

Czech University of Life Sciences Prague

Faculty of Economics and Management

Department of Economics



Bachelor Thesis

Foreign Trade of Russia (2005-2016)

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CZECH UNIVERSITY OF LIFE SCIENCES PRAGUE

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Ekaterina Efimova

Economics and Management

Thesis title

Foreign Trade of Russia (2005 – 2016)

Objectives of thesis

Objective of this thesis is to find out , what are the main factors regulating foreign trade in Russian Federation. The main aim of this study is to analyse changes in the Foreign Trade of Russia during period of time from 2005 to 2016 and explain all happened changes. Through analysis of the basic economic theories; basic policies are used in foreign trade and review of world organisations regulating international trade.

Methodology

The Bachelor thesis is divided into two parts: theoretical and practical. In the practical part the main methods used in the work are description and extraction. For analysis, the author uses information from sources such as the World Bank, the Federal Customs Service and the State Statistical Service of the Russian Federation to describe and compare the state of Russia's foreign trade between 2005-2016.

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Declaration

I declare that I have worked on my bachelor thesis titled "Foreign trade of Russia (2005-2016)" by myself and I have used only the sources mentioned at the end of the thesis. As the author of the bachelor thesis, I declare that the thesis does not break copyrights of any their person.

In Prague on 14.03.2018

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Zahraniční obchod Ruska (2005-2016)

Souhrn

Tato práce je věnována analýze zahraničního obchodu Ruska v letech 2005 až 2016. V této práci autor určil hlavní ekonomické faktory, které tvoří mezinárodní obchod. Práce je rozdělena na dvě části, první část je teoretická a druhá je praktická. První část se používá jako teoretický základ pro analýzu zahraničního obchodu v Rusku. Hlavním cílem této studie je analýza změn zahraničního obchodu Ruska v období od roku 2005 do roku 2016 a vysvětlení všech změn. Analyzované období mezi roky 2005-2016 je charakterizováno vícenásobnými krizemi, turistikou a pády v ekonomice. Tato práce se snaží identifikovat hlavní faktory, které ovlivnily zahraniční obchod Ruska v tomto období. Druhá část určuje, které produkty převažují ve vývozu a dovozu a jejich dynamika mezi roky 2005-2016. Poslední kapitola se zaměřuje na zahraniční obchod v Rusku v letech 2015-2016; tento odstavec podrobně analyzuje všechny hlavní trendy posledních dvou let. Hlavní metody, které byly použity v teoretické části a praktické části, jsou popis a extrakce.

Na shrnutí výsledků práce je ruský zahraniční obchod závislý na vývozu paliv a energetických produktů, vývozu nerostných surovin. Ceny ropy mají také silný dopad na ekonomiku Ruska. Sankce zavedené v roce 2014 měly nejen negativní, ale i pozitivní účinek. Kvůli sankcím vstoupil ruský obchod na asijské finanční trhy a začala se rozvíjet domácí výroba.

Klíčová slova: Zahraniční obchod, Ruská federace, HDP, vývoz, dovoz, sankce, obchodní politiky.

Foreign trade of Russia (2005-2016)

Summary

This thesis is devoted to the analysis of foreign trade of Russia in the period from 2005 to 2016. In this work the author determined the main economic factors that form the international trade. The thesis is divided into two parts, the first part is theoretical and the second one is practical. The first part is used as a theoretical basis for the analysis of foreign trade in Russia. The main aim of this study is to analyze changes in the Foreign Trade of Russia during period of time from 2005 to 2016 and explain all happened changes. Analyzed period between 2005-2016 is characterized by multiple crises, hikes and falls in the economy. This thesis tries to identify main drivers which affected the foreign trade of Russia during this period. The second part determines which products are prevail in exports and imports and their dynamics between 2005-2016. The last chapter focuses on foreign trade in Russia in 2015-2016; this paragraph analyzes in detail all the main trends of the last two years. The main methods that were used in theoretical part and practical part are description and extraction.

To summarize the results of the work, Russian foreign trade is dependent on fuel and energy products exports, mineral resources exports. Oil prices also have a strong impact on the economy of Russia. Sanctions that were introduced in 2014 had not only a negative but also a positive effect. Due to sanctions, Russian business entered the Asian financial markets and domestic production started to develop.

Keywords: Foreign trade, Russian Federation, GDP, export, import, sanctions, trade policies.

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1.Introduction

The topic of this bachelor work is “The foreign trade of Russian from 2005 to 2016”. In this bachelor thesis author will explore the most important part of any modern state – international trade. For a long time, foreign trade is the basis of international relations. Even before the formation of the world economy, the peoples were actively trading in goods, that is, exchanged what some had in abundance for something with which there was a deficit. Therefore, international trade gave push to the construction of an integral world trade. Now all countries are united in a single economic organization because the process of forming the international division of labor accelerated. The basis of commodity exchange operations was fuel and energy products, ferrous and non-ferrous metals, fertilizers, and machine building. And of course, Russia is active participant in international trade.

The main aim of this work is to analyze the foreign trade of Russia during period of time 2005 - 2016 on various aspects that are related to foreign trade and affect it. In the theoretical part, the author reviews the history of the emergence of foreign trade and its development since the mercantilism. Moreover, will be considered another important part of the world economy - global organizations, which regulate economic relations between countries. The main aim of the practical part is to analyze the foreign trade of Russia from 2005-2016 in the main areas. Practical work is divided into two parts. In the first part will analyze the export and import of Russia in 2005-2014. The main objective of the second part is to analyze the indicators of foreign trade in the period from 2015-2016 in conditions of sanctions and crisis.

2. Thesis objective and methodology

2.1 Objectives

The main objective of this thesis is to find out, what are the main factors regulating foreign trade in Russian Federation. The main aim of this study is to analyze changes in the Foreign Trade of Russia during period of time from 2005 to 2016 and explain all happened changes. Through analysis of the basic economic theories; basic policies are used in foreign trade and overview of the world's major organizations that regulate world trade.

