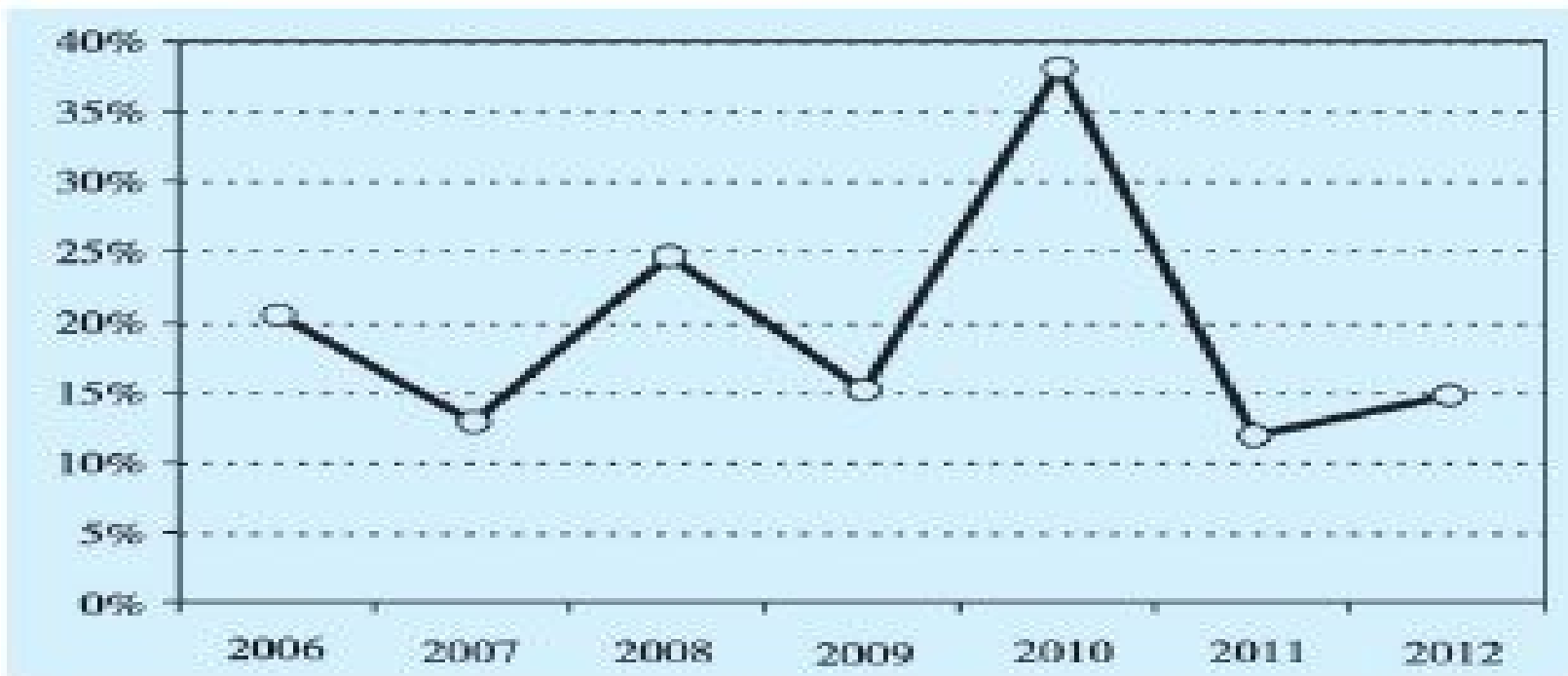


Figure 7 The proportion of China FDI in Far East of Russia.

Data sources: <http://www.gks.ru>, Russia Amur region foreign investment statistics (2005-2012) : Записка/Амурстат.-Б.,2013.-50с.

Over the past 10 years, despite China FDI in the Russia Far East Zone had increased by more than 35 times, but the total amount has not yet reached the 1% of the total direct investment in the East Federal District. According to the Russia Federal Statistics Data Bureau, China direct investment in the Far East Federal District accounted for only 4% of the total FDI from China in 2006, and was 40% in 2010.

