

Contemporary Issues in Trade Policy and Trade in Russia

Name

Institutional Affiliation

## Contemporary Issues in Trade Policy and Trade in Russia

**Introduction**

The radical changes in the world economy that have taken place in the last decades, which are connected with the processes of globalization, significantly affected the position of Russia in the system of world economic relations. Russia along with other countries has been included in these new processes and is forced to respond to the "threats and challenges" coming from outside. At the same time, Russia's entry into the globalized economic space coincided with deep market transformations within the country. The inconsistency and inadequate depth of these transformations, the inability for almost a quarter of a century to achieve structural changes and modernization of the economy, combined with often unfavorable external factors, have led to the fact that Russia still lags behind in the modern system of world economy and international economic relations. In post-Soviet Russia, two periods can be distinguished, differing in their basic characteristics. The first period falls on the 1990s and can be called transformational. Its main content was large-scale institutional changes and restructuring of the economy, which took the form of a deep transformational decline, and was accompanied by a dramatic decline in living standards. Another characteristic of this period was the chronic budget deficit, which reflected the high level of instability and weakness of the state, which is not able to collect taxes satisfactorily, nor against constant pressure to increase spending. Besides, there was an extremely low level of support for the government and its policies by the population. Everything changed in 1999 with the second period of the post-Soviet history of Russia. It is characterized by a constant and impressive GDP growth up to 2008 (an average of about 7% per year), a dynamic increase in household incomes, and a surplus budget. There was a sharp change in the

dynamics of the population's attitudes towards the state of affairs in the country and the vector of its development. Finally, another feature characterizing the stabilization cycle, according to experts, is the slowdown, and the decay of institutional transformations. The political vector also changed: if at the beginning of the period the idea of consolidation of power was associated with reforms, in the second half it acquired a distinctly authoritarian spirit, with the indices of political development and democratization showing a rapid regression. The crisis of 2008-2009 marked the completion of the second cycle. For the first time since 1998, GDP has not grown, but declined, and the scale of decline was comparable only to the rate of economic decline in 1992-1994. In 2010-2011 economic growth was recovering, but its rate (about 4% of GDP growth) was much more modest than those that characterized the post-crisis recovery of 1998-1999 and the pre-crisis growth of 2006-2008. Despite the high oil prices, there was no inflow, as before the crisis, but an outflow of capital. The budget was again filled with a deficit. Despite the fact that by early 2012 Russian economy formally returned to the pre-crisis level of GDP, the indicators of individual sectors of the economy and regions remained below pre-crisis levels. By mid-2012, more than a third of the regions could not overcome the consequences of the decline in production. Thus, for the majority of economic parameters, Russia is still lagging behind many countries in the world. The tasks of ensuring sustainable economic growth facing Russia make it necessary to "look back" at world leaders, to perceive their experience, to adapt their economy to the demands of the world community.

In this paper, contemporary issues in Russia's trade and trade policies will be analyzed. This paper will attempt to answer the following research questions:

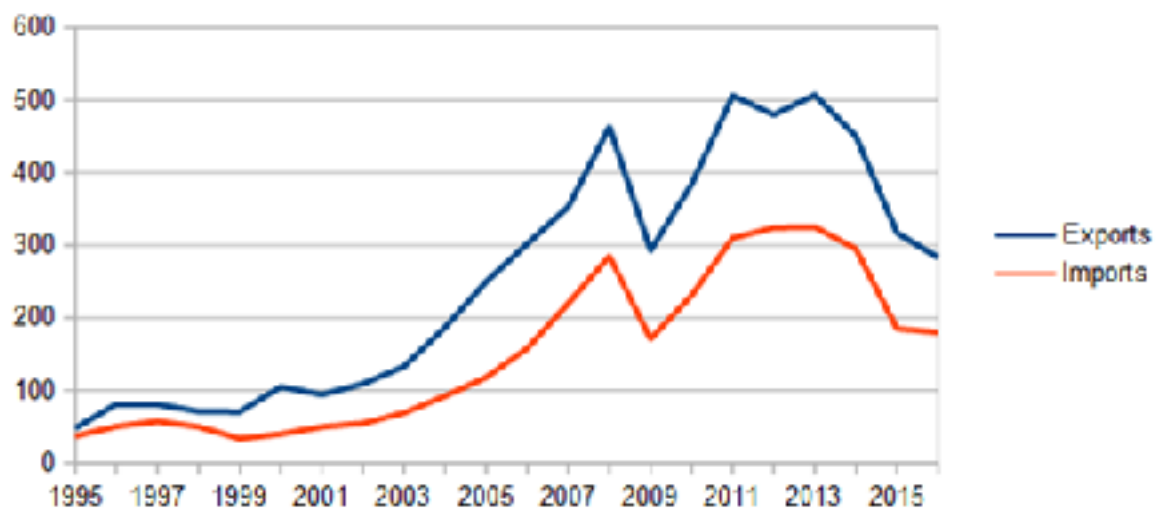
- What is the current state of Russia's trade?
- What tendencies prevail in the Russia's trade balance for the past decade?

- What type of trade policies Russia conducts in international arena?
- How Russia's exchange rate changed recently and its relation to the trade?