2.2 Methodology

The Bachelor thesis is divided into two parts: theoretical and practical. In the practical part the main methods used in the work are description and extraction. For analysis, the author uses information from sources such as the World Bank, the Federal Customs Service and the State Statistical Service of the Russian Federation to describe and compare the state of Russia's foreign trade between 2005-2016.

3.Theoretical Foundation

3.1 Theories of foreign trade

Foreign trade is one of the most important parts of the economy of any country. It is an exchange of goods and services across international borders. The first international trade arose with the creation of the first national states in the IV - III millennium Before Christ. It is important to note that in many countries, this is a significant part of gross domestic product (GDP).¹

Each of us has unlimited needs, some of which we can satisfy with the purchase of goods or services. But not all products that you can find in the store are made in your country, some of them were made abroad. An important point is that the resources of each country are limited, that is why no country can produce all necessary goods and services by yourself. Because of this it has to buy from other countries what it cannot produce or can produce less than it is requirements. Similarly, it sells to other countries the goods and services which it has in surplus quantities. In other words, foreign trade is an important and integral part of the economy of each country.

3.2 Stages of development of foreign trade and classical theories of international trade

3.2.1. History of foreign trade

The history of international trade begins from ancient times. Records from the 19th century Before Common Era attest to the existence of international relations in countries such as: Egypt (trade in the Red Sea, imports of spices from the "Land of Punt"), in the countries of the Far East, there is an active trade in spices and silk. Before us came a huge number of documents, about buying land, slaves, buildings; we know about the existence of a loan, the amount of interest is 17 - 20% per annum. Three branches of production were especially developed in the Far East: weapons manufacturing, ceramics and fabric manufacture (Babylonian carpets). But at

¹ KIREEV, Aleksey. (1997) *International economics*. Moscow. ISBN 57-133-0899-5.

that time international trade was still poorly developed since the main form of the economy was "Subsistence farming".²

In the development of international trade, there are four main stages.

- I. The first stage began in the XVIII century and lasted until the XIX century. This stage is characterized by industrial revolutions. All developed countries decided to abandon manufacturing manufacture and replace it with the machine industry. The main factors for the development of international trade were: the attraction of new regions in international trade, the development of the transport system, the revolution in communications. The most developed state was Great Britain, its foreign trade accounted for 25 percent of the world market. Also, this period was characterized by the appearance of a free trade policy. This trend in economic theory stands for freedom and non-interference of the state in the entrepreneurial sphere.
- II. The second stage (the second half of the XIX century - the beginning of the First World War (1914)). This stage is characterized by: improving the quality of storage of products during transportation (canning, freezing), the restoration of transport routes. Completion of the construction of the Panama Canal, which has the shortest route to the Atlantic and Pacific Oceans. Also, improvement of transport: increase in capacity, the emergence of a special transport for the transportation of specific goods, increase in speed of transportation. This period was the beginning of the formation of transnational corporations, international monopolies. It is important to note that this period is characterized by the dynamic growth of world trade. While Great Britain, France, Russia, Austria-Hungary significantly weakened their influence; Belgium and Japan took their place in the international market. Also, new industries appeared, such as: the electrical industry and the chemical industry.
- III. The third stage (the period between the two world wars (1914-1939)) World trade suffered during this period because of the First World War and the revolution in Russia. Consequently, there was a significant reduction in world commodity circulation. As well as in the previous period, the main commodities were raw materials, food and fuel, the share of which reached 60% of world exports. During this period, the single world currency ceased to exist. Instead it formed two main blocks: sterling and dollar. In 1931, the "sterling bloc" led by Great Britain united all the countries of this empire, in

² Timeline of international trade. (2017) In: Wikipedia: the free encyclopedia [online] Available at: https://en.wikipedia.org/wiki/Timeline_of_international_trade

addition Egypt, Iraq, Portugal. Later it was joined by Sweden, Norway, Denmark, Japan, and later - Germany and Iran. As a result, block includes 22 countries. In 1933 was created a dollar block, which included the USA, Canada and almost all Latin American countries.

- IV. The fourth stage (postwar (50-60s)). This stage is also called "gold", because during this period the growth of world exports increased by 7 percent annually. It is important to note that in this period was the strengthening of the two world economic systems - the capitalist system and the socialist system. In 1947, was created "the Council for Mutual Economic Assistance" (COMECON), which united such socialist countries as the Soviet Union (consisting of 15 republics), Bulgaria, Hungary, the German Democratic Republic, Poland, Romania, Czechoslovakia. In 1947 was founded "Benelux organization" - economic union of Belgium, the Netherlands and Luxembourg. Later in 1956, the European Economic Community (EEC) was created - a state association of six European countries (the Federal Republic of Germany, France, Italy, the Netherlands, Belgium, Luxembourg) set up to eliminate customs tariffs between them. Important was the year 1957, because the Organization of American States is formed, the universal organization of the Latin American republics (Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Cuba, Dominican Republic, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Uruguay, Chile, Ecuador), headed by the United States. In 1958 "The European Free Trade Association" was created, which was the trade bloc of seven Western European countries (Austria, Great Britain, Denmark, Norway, Portugal, Switzerland and Sweden). It should be noted that during this period global organizations such as the United Nations (UN), the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (IBRD) have been established, which still successfully exist. United Nations is an international organization which includes 193 states. The purpose of united nations is to maintain international peace and security, to cooperate in solving International economic, social, cultural and humanitarian problems and in promoting respect for human rights and fundamental freedoms. Later in 1975, Nuclear Suppliers Group (NSG) was founded to limit the risk of nuclear weapons proliferation by establishing control over exports of key materials, equipment and technologies. NSG is an international association, which currently comprises 48 states. On November 1, 1993, the European Economic Community becomes the European Union (EU), after expanding its membership to 12 countries. Now European Union include 28-member states that are located in Europe. 1 January 1994: The European Economic Area (EEA) was founded to provide for the free movement of

goods, persons, services and capital within the internal market of the European Union. Also on 1 January 1994 the North American Free Trade Agreement (NAFTA) which is free trade agreement signed by Canada, Mexico and the United States, takes effect. 1 January 1995: World Trade Organization was created to facilitate free trade, by liberalizing international trade and regulating trade and political relations among member states. Russia joined the World Trade Organization on August 22, 2012 and became the 156th member of the organization. Now the composition of the WTO is 164-member states. The official currency of the 19 countries of the "euro zone" (Austria, Belgium, Germany, Greece, Ireland, Spain, Italy, Cyprus, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Portugal, Slovakia, Slovenia, Finland, France, Estonia) was introduced into non-cash circulation on January 1, 1999, and on January 1, 2002 banknotes and coins were put into circulation. After that the euro became the second most popular currency in the world.