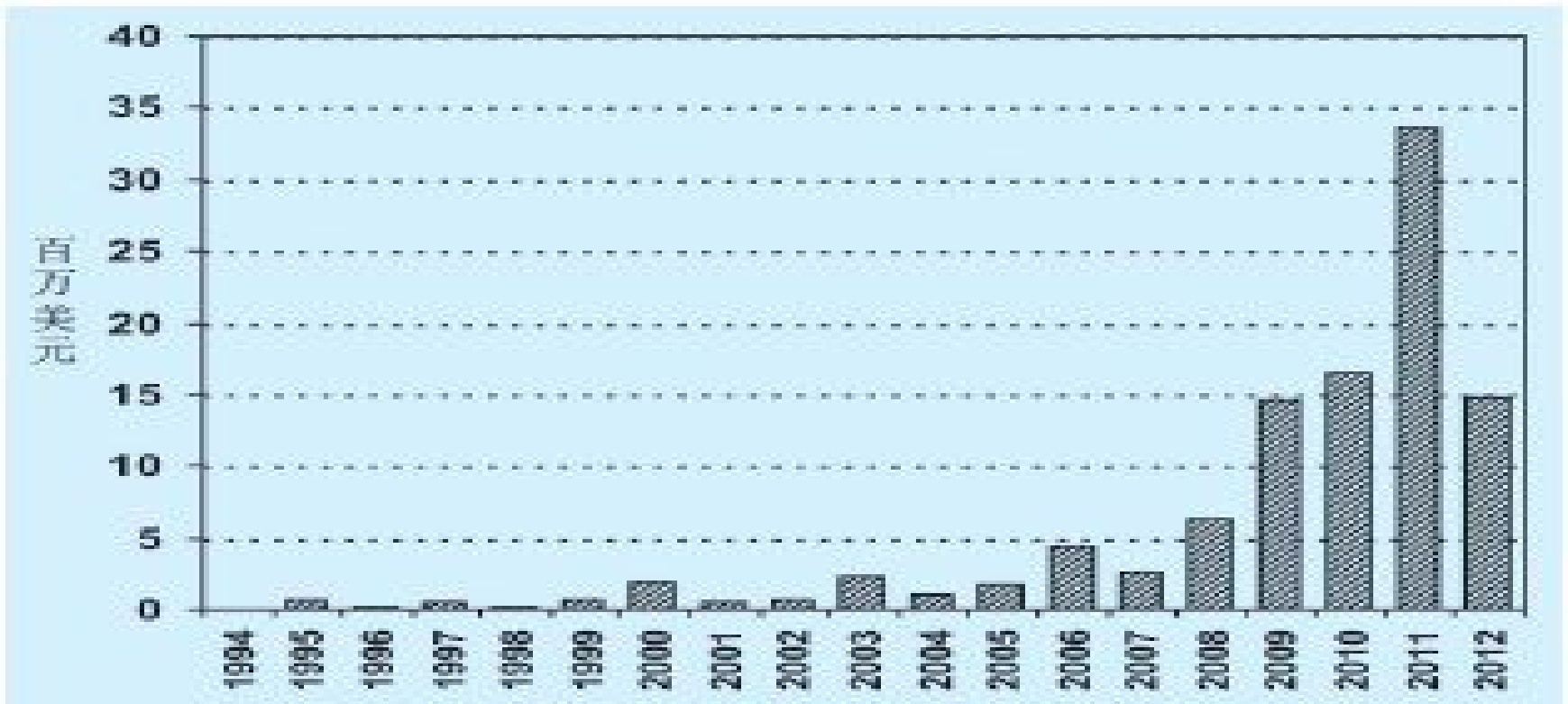


Figure 8 Russia Primorsky Territory China investment amount statistics.

Source: <http://primorsky.ru>.

Last five to six years, the direct investment from China to Primorye was proceeded in a stable growth trend, and the increase rate was 13 times.

But the China investment still mainly interested in natural resources in the Far East Federal District.

PrimoryeChina investment has been strengthened, but also have some negative impact.

It is not conducive to stimulating MarinaKray's internal consumption and is not conducive to local residents to get cheaper products!