## The Current Status of Russia's Trade

### Major Trends in Russia's Trade and Exchange Rate

The year of 2016 has become one of the most unsuccessful from the point of view of foreign trade. The volume of exports and imports in value terms fell to the lows of the last five years due to the devaluation of the ruble, the reduction in production and the current food embargo (see figure 1). However, after the failure in the first half of the year, the figures began to return to normal, and already in November-December Russia almost managed to catch up with last year's trade volumes.



*Figure 1.* Russia's Trade, billion dollars (The Observatory of Economic Complexity, 2017).

According to the Russian Federation Federal State Statistics Service, Russia's foreign trade turnover for 2016 amounted to 471.2 billion dollars (GKS, 2017). This is less than in 2015 by 11.2%. The devaluation of the ruble played a decisive role in reducing the figures, which followed the strongest fall in oil prices in early 2016. In January, quotes for Brent crude oil fell below \$30 per barrel due to excess supply in the market, as well as a reduction in

demand from China (Ngai, 2016). The rate of the dollar to the ruble at the same time skyrocketed to 76 rubles (see figure 2). This coincided with a seasonal decline in business activity, as well as with a reduction in production in many manufacturing industries. As a result, January volumes of trade became record low: exports fell by one third, and imports by 20% (GKS, 2017). However, since February 2016, volumes of trade, together with the ruble exchange rate, have begun to recover.

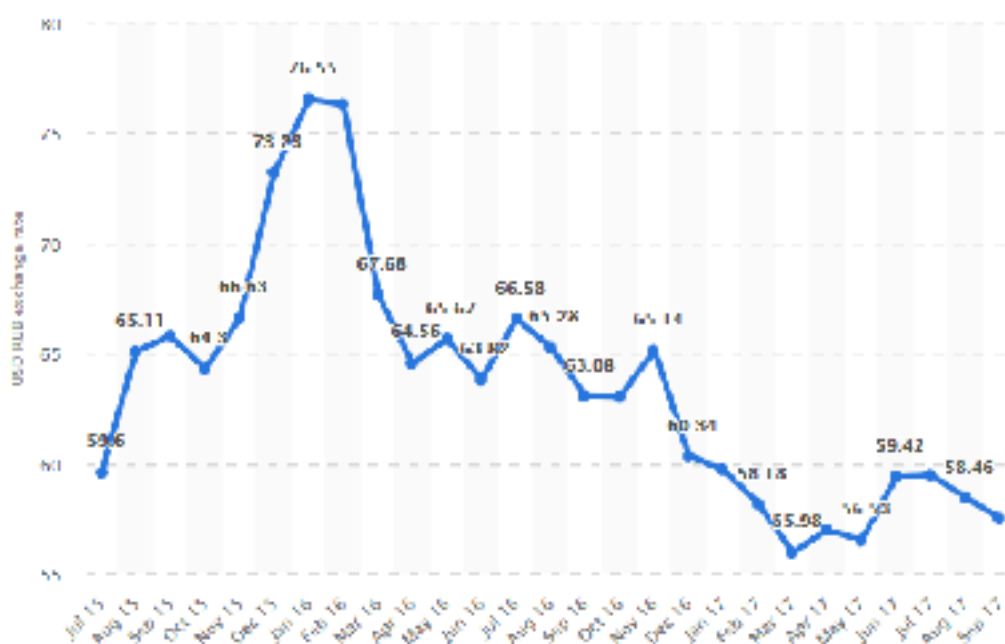


Figure 2. Exchange rate of U.S. dollar to Russian Ruble (Statista, 2017).

The largest oil exporting countries (Venezuela, Canada, Nigeria, Libya), for political and economic reasons, were forced to reduce production and supply of black gold. As a result, surplus production was reduced, and prices began to return to normal. In the autumn, quotations continued to grow, and with them the ruble exchange rate. Despite the pessimistic forecasts, after several years of negotiations, the OPEC member countries finally agreed on a reduction in oil production. In addition, the election of Donald Trump for the presidency of the United States provided additional support to the ruble. At the end of 2016, Russia's

exports in value terms declined by 17% to \$285.49 billion (GKS, 2017). Such dynamics is due to the fact that Russia exports mainly hydrocarbons (oil and gas) abroad, and together with the fall in prices for them, the total value of exports also fell. At the same time, exports in physical terms, on the contrary, increased. In 2016, oil exports increased by 6.6% to 236 million tons, and revenues from it fell by nearly 18% to 73.4 billion dollars (GKS, 2017). Large commodity companies have increased volumes of supplies in order to keep market share. In addition, under the conditions of devaluation, they could receive a larger amount of the proceeds from exports in rubles. The same has become an incentive for enterprises of other industries. So, Russia has increased the supply of many food products to China, the countries of Asia and Europe. The supply of machinery, timber and many other products increased. This was influenced by state support of large companies aimed at increasing production and stimulating exports. In addition, the devaluation of the ruble allowed Russian products to compete with other countries. Domestic goods were often supplied to world markets at lower prices, but this did not result in large losses for exporters.