3.2.2. Theory of Mercantilism

The concept of "mercantilism" is derived from the Latin. "Mercari", which means "trade". This term was proposed by Adam Smith, who criticized the works of mercantilists. This economic theory was largely dominated by economic policy in Western Europe. The theory of mercantilism states that countries should promote exports and discourage imports.

Early mercantilism appeared in the late 15th century (XV - XVI centuries). To achieve the desired goals: were established high prices for exported goods, was completely limited imports of goods, the export of gold and silver from the country was banned.³

Later mercantilism developed from the second half of the 16th century to the middle of the 18th century. In the second half, mercantilism was based on a system of active trade balance, which means selling more and buying less. Representatives of late mercantilism were: Thomas Man, A. Serra, Antoine de Mont Chretien. They created the theory of active trade balance.⁴

According to the theory of the trade balance:

- 1) Trade is the basis of the prosperity of the state.
- 2) An increase in monetary resources is possible through an active foreign trade balance.
- 3) Development of industries that produce goods for export.

³ Mercantilism (2016). In: Wikipedia: the free encyclopedia [online]. Available at: <https://en.wikipedia.org/wiki/Mercantilism>

⁴ KIREEV, Aleksey. (1997) *International economics*. Moscow. ISBN 57-133-0899-5.

- 4) Import restriction.
- 5) The growth of the population to maintain a low level of salaries.

Late mercantilism was progressive. He contributed to the development of trade, shipbuilding, industry, international division of labor.

In Russia, mercantilism existed during the reign of Peter I (XVII-XVIII century). The mercantilism of Peter the Great included:

- 1) Attracting gold and silver to the country.
- 2) Increase export.
- 3) Promotion of Russian merchant class.
- 4) Development of industry.
- 5) New channels and ports were built.

3.2.3. Theory of Absolute Advantage

“The classical school of economics can be related to the period from 1776 to 1870. The beginning of modern economic science is associated with the publication of “The Wealth of Nations” by Adam Smith in 1776. This was the start of a period up to around 1870 in which the classical economic theory was developed. The great names of this period were Adam Smith, David Ricardo, Thomas Malthus, John Stuart Mill and Karl Marx”⁵

Adam Smith was an opponent of mercantilism. He argued that under mercantilism, nations cannot become rich simultaneously. He also said that the wealth of countries does not depend on gold reserves but depends on the goods and services available to their citizens. His famous work was a criticism of mercantilism (“The Wealth of Nations (1776)”). Smith wrote, “If a foreign country can supply us with a commodity cheaper than we ourselves can make it, better buy it of them with some part of the produce of our own industry, employed in a way in which we have some advantage”.⁶ He said that trade would be beneficial for both countries if country A exports goods that it can produce at a lower cost (due to favorable natural and climatic conditions, cheap and easy access to raw materials, special knowledge and skills in the production of goods and other special factors of production) than country B. And import goods that country B can produce with a lower cost than it. Therefore, some countries can produce goods more efficiently

⁵ KJELDTSEN-KRAGH, Soren. (2002). *International economics*. Copenhagen Business School. ISBN 87-630-0037-7.

⁶ SMITH Adam (2007). *Wealth of Nations*. MegaLibri. ISBN 978-1604598919

than others.

This specialization can lead to greater productivity, because:

- The workforce can become more skilled if it will do the same job
- Workers will not waste time on switching from one type of product to another,
- Long periods of production of homogeneous products will stimulate the development of more effective methods of work,

For example, there are two countries A and B, which produce cheese and sausage with equal amount of resources that is 200 laborers. Country A uses 15 laborers to produce 1 ton of cheese and 30 laborers to produce 1 ton of sausage. Country B uses 27 units of laborers to produce cheese and 10 units of laborers to produce 1 ton of sausage.

Table № 1 Resources used to produce a ton of cheese and sausage without trading

	Country A	Country B
Cheese	15	30
Sausage	27	10

Source: Intelligent economist. Available at: <https://www.intelligenteconomist.com/absolute-advantage/>

It can be seen from Table 1 that country A has absolute advantage in producing cheese, since this country can produce 1 ton of cheese, by using fewer workers than country B. On the other hand, country B has absolute advantage in producing sausages, since this country can produce 1 ton of sausages, by using less labors as compared to country A.⁷

Real examples of such advantages are Chilean copper, Australian wool and Russian oil.

⁷ DUNCAN K. Foley. (2006) *Adam's fallacy a guide to economic theology*. Cambridge, Mass: Belknap Press of Harvard University Press. ISBN 978-067-4027-077.

3.2.4. Comparative Advantage theory

After reading the theory of «Absolute advantage» by Adam Smith many questions can come in mind. For example, like: “What would happen if a country has absolute advantage in all the products or no absolute advantage in any of the product?”. And the answer for this question was given by David Ricardo in his theory of comparative advantage. In order to follow Adam Smith's theory, countries had to independently produce all the necessary goods and impose a large tax on imported goods, because of fear of competition with other countries. However, David Ricardo showed that in international trade all countries can win and showed a new economic theory. The main idea of this theory is that international trade has benefits for all participants, although some will receive less benefit than others. In other words, each country will produce the product that is produced best. If each country will be specialized on a specific product, they will export surplus production, therefore both countries (the exporter and importer) will remain in the win.⁸

For example: Let's say, that in England for the production of 1 liter of wine demanded 120 hours of work and for the production of 1 m² of cloth - 100 hours, and Portugal 1 liter of wine - in 80 hours and m² of cloth - 90 hours. Portugal has an absolute advantage in the production of cloth and wine. But, it is important to note that each country has a comparative advantage in the production of cloth and wine. Portugal, giving up 1 liter of wine, can additionally create a cloth of 8/9 m², and England due to a reduction in the production of 1 liter of wine can only get a cloth of 1.2 m². Therefore, if in Portugal to reduce the production of cloth by 1 m², we will get 8/9 liters of wine more. Similarly, in England, if you cut cloth production by 1m, you can produce 5/6 liters of wine more.⁹ David Ricardo demonstrated that the existence of such differences in the relative price of production benefit of the country is advantageous in products that require a relatively lower cost and share their products. These differences can be clearly seen in Table 2.