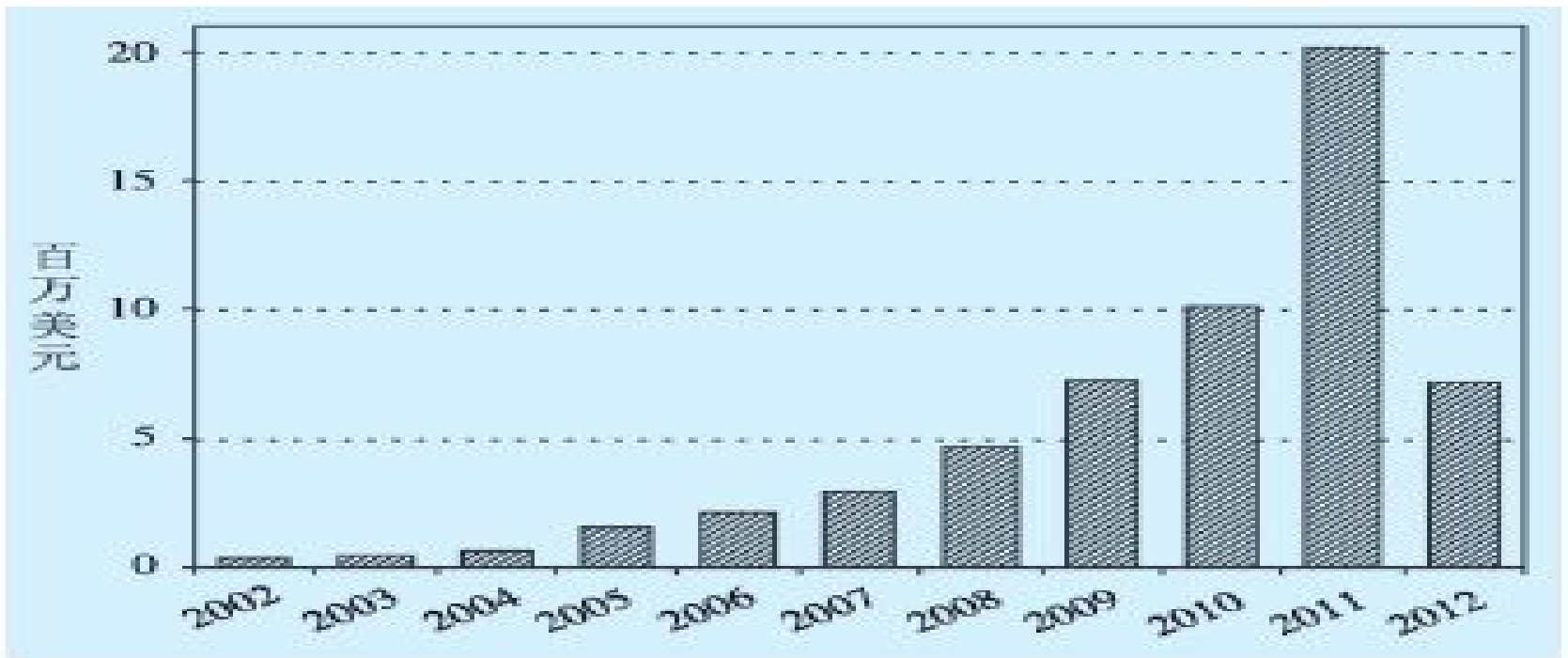


Figure 9 Russia Amur region China investment amount statistics.

Data sources: Записка/Амурстат. - Б. , 2013. - 50с.

Industries of Russia Amur direct investment from China show

instable characteristics. In the early stages of investment cooperation, timber harvesting industry is a major investment field from China. From 2009 to 2012, China FDI to Russia had turned to the construction industry, agriculture and food processing industry and mining industry.

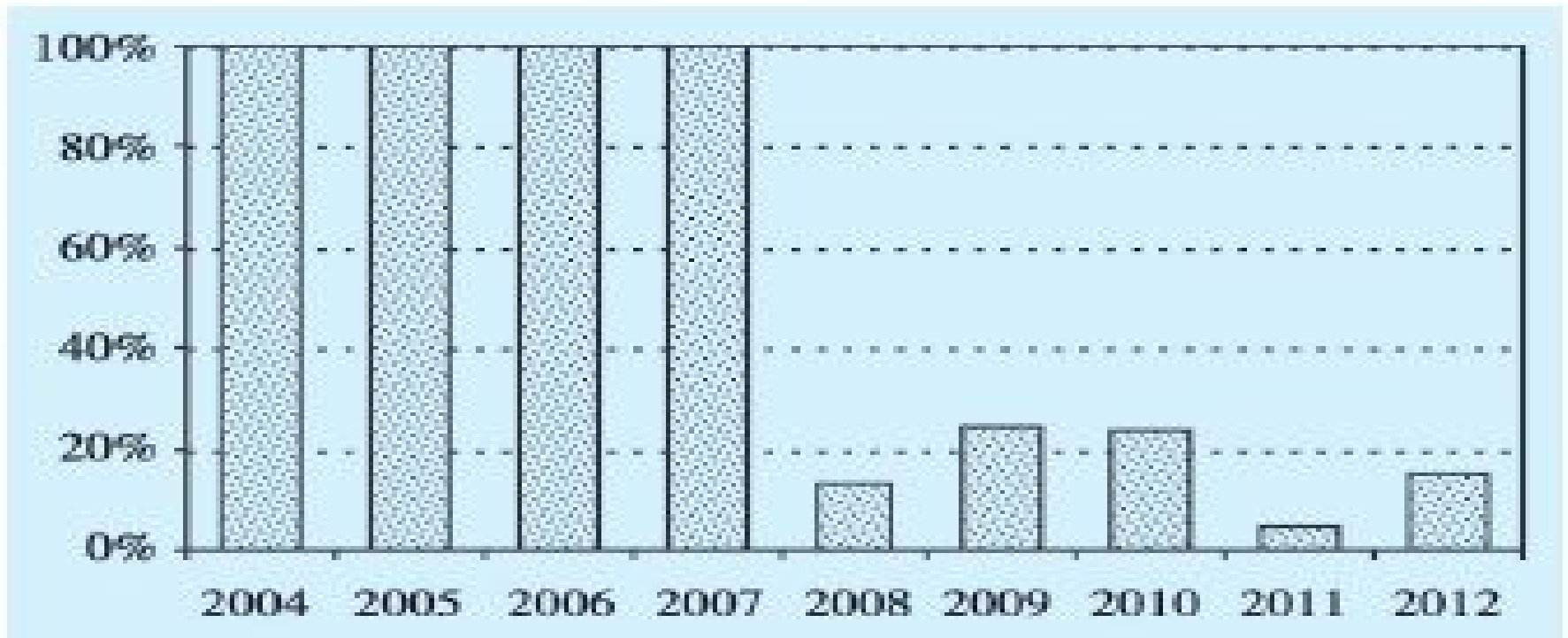


Figure 10 China investment proportion to Jewish Autonomous in total FDI.