At the end of the year, imports also fell. In value terms, it amounted to 183 billion dollars (see figure 1). Unlike exports, physical volumes of imports also showed a decline. The volumes of import of motor vehicles, electric generators, textiles, and foodstuffs have decreased. The fall in the ruble exchange rate was one of the main reasons for the reduction of supplies. It is because the purchase of imported goods became much more expensive for a Russian buyer than before. In addition, they were affected by a drop in consumer demand and a decline in industrial production in a number of industries, which was particularly characteristic for the first half of the year. In addition, the fall in total imports was the result of various prohibitions, which were introduced in abundance in 2016. In addition to the existing

food embargo, which led to a record decline in food supplies from Europe and the United States, from January 1, 2016, Russia imposed a ban on the import of agricultural products from Turkey (Keddie, 2016). Under the ban, almost 60% of Turkey's food exports to Russia fell. Since the beginning of the year, there has also been an implicit ban on the import of Turkish textiles. Russian departments introduced other non-tariff measures. For example, in the fall, fruit and vegetable products from Egypt were banned. In July, the ban on the import of feedstuffs from Ukraine began, in October, temporary restrictions on the supply of pork from Moldova were introduced, and in November the food salt was added to the list of sanction products.

### **Russia's Foreign Trade Policy**

Foreign trade policy and instruments that determine the foreign trade regime are essential components of state regulation of the economy, as they define its directions and objectives, as well as the principles and bases of interaction with other countries at the interstate and business levels. Foreign trade policy is implemented with the help of a broad set of instruments that have different effects on the economy and foreign trade of the state. According to the laws of the Russian Federation, state regulation of foreign trade activities in Russia is exercised through customs and tariff regulation; non-tariff regulation; bans and restrictions on foreign trade in services and intellectual property; measures of an economic and administrative nature conducive to the development of foreign trade activities. This whole arsenal of measures with varying degrees of success and effectiveness was used by Russia throughout the post-Soviet period. But the year of 2012, it can be said, became a turning point in the development of Russian foreign trade policy. The protocol on Russia's accession to the WTO began to operate, which led to adoption of the basic documents of this organization as a



national legislative base, as well as a new edition of the single commodity nomenclature of foreign economic activity of the Customs Union and the Common Customs Tariff of the Customs Union, developed taking into account Russia's obligations to the WTO. Customs and tariff measures form the basis of the modern Russian system for regulating imports and partially exporting. The customs tariff is built on the basis of the Single Customs Nomenclature, which includes more than ten thousand commodity items. The adoption of commitments within the WTO and the Customs Union led to the significant liberalization of the customs regime and a reduction in tariffs.

Import tariffs play a role as a restrictor for the receipt of unwanted goods from foreign countries and stimulation (by applying zero rates) of imports when necessary. The adopted Common Customs Tariff of the Customs Union, like the previous tariff, provides for a system of escalation of tariffs, which in their mass are established as ad valorem, i.e., in percentage to the customs value of the goods. The lowest ad valorem rate, other than zero, is set at 2%, the highest - 65% for the import of pig meat outside the tariff quotas (International Trade Administration, 2017). Specific tariffs in euros and dollars are also envisaged. Combined rates, which summarize ad valorem and specific tariffs, are also set at more than thousand positions. At nearly fifteen percent of all trade positions, zero tariffs are set. The new tariff provides for the reduction of tariffs per 1,000 items. First of all, the tariffs, which increased as a result of the 2008-2009 crisis, were returned to the previous level. However, in general, the weighted average rates of the Russian customs tariff remain several times higher than in developed countries and many developing countries. For 2012, the weighted average import tariff, based on the volume of taxation of imports from non-CIS countries, was 9.1%. Weighted average import tariff rates show decreasing trends (see figure 3).

Year	2012	2013	2014	2015	2016
January-August	9,90	8,60	7,70	7,25	6,74
September-December	8,60	7,70	7,25	6,74	6,39

*Figure 3.* Weighted average import tariff rates, % (World Integrated Trade Solution, 2017).

Russia is one of the few countries in the world to impose tariffs on the export of many goods (about 500 tariff lines). Such a policy is carried out mainly for fiscal purposes, as well as in the form of means to meet the needs of the domestic market and improve the structure of commodity exports. The country has established tariffs on almost all the most significant export items: crude oil, oil products, non-ferrous metals, timber, frozen fish, crabs, oilseeds, soybeans, etc. The revenues from levying export duties in 2012 provided 31.9% of budget revenues. At the same time, the government is trying to use the export duty mechanism to increase the added value of exported goods. However, following the obligations to the WTO, Russia should gradually abandon export duties on 495 tariff lines after the transitional period from one to five years. As an exception, Russia retained the right to tariffs on the export of mineral fuels (oil, oil products, gas), raw timber and some precious wood processed from scrap, ferrous and non-ferrous scrap, oilseeds, untreated hides and dressed leather. However, changes will be made to the formulas for the calculation of export duties, and a more flexible system for their application is envisaged. For example, through the mechanism of export duties, it is proposed to create stimulating conditions for the development of oil production in traditional areas of Western Siberia, accelerated investment in oil refineries, the development of oil production on the shelf. That is, on the one hand, a significant part of the budget revenues from exports will be retained, whereas, on the other hand, the state will be able to restrict the export of unprocessed raw materials in order to improve the export structure and to stimulate promising industries. Within the framework of foreign trade regulation, work is

underway to identify and remove restrictions in the trade policy of foreign countries that negatively affect the access of Russian products, which is carried out in many ways. In particular, the prevention of the introduction of unjustified trade barriers on the path of Russian exports, including the work on the revision of existing anti-dumping measures and the liberalization of other barriers to trade. There are also many restrictive measures applied by foreign states against Russian goods, including anti-dumping measures, special protective measures, measures of non-tariff regulation of trade, etc. The maximum number of restrictive measures introduced by Russia is in effect in the EU, Ukraine, the USA, and Belarus. More than half of all anti-dumping measures in force are introduced concerning the import of Russian ferrous metals and their products.