⁸ CARBAUGH, Robert. (2010) *International Economics*. 13th Edition. South-Western College Pub. ISBN 978-0324581485.

⁹CHO, Tong-söng a Hwi-ch'ang MUN. (2013) *From Adam Smith to Michael Porter: Evolution of competitiveness theory*. N.J.: World Scientific. Asia-Pacific business series, v. 7. ISBN 9789814401661.

Table № 2 Differences in the relative cost

Product	No exchange			There is an exchange		
	England	Portugal	Total	England	Portugal	Total
Cloth (1 meter)	100	90	190	200	-	200
Wine (1 liter)	120	80	200	-	160	160
Total	220	170	390	200	160	360

Source: by author using book Fomichev, Viktor. International trade.

Basic prerequisites for the theory of comparative advantage:

- Only two countries and two goods;
- Existence of free trade, i.e., absence of import or export duties and other restrictions in foreign trade;
- Absence of transport expenses;
- Unchanging technologies in the production of goods;
- Complete interchangeability of resources.¹⁰

3.2.5. Heckscher-Ohlin theorem

One hundred twenty-five years after the publication of the theories of Smith and Ricardo, Swedish economists Eli Heckscher and Bertel Olin created a model of international trade - the theory of the relation of production factors (also called Heckscher-Ohlin theorem). This theory asserts that each country exports those goods, for the production of that country possesses the relatively surplus factors of production, and imports goods, for which production it is

¹⁰ KIREEV, Aleksey. (1997) *International economics*. Moscow. ISBN 57-133-0899-5.

experiencing a relative lack of production factors.¹¹

In the Heckscher-Ohlin theory, both factors - labor and capital - are mobile and can move between countries. Thus, they supplement and sometimes replace, international trade.¹² Another conclusion from the Heckscher-Ohlin theory, which was made by the American economist Paul Samuelson, is that the moving of factors of production between countries leads to a leveling of prices, more precisely, to equalize the price ratio for these factors in different countries. Such a conclusion is often called the Heckscher-Olin-Samuelson theorem.

3.2.6. Porter's theory

In 1990, the professor of Harvard University – Michael Porter, developed the theory of competitive advantages.

Factors for the creation of this theory are:

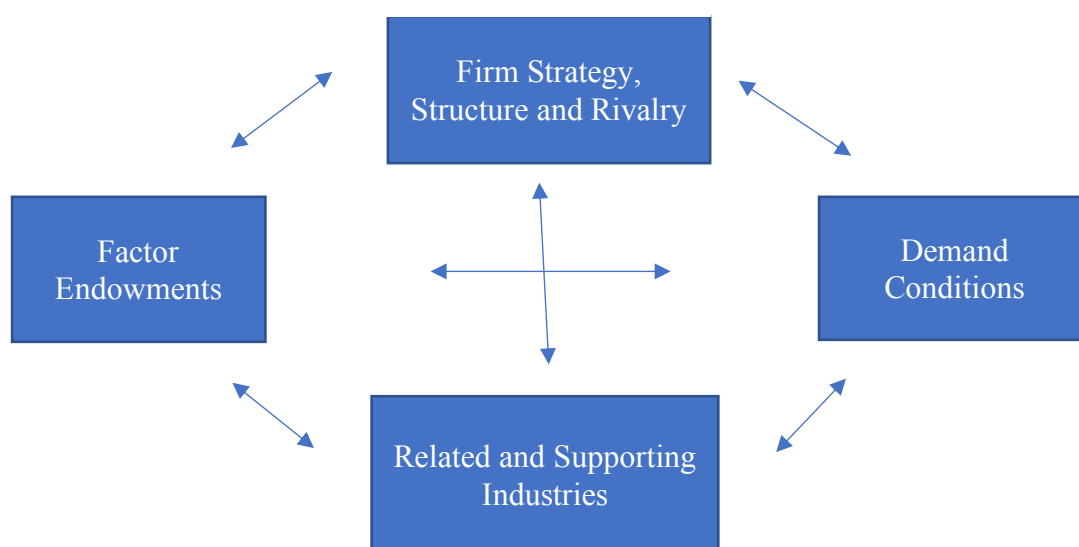
- changes in the world economy and international competition in the context of globalization, so the previous classical theory was not able to characterize the competitive advantages;
- global changes in technology;
- new industrialized countries;
- expansion and internationalization of production

The theory is based on the four most significant factors that can be represented in the form of a rhombus (a national diamond, as Porter called it) and which are the determinants of competitive advantages. The country has a competitive advantage only when it has all the elements of the diamond.

¹¹ Heckscher-Ohlin theorem (2017). In: Wikipedia: the free encyclopedia [online]. Available at: https://en.wikipedia.org/wiki/Heckscher-Ohlin_theorem

¹² HECKSCHER, Eli F. (1991) *Heckscher-Ohlin Trade Theory*. MIT Press (MA). ISBN 0262082012.

Graph № 1 The Porters diamond model



Source: Source: CHO, Tong-song a Hwi-ch'ang MUN. From Adam Smith to Michael Porter

In the list of factor conditions M. Porter included the following set of conditions:

- 1) Physical resources - the quantity and quality of minerals, water, land, forest resources, hydropower resources, etc., the geographic location and climatic conditions of the country;
- 2) Human resources - the number, qualifications and cost of labor, the rate of working time, work ethics;
- 3) Infrastructure - transport system, communication system, communication system, health care, etc.;
- 4) Knowledge resource - resources that are concentrated in universities, data banks;
- 5) Cash resources - capital that can be sent to production.