Data Sources:<http://www.eao.ru/>.

China investment in the Jewish Autonomous Region ranks No.1 accounted for the actual ratio of total FDI in the Far East. It gradually decreased in recent years, because the offshore companies started to become a major player.

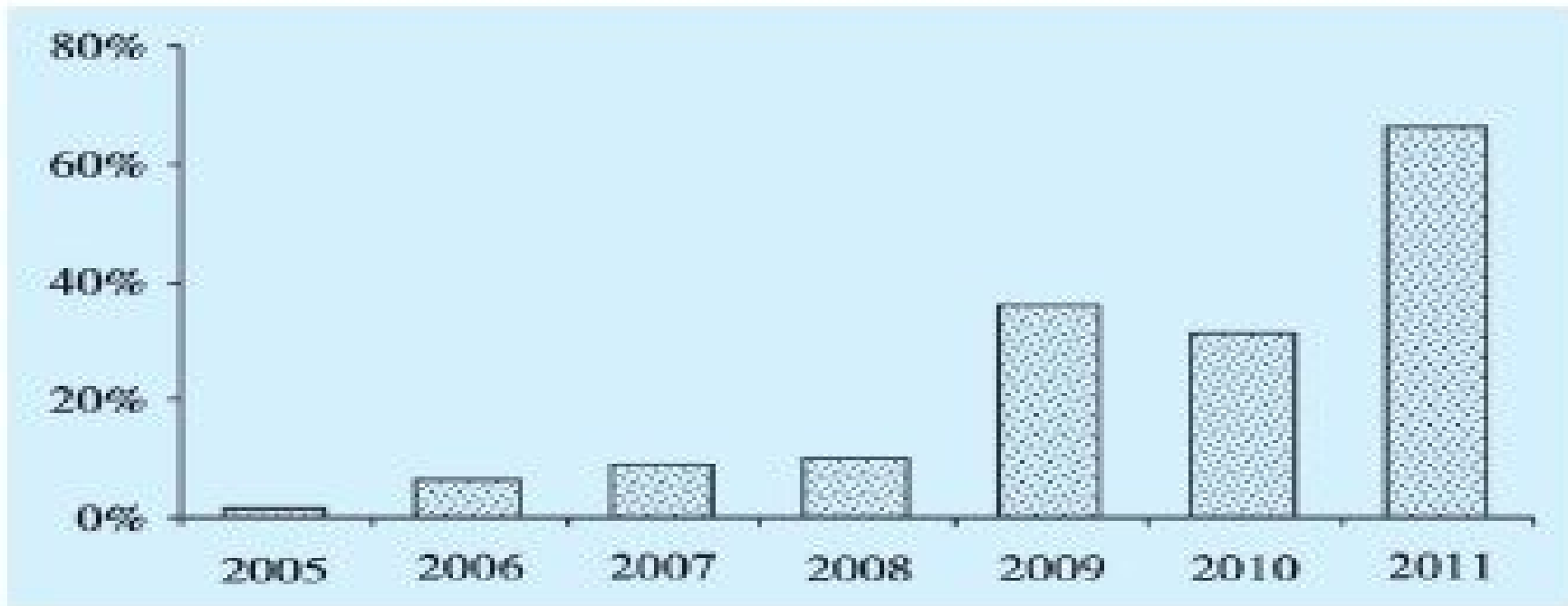


Figure 11 China investment in the proportion of the total FDI in Zabaikal region.

Data Sources: Сб. статей.— Чита : Поиск , 2013.— 149 с.

In addition to the Far East, Eastern Siberia, Russia Baikal Territory attracts foreign investment from China. Baikal Territory obvious depends on the China economic cooperation. From 2005 to 2011, the total investment from China had increased by 200 times in Baikal. In some regard, available framework of the Sino-Russia border cooperation and trade fair have played and will continue to play a positive role.

Development of Sino-Russia investment cooperation, including the new regional cooperation is necessary. However, it must learn to listen to the advice from the both sides, and respect the each other national interests.

Investment and cooperation projects between the two countries should become growth engine in the adjacent areas of the two economies. In order to avoid the irreparable damage of eastern Russia region and its residents , it is recommended that China will focus on new areas of cooperation, such as ecologically clean area construction.

Focus on the following items:

Investment recreational facilities, especially hotels and tourist facilities;

Production of the relative high quality and demand consumer goods (food, clothing, footwear, furniture, home electronics, etc.);

Development of aquaculture and pond fisheries;

Diet industry based on the development of aquaculture,

the processing of raw materials, production of the pharmaceutical and food additives.

Taking advantage of the Russia high abilities of the complex machinery manufacturing and defense coordination, implementation of transport and logistics services, to create a new, fast, environmentally friendly, economical and safe transportation system;

Set up production of the construction and decoration materials business;

Cooperation of the medical equipment manufacturing.