It is worth mentioning that non-tariff barriers play a significant role in regulating imports in Russia. These include quotas, and licensing of imports of certain goods. In the Russian Federation, the types of quota goods and the volume (size) of quotas are set by the government annually. Customs clearance of quoted goods is carried out only upon presentation of a license issued by an authorized agency. When deciding on the introduction of a quota, the government chooses the method for distributing quotas, as well as the procedure for holding a tender or auction. If import quotas are used to distribute shares of imports of goods between interested foreign states, the previous import of goods from such states is taken into account. Special censures cause administrative barriers to the import of individual products. The population is particularly aware of the measures used to restrict access to the Russian market of imported food products through the application by the relevant services of actions to ensure control over the quality and safety of imported products. For example, in 2013, the Rosselkhoznadzor banned the importation of poultry meat, beef,

and pork from Germany (Rosselkhoznadzor, 2017). Later, it introduced a temporary ban on the supply of pork, beef, turkey, intestinal raw materials and by-products to Russia, in which veterinary drugs have been found (Rosselkhoznadzor, 2017). Restrictions were imposed on the importation of planting stock and potted plants from the EU member states, except for Poland, Hungary, and Germany. It is worth noting that in the years of its independence, Russia more often resorted to trading sanctions not for economic but for political reasons. The list of such conflicts is quite extensive: Latvian sprats, Georgian and Moldovan wine and mineral water, Polish meat, and Belarusian milk became objects of Russian sanctions. It is evident that Russian politicians see the main economic opportunities for political influence on partners in closing the Russian domestic market for the import of products from individual countries.

### **Russia and the European Union**

The Partnership and Cooperation Agreement (PCA) is a comprehensive document covering a wide range of issues such as trade in goods and services, cooperation and investment, finance, science and technology, education, energy, transport, nuclear and space technologies, environmental protection, culture, etc. between Russia and the EU. The European Union is Russia's traditional and largest trading partner. Mutual commodity turnover is decreasing in general, showing similar figures as in 2009 that was the result of the global financial crisis (see figure 4). According to the Russian Federation Federal State Statistics Service, in 2016 the EU exports to Russia amounted to \$119.5 billion. Import from Russia to the EU in 2016 reached a level of \$66.6 billion. As a result, the EU trade deficit with Russia decreased from 84 billion in 2009 to \$53 billion in 2016 (figure 4).

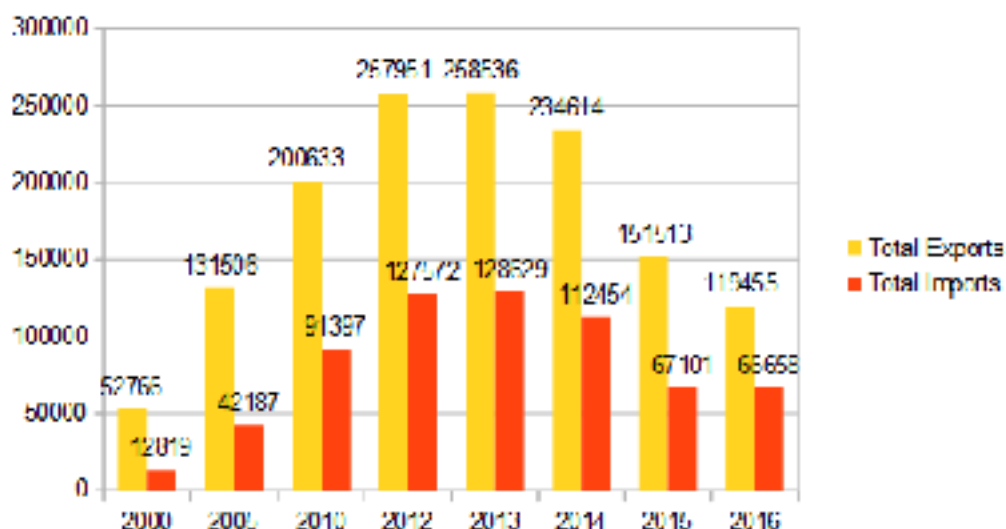
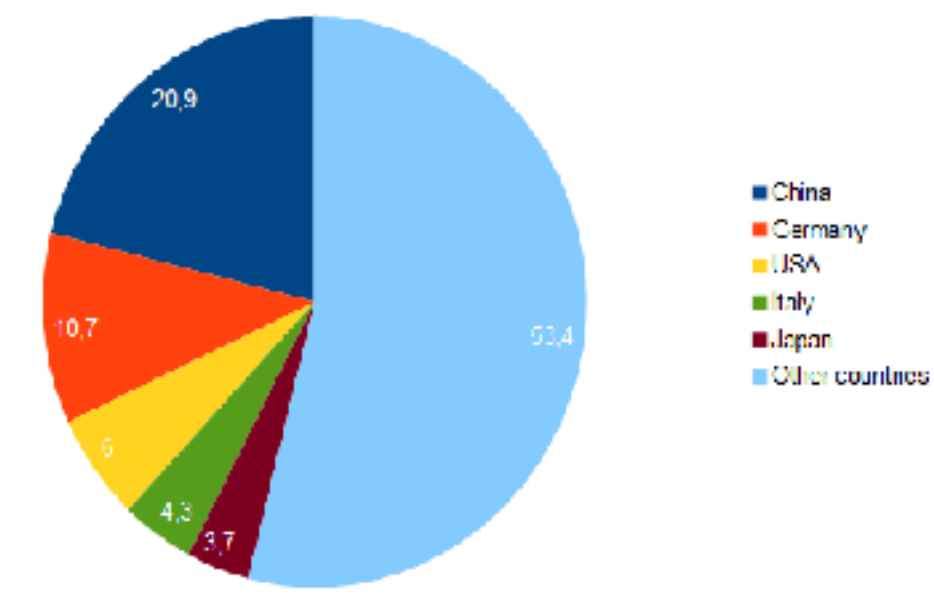