“Demand conditions” are represented by three components:

- 1) The structure of domestic demand- segmental structure of the market (population structure by age, gender, place of residence, specific income), demanding and intelligible consumers (If the consumer is more demanding, then the commodity structure is more developed), supposed customer needs;
- 2) The value and nature of the growth of domestic demand- If the market is expanding, there is an opportunity for the development of technology and if the market is saturated, then companies start to export more goods and improve the goods;
- 3) The internationalization of demand - Firms start to work in the foreign market and use the experience of other countries.

“Related and supporting industries” include suppliers, competitors and complementary firms is regarded as highly supportive for an industry to build competitive advantages.

"Strategy of the firm, its structure and competitors" this factor is related to how the organization manages, the company's corporate goals and the availability of competitors. Such factors as management, efficiency and interaction between companies, are differently formed in different cultures, regions, countries.

Rivals in the domestic market are an important part of the system and this factor is a good incentive for the company to produce the best product. Competitors in the domestic market have the same production conditions (labor cost, raw materials, etc.), so they have to invent something new. ¹³In his model Porter did not add the government, because he believed that the government had a bad effect on competitiveness.

3.2.7. The Leontief paradox

In 1953, an American scientist, a future Nobel laureate Vasily Leontief, published the results of his studies, which were devoted to the practical verification of the provisions and the concept of Heckscher - Ohlin theorem (work "Domestic Production and Foreign Trade: the American Capital Position Re-examine "(1953)).

When Leontiev researched the structure of exports and imports in United States, he found that the United States exported relatively more labor-intensive goods and imported - capital-intensive goods. Considering that in the post-war years in the US capital was a relatively excessive factor of production, and the level of wages was significantly higher than in other countries, this result contradicted the Heckscher-Ohlin theory and was therefore called the "Leontief paradox."

Leontiev put forward the hypothesis that in any combination with a given amount of capital, 1 person per year of American labor is equivalent to 3 people per year of foreign labor. He suggested that the greater productivity of American labor is due to the higher qualifications of American workers. Leontiev conducted a statistical check, which showed that the United States exports goods that require more skilled labor than imported goods.¹⁴

In later models, Western economists began to use 5 factors: financial capital, skilled and unskilled labor, agricultural land suitable for agricultural production and other natural resources.

¹³ PORTER, Michael E. (1998) *The competitive advantage of nations: with a new introduction*. New York: Free Press. ISBN 06-848-4147-9.

¹⁴ FOMICHEV, Victor. (2001) *International trade*. Moscow: INFRA-M. 445 s. ISBN 5-16-000145-X.

3.2.8. Globalization

One of the main processes in the development of the world economy in the XX-XXI century is the progressive globalization. “Globalization” is a process in which the world is transformed into a single global system.¹⁵ “The globalization of the world economy” is the transformation of the world space into a single zone where information, goods, services and capital freely move. After the Second World War began the processes of globalization and significantly accelerated since the mid-1980s. New technological developments, reduce the costs of international transport and the liberalization of markets contributed to the development of globalization.

The process of globalization covers different spheres of the world economy, such as:

- Foreign trade, international trade. World trade in goods, services, technologies, objects of intellectual property;
- International financial-credit and currency transactions;
- Industrial, scientific, technological and information cooperation;
- The growth of international labor migration.

The main advantages of globalization are:

1. International competition (Competition is a stimulant of production, if competition is higher, then the level of output is higher)
2. The introduction of modern technology leads to increased productivity.
3. Countries that are at the stage of development can catch up with advanced states. Globalization helps them to improve their economic situation and gain a foothold in the global arena.

The disadvantages of globalization are:

1. The wages of skilled workers are increasing, while unskilled workers have low wages. Unemployment is rising.
2. Environmental issues. Limited natural resources, heavy industry badly affects the environment.

¹⁵ Globalization. (2016) In: Investopedia.com [online]. Available at: <https://www.investopedia.com/terms/g/globalization.asp>

3.3. International trade institutions

Almost every country exports and imports goods to increase the growth of the country's economy. It is possible to see the increase of goods in international trade if countries follow a common standard and set of rules related to import and export. These rules are established and regulated by various international economic institutions. These institutions establish equal rules for all countries and these rules help to develop economic cooperation.

Special role in regulating international trade has such organizations as:

- WTO (World Trade Organization)
- OECD (Organization for Economic Co-operation and Development)
- UNECE (United Nations Economic Commission for Europe)

3.3.1. GATT

General Agreement on Tariffs and Trade this is an international agreement that was concluded in 1947. The goal of GATT was the restoration of the economic balance after the Second World War. This agreement for nearly 50 years served as an international organization.

In 1947, 23 countries signed the GATT agreement: Australia, Belgium, Burma, Brazil, Britain, India, Canada, China, Cuba, Lebanon, Luxembourg, Netherlands, New Zealand, Norway, Pakistan, Syria, USA, France, Ceylon, Czechoslovakia, Chile, South Africa, Southern Rhodesia. By 1994, 111 countries had entered into the GATT. 8 rounds of multilateral negotiations were held: 1947 - "Geneva Round" (first 23 countries); the second round in 1949 - "Annecy round" (13 countries); the third round in 1950-1951 years - "Tokyo Round" (38 countries); the fourth round in 1955-1956 years - "Geneva Round" (26 countries); the fifth round in 1960-1961 years - "Dillon round" (26 countries); the sixth round in 1964-1967 years - "Kennedy Round" (62 countries); the seventh round in 1973-1979 years - "Tokyo Round" (102 countries); the final in 1986-1993 years - "The Uruguay Round" (123 countries) ¹⁶

The main goal of GATT is to reduce barriers to international trade. This was achieved by reducing tariff barriers, the introduction of a limited number of imported goods (import quota) and trade subsidies through different additional agreements.

¹⁶ BURMISTROV, Vladimir. (2001) *International trade*. Jurist. ISBN 5797504022.