It should also pay special attention to the development of modern service industry, including: computer and information services, medical services, education services.

The signing of the Sino-Russia cooperation agreement will determine the future development of Russia's eastern region.

Future development depends on the new foundation laid today!

Inter-relation of Security Market Volatilities in China, Russia and the U.S.

**Evidence from the Different Periods of the
Global Financial Crisis**

Background

- ★ Confronting the financial crisis, whether the endogenous interaction between the emerging economies can weather the financial crisis?
- ★ China and Russia are friendly neighbors. The two countries experience a rapid economic growth, while the total market value of securities have also achieved a leap-type growth rates. The study of how to deepen cooperation between the two countries responding to the financial crisis has a very important theoretical and practical significance.

Background

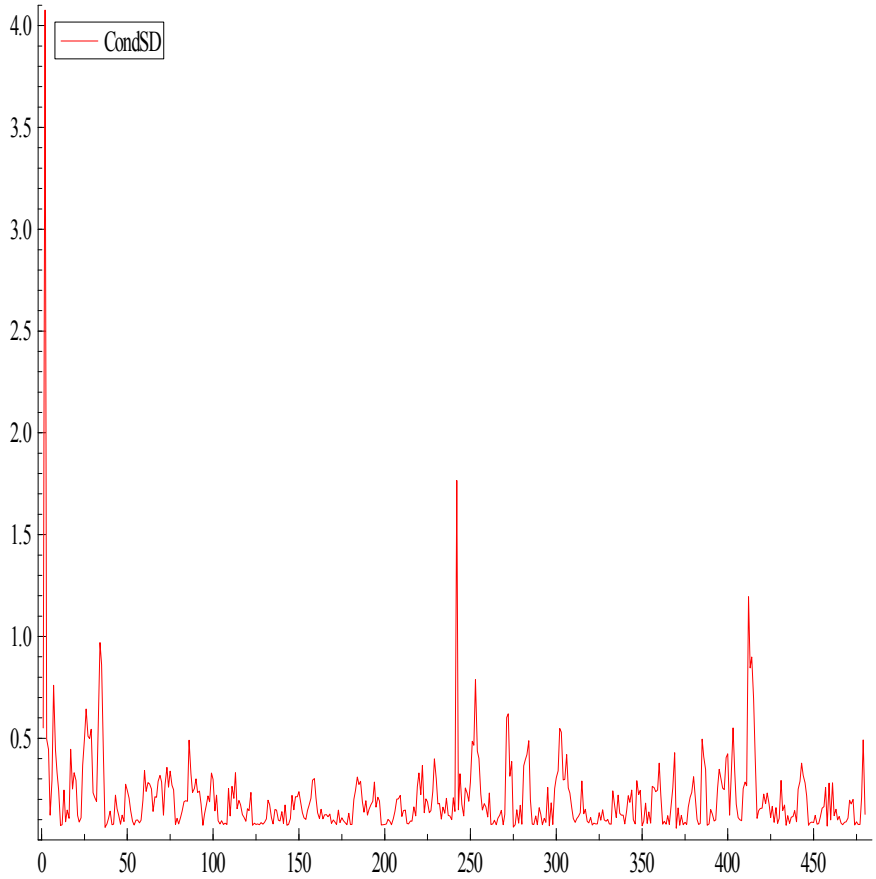
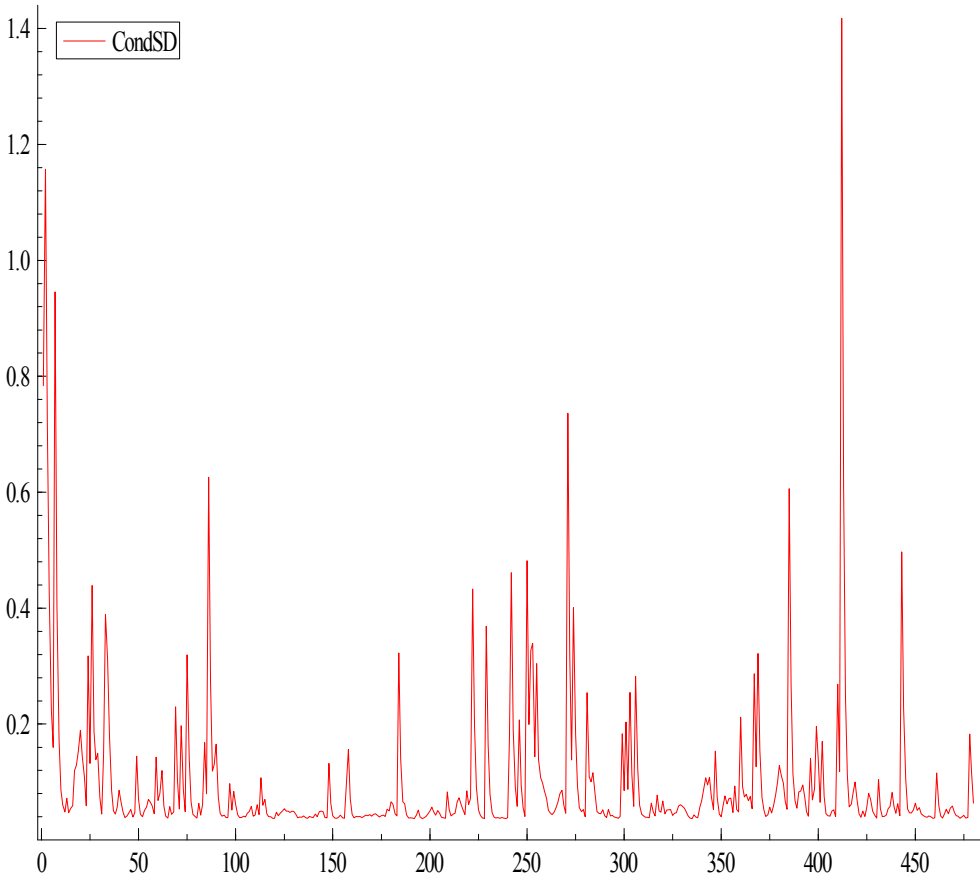
- ★ Confronting the financial crisis, whether the endogenous interaction between the emerging economies can weather the financial crisis?
- ★ China and Russia are friendly neighbors. The two countries experience a rapid economic growth, while the total market value of securities have also achieved a leap-type growth rates. The study of how to deepen cooperation between the two countries to respond to the financial crisis has a very important theoretical and practical significance.