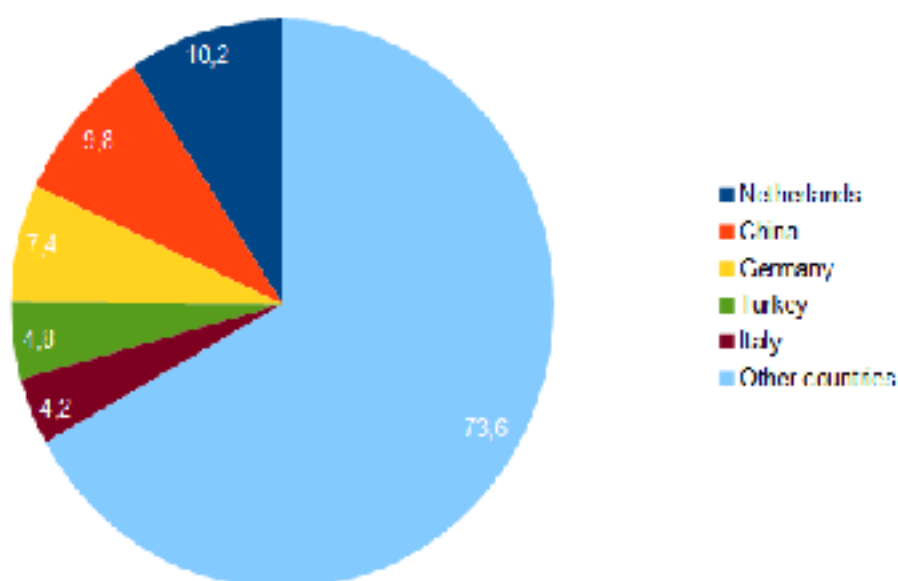
Figure 4. The dynamics of trade between Russia and the EU, million dollars (GKS, 2017).

In 2016, the most important trade partner of Russia in the EU was Germany. Russia's the most significant partner in the world was China. According to the statistics, Germany's exports to Russia amounted to \$19 billion, or 10.7% of the total exports to the Russian Federation (Italy was second with \$7.8 billion, or 4.3%) (see figure 5).



*Figure 5.* Shipments from the countries predominated in imports of Russia in 2016, % (GKS, 2017).

The Netherlands was the largest importer from Russia in 2016, accounting for \$29.2 billion, or 10.2% of Russia's total exports (see figure 6). Russia's trade with the Netherlands has its peculiarities, the so-called Rotterdam effect when Russian goods imported through this port are counted in the Netherlands statistics, although in reality they are intended for importers in other EU countries. Part of this fact should be taken into account when considering the statistics of Belgium, where the port of Antwerp plays a similar role. In 2016, Germany (\$21 billion, or 7.4%), and Italy (\$11.9 billion, or 4.2%) were the most significant importers of Russian goods and services (see figure 6). It is indicative that in the services sector the EU countries had a surplus in the trade with Russia. A significant positive balance for Europe in this sector is the tourism of Russians to the EU countries, as well as the supply of innovative, computer and information services, financial services, and royalties. However, Russia's share in the export of services of the European Union is decreasing.



*Figure 6.* The countries that have the largest share in total exports volume of Russia in 2016, % (GKS, 2017).

### **Regional Integration of Russia: Customs Union**

In recent years, Russia's policy on integration into the world economic system has become more active. Essential steps along this path were the formation of the Customs Union and the Common Economic Space (CU and CES), a breakthrough in relations with the WTO, negotiations on accession to the OECD and promotion to the free trade zone with the European Union. Russia's trade relations with the former Soviet republics, as mentioned, do not play a significant role in Russia's foreign economic affairs, they account for about 14% of the total commodity turnover. However, the macroeconomic component is critical here. The creation of the CES is a serious element of the policy on the ever deeper involvement of Russia in the world integration processes. Thus, a new market was formed in Russia, Kazakhstan and Belarus, which gives about \$500 billion retail trade turnover, and more than \$1 trillion industrial products trade (GKS, 2017). The CES provides 11% of global raw materials exports and 14% of world energy exports. It is especially important that the additional impulse was the process of liberalizing the conditions for doing business on the market with common standards and requirements for goods and services. For Russia, participation in the Customs Union opens up new opportunities for growth in the supply of rolled ferrous and non-ferrous metals and products of the building materials industry. Together with Kazakhstan, prospects are being created for the development of ferrous and non-ferrous metallurgy, transport engineering, and cooperation in the atomic and aerospace spheres. Together with Belarus, a bridgehead is being formed for the development of cooperative ties in the automobile, aircraft and shipbuilding, defense and space complex,

microelectronics, telecommunications and some other industries. Thus, a large-scale market is being formed, in which the main guidelines of macroeconomic and foreign exchange policy are agreed upon.