Functions of GATT were:

- GATT compiled a set of rules that regulated the government's behavior in international trade;
- Helped the government to resolve merchant disputes with other GATT members;
- Had the role of a forum for negotiations on trade liberalization.¹⁷

On the basis of the agreement, a new stronger global organization was formed, the WTO. On 15 April 1994, the GATT failed, after the completion of the Uruguay Round.

3.3.2. The WTO

The World Trade Organization (WTO) is an international economic organization, which establishes the rules of international trade in services, goods and intellectual property and monitors their implementation.¹⁸

The organization is the successor of the General Agreement on Tariffs and Trade (GATT), which was signed by 23 countries in Geneva in October 1947. The official date for the creation of the WTO was January 1, 1995. Now in the WTO there are 164 states. Russia became a full member of the organization since August 22, 2012.

Functions:

- Monitoring the implementation of trade agreements;
- Resolution of trade disputes between members of the organization;
- Monitoring of trade policy of members of the organization;
- Organization and provision of trade negotiations on the new WTO rules;
- Admission of new members.

The headquarters of the WTO is located in Geneva, Switzerland. The head of the WTO (general director) - Robert Carvalho di Azevedo. Employees of the organization are about 600 people.¹⁹

3.3.3. The OECD

The OECD is an Organization for Economic Co-operation and Development. The OECD is an international economic organization that recognizes the principles of representative democracy

¹⁷ Roslegrom.ru (2006) *GATT* [online]. Available from:

<http://www.roslegprom.ru/Go/ViewArticle/id=791&printer=1>

¹⁸ Wto.org (2016) *WTO. World Trade Organization* [online]. Available from:

https://www.wto.org/english/thewto_e/whatis_e/whatis_e.htm

¹⁹ Problems and prospects of the WTO. (2010) WTO-consulting [online]. Available at: <http://wto-consulting.ru/problemy-i-perspektivy-vto/>

and a free market economy. ²⁰In 1948, the OECD was founded as the Organization for European Economic Co-operation (OEEC) and members of the organization were only the countries of the European Union. Later, in 1961, the OEEC was reformed into the Organization for Economic Co-operation and Development and membership was extended to non-European states. Now the organization includes 35 states, most of the states are members of the EU. The headquarters of OECD is in Paris, France.

OECD does a lot of analytical work, develops recommendations for member countries, and also provides a platform for organizing multilateral negotiations on economic problems. A significant part of the OECD's activities is related to countering money laundering, tax evasion, corruption and bribery.

3.3.4. The IMF

The International Monetary Fund is a special institution that was established by the United Nations on December 27, 1945. The headquarters of the IMF is located in Washington, USA. International Monetary Fund unites 189 states. The IMF provides short-term loans if the state has a deficit balance. Provision of credit usually has a set of conditions and recommendations. The objectives of IMF:

- Support for the stability of exchange rates;
- Assist in the development of international cooperation in the monetary and financial sphere;
- Provide support to the states (members of the fund), by providing the fund's resources for solving temporary problems in the economy.²¹

3.4. The Foreign trade policy

Foreign trade policy is a purposeful influence of the state on trade relations with other countries. Different countries have different positions in the international market. Each country holds a specific policy to protect their interests in this area. ²²

In the modern world economy there are two trends:

1. Protectionism;
2. Free trade.

²⁰ OECD (2018). In: Wikipedia: the free encyclopedia [online]. Available at: <https://en.wikipedia.org/wiki/OECD>

²¹ The IMF (2011) [online] Available at: <http://www.grandars.ru/student/mirovaya-ekonomika/mvf.html>

²² Trade policy. In: Business dictionary [online]. Available at: <http://www.businessdictionary.com/definition/trade-policy.html>

3.4.1. Protectionism

Protectionism is a type of foreign trade policy that limits the number of imported goods. Instead, the state supports the production of domestic goods. The goal of this policy is to increase gross national income, increase employment and improve social indicators.

Types of protectionism:

1. Selective protectionism - protection from a specific product, or against a specific state;
2. Sectoral protectionism - protection of a particular industry;
3. Collective protectionism - mutual protection of several countries united in a union;
4. Hidden protectionism - protectionism through non-customs methods.

Supporters of protectionism believe that the restriction of imports is necessary to support domestic producers, to save jobs, which should ensure social stability. The reduction in imports will also increase domestic demand in the country, stimulating the growth of production and employment. However, protectionism creates the conditions for maintaining inefficient production, as it limits competition. Although imports reduce employment in import-substituting industries, it creates new employment, which may be related to the purchase, sale and servicing of imported products.²³

The main advantages of protectionism are:

- Protectionism is important for young industries which need time to strengthen their positions in the market;
- Increase in state budget revenues;
- Increase in sales of domestic goods and services;
- Ensuring economic and national security.

3.4.2. Free trade policies

In contrast to protectionism, the free trade policy supports the openness of the domestic market for foreign goods, capital and labor, thereby increasing competition in the domestic market. The free trade policy is based on the freedom of market forces of supply and demand and minimal state intervention in market relations.²⁴

The main advantages of free trade are:

- Stimulation of competition;

²³ ROBERTS, Russell D. (2007) *The choice: a fable of free trade and protectionism*. 3rd ed. Upper Saddle River, N.J.: Pearson Prentice Hall. ISBN 978-0935328325.

²⁴ ROBERTS, Russell D. (2007) *The choice: a fable of free trade and protectionism*. 3rd ed. Upper Saddle River, N.J.: Pearson Prentice Hall. ISBN 978-0935328325.

- Manufacturers are forced to innovate, improve the quality of products and reduce its cost and price;
- Expansion of the supply of goods;
- More efficient allocation of resources in world trade.

3.4.3. Instruments of foreign policy

For regulation of foreign policy, there are special regulatory instruments, which are divided into tariff and non-tariff. This classification was proposed by the GATT in the late 1960s.

Tariff restrictions are a special tax levied on imported or exported products. There are export and import tariffs. Tariff restrictions on imports are used to increase the revenues of the state budget, as well as to reduce unfair competition. When the tariff is included, the domestic price of imported goods rises above the world price.