Evidence of the Crisis Influence

Lehman Brothers filed for bankruptcy protection induced the vast volatilities of China security market, while it is not completely open, but with the QFII access to the financial market, as well as the indirect effects of psychological factors.

On Sep.16 and 17, the SS300 Index and the Financial Index had undergone an obvious risk, much higher than the U.S. SP500 Index turbulence.

Asymmetric threshold GARCH model estimates of the SS300 Index (left) and SS300 Financial Index (right). The results is performed in high-frequency data (per minute).



Inter-Relation of Security Market in China and Russia: Evidence from the Sub-Prime Crisis (Jan.9 to Jul.18,2007)

SHCI, RTSI and SP500I diagonal VAR-GARCH (1,1) model simulation result

coefficient	t-value	t-prob	
GARCH(2,1)	0.9315	7.2792	7.775e-011
GARCH(3,1)	0.4857	0.3787	7.057e-001
GARCH(3,2)	0.0800	0.0414	9.670e-001

Note: 1 represents SHCI; 2 represents RTSI;

3 represents SP500I

Inter-Relation of Security Market in China and Russia: Evidence from the Sub-Prime Crisis(Jul.19 to Nov.30,2007)

SHCI, RTSI and SP500I diagonal VAR-GARCH model simulation result

coefficient	t-value	t-prob
GARCH(2,1)	0.7371	1.6961 9.413e-002
GARCH(3,1)	0.9373	1.6729 9.863e-002
GARCH(3,2)	1.0343	6.5418 7.280e-009

Note: 1 represents SHCI; 2 represents RTSI;

3 represents SP500I

Inter-Relation of Security Market in China and Russia: Evidence from the Financial Crisis (Sep.16,2008 to Mar.31,2009)

SS300I, RTSI and SP500I DCC (Engel) VAR-EGARCH model simulation result

coefficient	t-value	t-prob	
GARCH(2,1)	0.3912	5.111	0.0000
GARCH(3,1)	0.1624	1.279	0.2035
GARCH(3,2)	0.0933	0.641	0.5228

Note: 1 represents SS300I; 2 represents RTSI;

3 represents SP500I

Conclusions

(Taking the financial market as an example)