### **Foreign Trade Relations between Russia and the United States**

Russian-American trade ties have a long history. The US traditionally occupies an important place in Russian foreign trade. At the same time, given the mutual interest in the development of bilateral trade, its volumes noticeably lag behind the existing potential of both countries. The essential characteristic of bilateral trade ties is their noticeable asymmetry. The United States accounts for 6% of the foreign trade turnover of the Russian Federation. However, given the size of the US economy, it would be natural to expect higher rates. After a noticeable recovery in 2008 in 2009, the decline was 46% for both exports and imports. But already since 2010, the situation began to straighten, and trade was gaining a high momentum. Currently, because Russia conducts aggressive international police and, according to many institutions, violates international law principles, the trade volumes between these two countries are decreasing. According to the Russian Federation Federal State Statistics Service, Russian exports to the US in 2016 was \$9 billion (in 2014 - \$10.5 billion), and imports accounted for \$11 billion (in 2014 - \$18 billion) (GKS, 2017).

### **Analysis of Russia's Trade With Foreign States and Its Structure**

#### **Trade With Other Than CIS Countries**

At the end of 2016, Russia's foreign trade with non-CIS countries accounted for 85% of the total volume of trade. At the same time, the share of the European Union decreased from 44.8% to 42.8% in favor of APEC countries, and mainly China - from 28.1% to 30%.



Due to the devaluation of the ruble, Russian exporters partly reoriented to foreign countries, as the currencies of the CIS countries also weakened due to depreciation, and access to other markets was often more attractive. For January-December the foreign trade turnover with the other than CIS countries accounted for \$413.4 billion, having decreased by 11% in comparison with 2015 (GKS, 2017). At the same time, exports fell by 16.9% to \$ 248.1 billion, and imports by the end of the year increased by 0.8% to \$163 billion (GKS, 2017).

The decline in prices for oil and gas was the main factor in reducing export performance, which resulted in the fact that the volume of trade fell by more than a third. In addition, there has been a decline in the supply of petroleum products, primarily, fuel oil and diesel fuel due to a reduction in their production. Their supplies to the Netherlands, Italy and Latvia, the Republic of Korea and Japan have significantly decreased. Import began to increase in the autumn, after the ruble rate began to recover confidently against the background of rising oil prices. The demand for imported products from consumers and commercial enterprises has become more active. Among the main trading partners of Russia in the first place is still China. Despite the reduction in demand from its side at the beginning of the year and a decrease in the supply of hard coal, Russia still managed to increase its foreign trade turnover with it by 4% to \$ 66.1 billion. Importers from China began to buy more machinery and equipment, cars, metals, food products, including fruits and vegetables, sausages, bread, chocolate and other products. Cooperation also expanded in other areas (in the summer China concluded more than 30 different agreements with Russia). Trade with European countries showed a negative trend. The foreign trade turnover with Germany fell by 11.1% to \$40.7 billion, with the Netherlands by 17% to \$32.3 billion, with Italy by 35% to \$19.8 billion (GKS, 2017). The only exception was France, whose trade increased by 14% to \$13.3 billion due to increased supplies of Russian gas and grain (GKS, 2017). The volume of trade with

Turkey due to current trade restrictions fell by 32% and amounted to only 15.8 billion dollars (GKS, 2017). It is also worth noting that since autumn 2016, the Agreement on the establishment of the EAEC free trade zone with Vietnam came into force. According to this agreement, more than a half of all tariff lines can now be traded on the non-tariff basis. Fuel and energy products prevail in the commodity structure of exports with non-CIS countries. In 2016, their share decreased. The decline was due to a decrease in value volumes due to falling prices for hydrocarbons (the cost of import of these goods fell by 22.5%, however, exports grew in physical terms (GKS, 2017). In particular, natural gas supplies increased by 13.8% and coal - by 9.1% (GKS, 2017). The reduction in the export of oil products was primarily due to the tax maneuver, which resulted in a significant increase in the tax burden, and the volume of oil refining in Russia has become lower. The best dynamics was shown by the export of flat steel products (deliveries increased by 13.6%), and semi-finished products of iron (GKS, 2017). As in the hydrocarbon market, due to a drop in demand and excess supply, metal prices in early 2016 remained low. A sharp increase was shown in the supply of equipment. The value of their exports remained unchanged, but in physical terms, the imports of land transport other than railroads increased by 67.8% (GKS, 2017). Not only domestic companies but also foreign manufacturers located on the territory of the country - Volkswagen, Hyundai, and others - have grown. At the same time, exports are targeted both at European countries, and China, Vietnam, Algeria, Iran and other countries. Supplies of food increased both in value and physical terms (GKS, 2017). Records in agriculture allowed Russia to increase exports of cereals, potatoes, meat and other types of products. In addition to traditional buyers, supplies to the countries of the Middle East, Asia, and, in particular, China and even the countries of Latin America increased. Among large commodity groups, the decline was shown by the export of chemical products. Shipping of the largest category of

chemical goods decreased mainly due to the growth of domestic consumption for the needs of growing agricultural production. In the commodity structure of imports to the other than CIS countries, the main share is occupied by machinery and equipment. Due to trade restrictions - high duties and recycling charges, as well as the placement of foreign companies' production directly on the territory of the country, the import of passenger cars and freight fell by one-fifth. At the same time, the volume of deliveries of other goods of this group showed growth.