There are two main types of customs duties:

- 1) Specific duties (fixed amount per unit of measurement);
- 2) Ad valorem duties (charged as a percentage of the customs value of goods).

Customs tariffs usually include three types of duties:

- 1) maximum (used in trade with countries with which there are no trade agreements);
- 2) minimal (used when trade agreements exist);
- 3) preferential (a kind of trade duties, which are usually used for the import of goods from developing countries).²⁵

The export tariff is designed to limit the export of certain products from the country (for example, raw materials used in the production of weapons). Basically, export tariffs are used in developing countries and countries with economies in transition. Industrialized countries do not use export tariffs, for example, in the United States, export taxation is prohibited by the constitution.

A Customs Union is one of the directions in the development of tariff methods. The Customs Union is a type of trade bloc which is composed of a free trade area with a common external tariff. When creating a free trade zone, participating countries eliminate customs duties in trade. However, each country sets its own level of customs protection in relation to third countries. The customs union has not only duty-free trade between the member countries of the union, but also the establishment of a single external customs tariff.

²⁵ The main types of Trade Policy. In: Ebrary.net. [online] Available at: https://ebrary.net/7270/economics/international_trade_policy

Non-tariff restrictions are the most extended forms and methods of regulating foreign trade compared with tariff methods. Non-tariff instruments include various economic, political and administrative methods of direct or indirect restriction of foreign economic activity.²⁶

Non-tariff restrictions include:

- Quotas are quantitative restrictions that are imposed on imports (import quota) or export (export quota) of any goods for a certain period.

There are different types of quotations:

1. Global quota is created for state needs;
2. Exclusive quota - is introduced as a last resort, connected to ensuring national security and protection of the domestic market.
3. Natural quota - related to the limited capacity of the pipeline, terminals in ports;
4. Tariff quota is a permit for the import of a certain quantity of goods duty-free or at reduced rates; goods imported in excess of this limit are subject to customs duties at normal rates.

- Licensing assumes that it is necessary to obtain a special permit (license) for the export (import) of certain goods.
- The embargo is an absolute and complete ban on the conduct of export-import operations.
- Subsidies are various benefits allocated in monetary form from state funds.

Usually provided to the following subjects:

- domestic producers in order to protect them from competition from cheaper imported goods;
 - producers of export products in order to stimulate its supply to foreign markets.
- Administrative barriers are restrictions that relate to the quality of imported goods, the conditions for their production and sale.²⁷

²⁶ Non-tariff barriers to trade. (2016) In: Wikipedia: the free encyclopedia [online]. Available at: https://en.wikipedia.org/wiki/Non-tariff_barriers_to_trade

²⁷ Non-tariff barriers to trade. (2016) In: Wikipedia: the free encyclopedia [online]. Available at: https://en.wikipedia.org/wiki/Non-tariff_barriers_to_trade

4. The Analytical Part

4.1. Basic directions of foreign trade politics of Russia

The new Russian economy began after the collapse of the Soviet Union. During the economic reforms in the 1990s, most industrial enterprises were privatized. But at that time in Russia the private sector was under strong pressure from the state. Changes in the early 1990s strongly influenced the country's economy, as a result of which Russia's GDP has been steadily declining for 5 years. After the crumple of the USSR, the first insignificant economic growth in Russia occurred only in 1997. In 1997, the Asian financial crisis began, which had a negative impact on the Russian economy. Because of this, in 1998 the Government of Russia was unable to pay all debts, and a sharp fall in the ruble rate had a bad effect on the lives of citizens. Thus, for Russia, 1998 is the year of crisis and a large outflow of capital from the country.

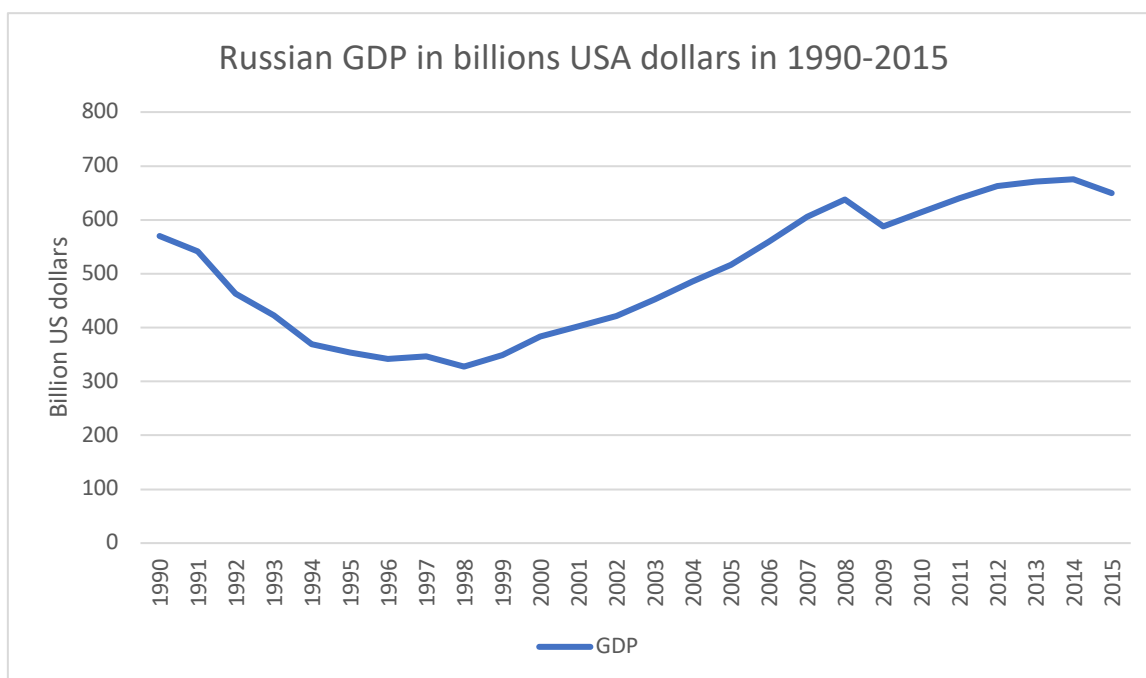
But already in 1999 the Russian economy began to recover. The main incentive was the very low ruble rate relative to other world currencies, which became an incentive for the growth of domestic production and export. After that, Russia has a period of stable economic growth. Stable economic growth became possible, because of high oil prices, combined with structural reforms conducted by the Russian government in 2000-2001. Due to GDP growth, the inflow of foreign investments into the economy was increased and the outflow of capital from the country almost stopped.