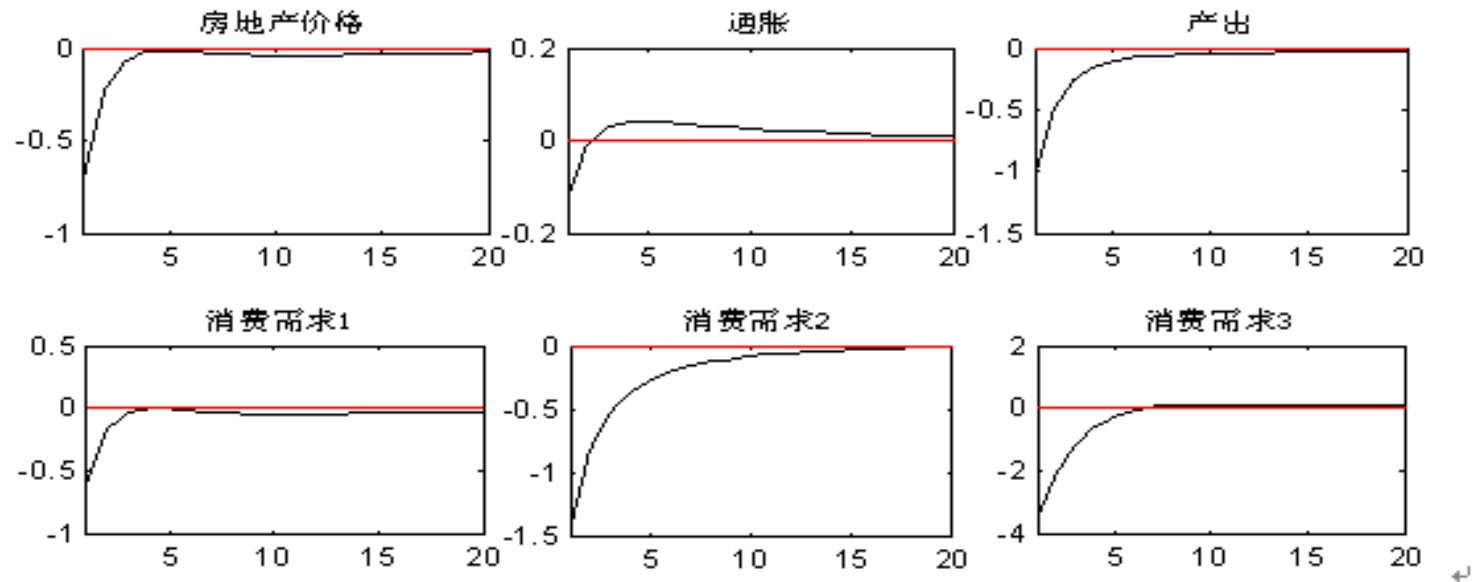
- ★ If there exists significant linkage between the China and Russia security market, the financial crisis will not transfer to the two countries.
- ★ If the linkage mechanism is lost, the financial risk would be landing immediately.
- ★ China and Russia are on the way of win-win model, although the co-operation is not targeted at any third party.

Inflation, Real Estate Price and the Economic Policy in China

Motivation

1. In the post-crisis era, stimulating the domestic consumption, and slowing down the real estate market price volatility shocks have become a top priority for China's smooth and orderly economic development.
2. Based on the relevant research, we would propose the feasible policy recommendations. And the macro-authority could implement all kinds of policy instruments and find the optimal instant to introduce the adjustable measures.