### **Russia`s Trade with CIS countries**

The share of the CIS countries, in spite of established economic ties, is much more modest than with the other countries. In 2016, domestic companies exported goods to the CIS in the amount of 56.7 billion dollars (-14.2%) and imported by 19.3 billion dollars (-8.1%) (GKS, 2017). Due to the close dependence on the Russian economy, the fall in oil prices caused not only the devaluation of the Russian ruble but also the depreciation of the national currencies in the Commonwealth countries. Besides, in many countries, there has been a production decline, which has led to a reduction in supply and demand for goods on the external market. Among the foreign trade partners, the leading position is still occupied by Belarus. It accounts for almost half of the total turnover. By the end of 2016, its volume was \$ 26.3 billion (a decrease of 5%) (OEC, 2017). Decrease by the end of the year is primarily due to price factors, as a result of which the indicators of trade in hydrocarbons, metals and engineering products decreased. At the same time, Belarus significantly increased the supply of food products to Russia, namely meat and poultry, dairy products, fruits, and vegetables. The total volume of food supplies is estimated at \$2 billion (OEC, 2017). Trade turnover with Kazakhstan decreased by 16.3% to more than ten billion dollars due to a decrease in the supply of oil products, cars, and ferrous metals. In 2016, Kazakhstan actively promoted the

policy of import substitution and enterprises reduced their purchases. So, for example, in 2016 import of gasoline and diesel fuel was reduced by more than twenty thousand tons due to the increase in domestic production (OEC, 2017). The most significant decline was shown by trade with Ukraine - the foreign trade turnover with it declined by more than a third due to mutual sanctions and trade restrictions, dropping at such rates for several years in a row. Also, the fall is due to the cessation of Russian gas supplies to the country. Among the CIS countries, only Armenia increased its foreign trade indicators - the volume of supplies increased by 6% to 1.34 billion dollars (OEC, 2017). After joining the Eurasian Economic Union, the country confidently increases the supply of fish, fruit and vegetable products, alcohol, textiles, and footwear. The commodity structure of Russia's exports to the CIS countries is dominated by fuel and energy products - they account for 32.6% (OEC, 2017). Due to lower prices for hydrocarbons, as well as a reduction in gas and oil supplies to Ukraine and Belarus, the value and physical volumes of exports of these goods decreased. Supplies of machinery and equipment, which rank second regarding exports, also declined due to a decrease in demand in the CIS countries - their exports in value terms fell by 15.8% (OEC, 2017). At the same time, the most significant was the drop in shipments of ground vehicles other than rail. Supplies of chemical products, in turn, increased - in physical terms, exports increased by 9.4%, while in value terms it decreased by 4% (OEC, 2017). At the same time, fertilizers, accounting for the lion's share of the supplies of this group of goods, showed an increase of 20.8% due to the growth of their production within the country and the demand from the CIS countries for the needs of agriculture. The commodity structure of imports of goods from the CIS countries in recent years is beginning to change (with each passing year, the proportion of food products is increasing). In January-December, it increased to 23.3%, although in 2015 the growth was 20.8% (GKS, 2017). The food embargo imposed by Russia

forces countries to look for suppliers from other countries, and the convenience of logistics and low prices give advantages to the CIS countries. By the end of the year, the highest growth was registered in the supply of cheeses. At the same time, pork imports fell by 83.6% due to restrictions of the Rosselkhoznadzor caused by outbreaks of African swine fever virus (GKS, 2017). In 2015, Russia increased the demand for the purchase of agricultural machinery and equipment. The import of textiles also showed record growth. The conflict with Turkey - one of the main suppliers of textiles to the Russian market, and the devaluation of the ruble, which made it more expensive to purchase these products in China, forced domestic companies to reorient to the markets of the CIS countries.

### **Discussion**

In the foreseeable future, the EU and China are expected to remain Russia's main trading partners, as well as key suppliers of foreign direct investment in the economy. The transfer of European technologies, the development of strategic alliances between Russian companies and the European Union corporations, the development of European markets can serve as incentives for increasing the competitiveness of domestic producers. The movement of direct investment plays a vital role in the promotion of European goods and services to the Russian market and the Russian ones in the EU. As for European investments in the Russian economy, their role in the development of automobile and machine building, oil and gas, chemical industry, production of consumer goods, as well as in wholesale and retail trade is significant. At the same time, Russia's economic relations with the European Union are not developing smoothly. As the experts note, in the Russia-EU dialogue, the expectations of both sides (perhaps initially inflated) in many cases were not justified. Moscow clearly expected a kind of "economic miracle" from cooperation with Brussels, a clear and unequivocal

invitation to take place worthy of great power in the European space, and for Russian companies - in the markets of the European Union. The EU, for its part, expected that in Russia, as soon as possible, as if by magic, it would establish a Western-style democratic system, with all the institutions and rules of the game that were laid to it, close and understandable to Europeans. Periodically, bilateral relations create hotbeds of tension in connection with human rights themes, spy scandals, mutual accusations of dumping, visa issues, the establishment of various kinds of import barriers, etc., which cannot but affect the general nature and dynamics of mutual trade. At the same time, interest in strengthening and expanding bilateral relations preserves. Membership in the CIS is also an essential challenge for business and Russian authorities. The removal of restrictions inevitably causes an increase in the not only market but also institutional competition. Belarus and Kazakhstan are working more efficiently on some conditions for doing business (concerning customs procedures, operations related to the registration of enterprises, etc.). Accordingly, to attract investors, it is up to Russia to remove barriers to doing business more intensively and simplify administrative procedures. There is also a competition of tax systems in part of the procedures for levying and rates of value added tax and excise taxes. In general, one can single out the following set of problems that Russia faces in connection with membership in the Customs Union and the WTO: "intra-union" trade between the three countries is growing more slowly than their trade with the outside world. As stated earlier, the share of the Customs Union in the total turnover of the participating countries is reduced and remains lower than before the formation of the CU; the least profitable partnership within the Customs Union has so far been for Russia: its share in mutual exports decreased after the removal of trade barriers; the "tariff wall," which the countries of the Customs Union have surrounded themselves, protecting themselves from the outside world and simultaneously removing domestic trade

barriers, affects the trade volumes of the member countries with China. Virtually no effect tariff regulation of the Customs Union has had on the exporters of goods with high added value, such as the EU countries.

Due to the existing problems and decline in foreign trade, both the economic and long-term political interests of Russia should be focused on enhancing cooperation with foreign trade partners. This format can be considered one of the steps towards strengthening integration not only within the CIS but also with other than CIS-members states. Russia is objectively interested in the regeneration of a significant part of the post-Soviet space. Only by consolidating the economic space can the task of ensuring sustainable and balanced economic development of Russia in the long term be solved. A successful reintegration project will create conditions for the regional expansion of competitive Russian business. Besides, it will efficiently commercialize the Eurasian status of the country, ensure the stability of the resource base and remove restrictions for further development, and create favorable prerequisites for a broad diversification of domestic exports in conditions of closer intertwining of national economic complexes.

### **Conclusion**

All in all, Russia's trade policy should contribute to the integration of its economy into the world economy, which in the end should affect the economic development of this state and the creation of a competitive marketplace. For Russia, the US is an important strategic partner, although the share of this country in Russian trade is not as significant as it is with China and the EU. Nevertheless, the US traditionally is a channel for Russia to receive new knowledge, technologies, modern equipment, etc. The importance of Russia for US foreign economic relations is determined by the high potential of the country in the supply of energy

resources and raw materials and the sales opportunities for American products of machine building and agricultural products on the Russian market. Recently, bilateral trade relations between Russia and the United States are developing unevenly and asymmetrically. Here the role of the political component is great, which objectively hinders the strengthening of Russian-American economic and investment cooperation.



## References

- Federal Service for Veterinary and Phytosanitary Surveillance. (2017). Rosselkhoznadzor / Import. Export. Transit: Germany. *Rosselkhoznadzor*. Retrieved from [http://www.fsvps.ru/fsvps/importExport/germany/enterprises.html?product=11&productType=1&\\_language=en](http://www.fsvps.ru/fsvps/importExport/germany/enterprises.html?product=11&productType=1&_language=en)
- International Trade Administration. (2017). Russia - Import Tariffs. *Export.gov*. Retrieved from <https://www.export.gov/article?id=Russia-Import-Tariffs>
- Keddie, P. (2016). An unhappy New Year for Turkey's exporters to Russia. *Al Jazeera*. Retrieved from [www.aljazeera.com/indepth/features/2015/12/unhappy-year-turkey-exporters-russia-151231184949564.html](http://www.aljazeera.com/indepth/features/2015/12/unhappy-year-turkey-exporters-russia-151231184949564.html)
- Ngai, C. (2016). Tumbling oil trades below \$30 a barrel for first time in 12 years. *Reuters*. Retrieved from <https://www.reuters.com/article/us-global-oil/tumbling-oil-trades-below-30-a-barrel-for-first-time-in-12-years-idUSKCN0UQ02220160112>
- OECD. (2017). Russia: Exports, Imports, and Trade Partners. *OECD*. Retrieved from <https://atlas.media.mit.edu/en/profile/country/rus/>
- Russian Federation Federal State Statistics Service (2017). External Economic Activities. *GKS*. Retrieved from [http://www.gks.ru/wps/wcm/connect/rosstat\\_main/rosstat/en/figures/activities/](http://www.gks.ru/wps/wcm/connect/rosstat_main/rosstat/en/figures/activities/)
- Statista. (2017). Monthly exchange rate of U.S. dollar to Russian Ruble from July 2015 to September 2017. *Statista*. Retrieved from <https://www.statista.com/statistics/376232/usd-rub-exchange-rate-monthly/>
- World Integrated Trade Solution. (2017). Russian Federation Product Imports By Country and Region. *WITS*.