Simulation results : Monetary Policy (Interest rate) shock

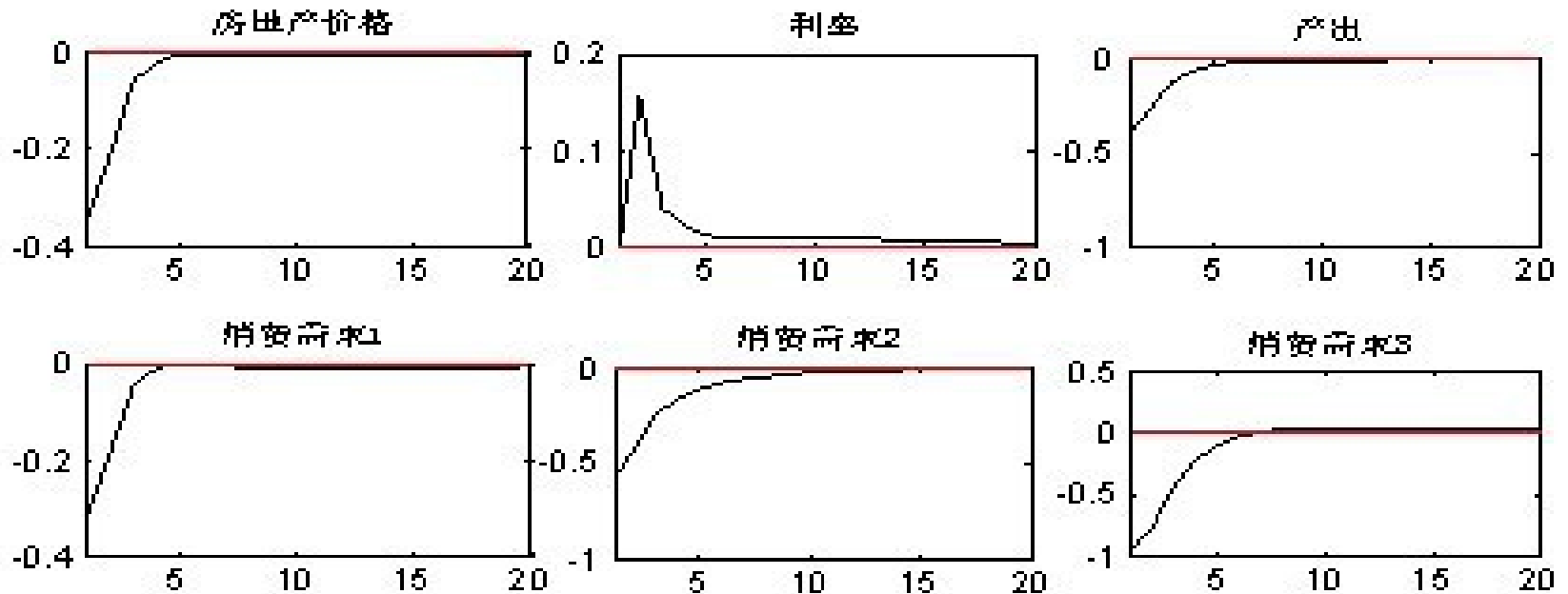


注：消费需求 1、2 和 3 分别指无信贷约束家庭部门、存在信贷约束家庭部门以及企业的消费水平。

图 利率正文化冲击的模拟结果

- When the interest rate shock occurs, domestic output drops significantly, consumption goes down and the inflation decreases at first then rises. And the real estate price falls immediately to a certain extent.
- When macro-authority will inhibit housing price growth and manage the inflation expectation, the single monetary policy tool (interest rate) should be carried out with caution.

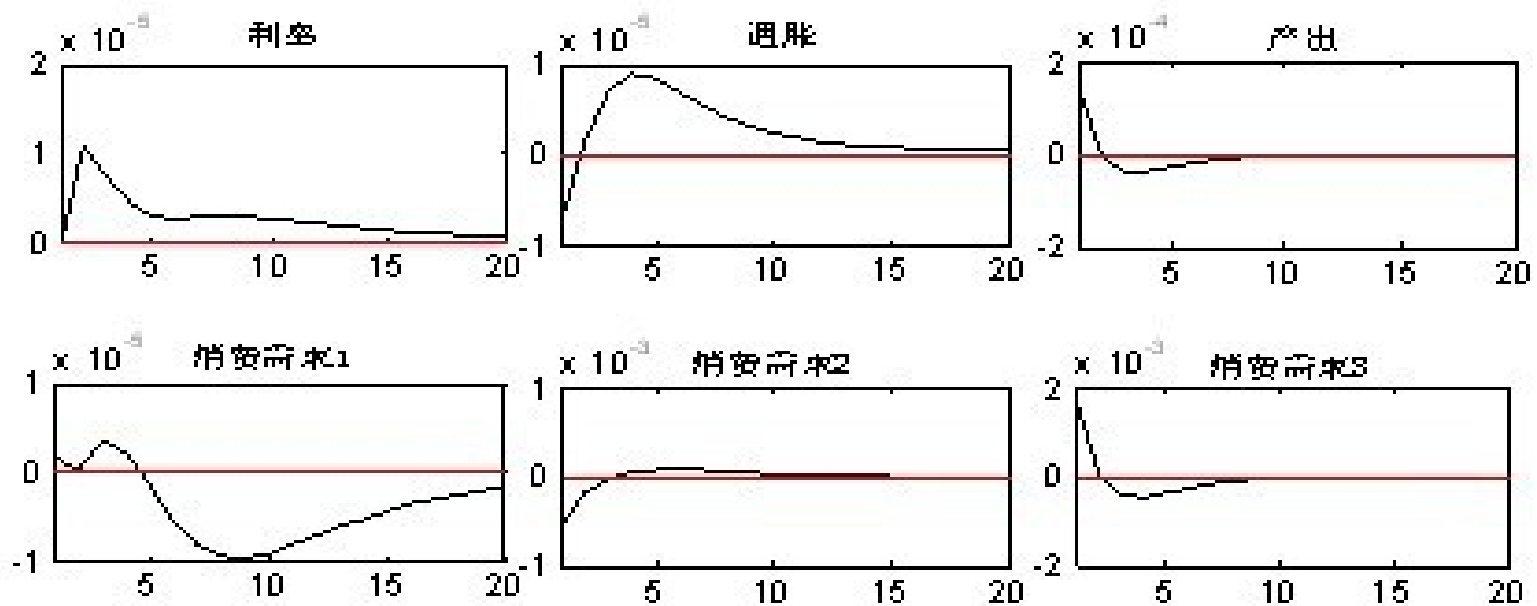
Simulation results : Inflation shock



图： 通货膨胀正变化冲击的模拟结果

- When the inflation assaults, the real estate price drop and the interest rate increases steadily. At the same time, domestic output decrease significantly and the total consumption goes down.
- Combined regulation strategy should be adopted by macro-authority to prevent inflation.

Simulation results: Real estate price shock



图： 房地产价格正变化冲击的模拟结果⁴

- When the real estate price rises, domestic output will drop after transient increasing. Dynamic characteristics of different types of consumption appear structural differences. And the inflation increases after transient dropping.
- We should pay full attention to the real economy variable affected by the lagged possible impact, and select the optimal instant to inhibit the housing prices.

Summary

- When macro-authority will inhibit the housing prices and manage inflation expectations, the interest rate monetary tool should be carried out with caution and combined regulation strategy should be adopted.
- We should pay full attention to the real economy variable affected by the possible lagged impact, and select the optimal instant for the introduction of regulation to inhibit the housing prices.

Thank you!

Moscow, July 3 - 10, 2014
National Research University Higher School
of Economics