By 2009, Russia was the world's largest exporter of natural gas, the second largest exporter of oil. Such dependence on exports makes Russia vulnerable to world economic crises and changes in world commodity prices. Also in 2008-2009 the Russian economy was not ready for the global economic crisis. Oil prices fell and foreign investment in the economy declined. The Central Bank of Russia spent about one-fourth of gold and foreign exchange reserves (about \$ 600 billion) to slow down the devaluation of the ruble.

In mid-2009, the decline in economic activity was overcome and the Russian economy began to grow in early 2010. However, severe drought and fires reduced agricultural output, which led to a ban on grain exports and slowed the growth rate in other sectors of the economy. In 2011, the

growth of the economy was supported by high oil prices. This is what helped Russia overcome the state budget deficit, which was caused by the crisis (2008-2009).²⁸

Graph № 2 Russian GDP in 1990-2015



Source: *The investor school*, Available at: <http://investorschool.ru/vvp-rossii-2016>

Since 1990-1997, the volume of GDP has rapidly declined. Since 1998, there has been an increase in the GDR. In 1999, GDP amounted to 348.40 million US dollars, which is 6.4% more than in 1998. From 1999 to 2008 the GDP grew by 7% every year (10 percent in 2000, 5.1 percent in 2001, 4.7 percent in 2002, 7.3 percent in 2003, 2004 - 7,2%, in 2005 - 6,4%, in 2006 - 8,2%, in 2007 - 8,5%, in 2008 - 5,2%). From 1999 to 2007, the manufacturing index of manufacturing industries grew by 77%, including machinery and equipment - by 91%, textile and clothing - by 46%, food production - by 64%. This was a good result and Russia was on the third place in the world economy, after Japan and China. In 2007, the growth rate of the Russian economy was the highest in the last few years. As a result of this year, Russia became one of the seven largest economies in the world, leaving behind Italy and France, and also joined the group of countries with the highest level of human development. In 2008, the GDP of Russia had the highest rates. But then we can see how the level of GDP falls due to the crisis. The crisis led to a collapse in the stock market, devaluation of the ruble, a decline in industrial production, also a

²⁸ Economy of Russia (2018). In: Wikipedia: the free encyclopedia [online]. Available at: https://en.wikipedia.org/wiki/Economy_of_Russia

decrease in people's incomes and rising unemployment. In 2009, GDP fell by 7.9%, compared with 2008. But the decline was not long and already in 2010, the GDP increased by 4.5%. The highest level of GDP was set in 2014 and amounted to 675.3 billion dollars. But already in 2015, the GDP was 649,6 billion dollars, which is 3.81 percent less than in 2014. This is due to the sanctions, the unstable exchange rate of the ruble, the drop-in oil prices and other processes taking place in the world. In 2016, the actual decline in GDP was 0.2 percent.

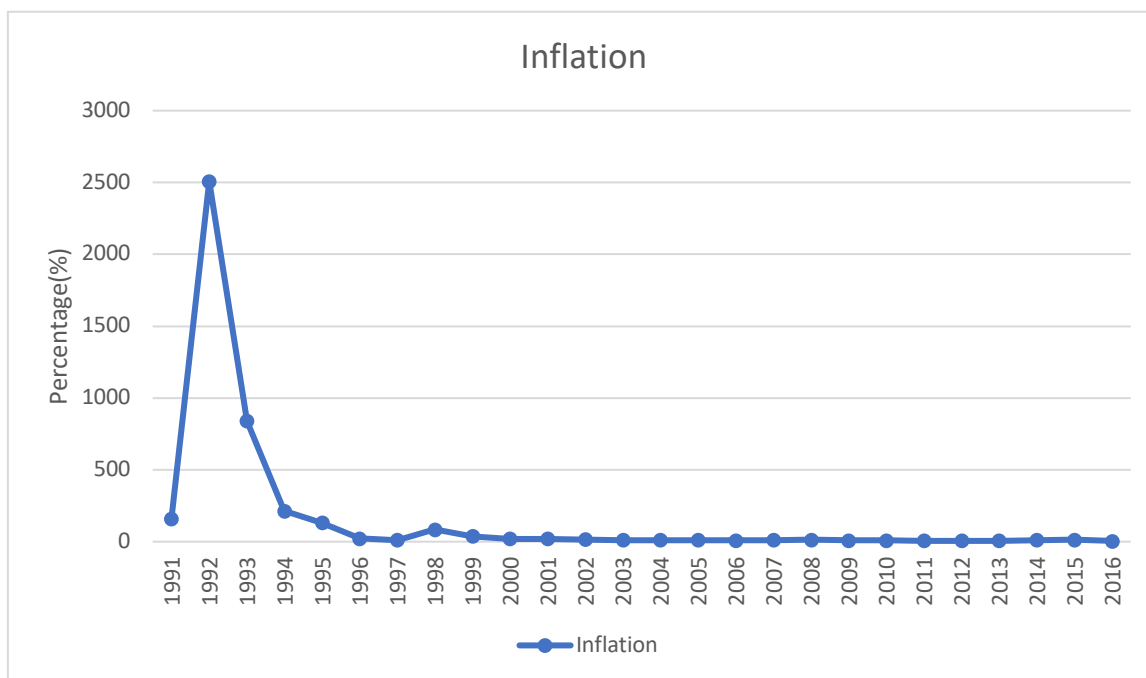
Another important component of the economy of any country is inflation. Inflation is the rise in prices for goods and services in an economy over a period of time and, consequently, the purchasing power of currency is falling. ²⁹

The causes of inflation in Russia are:

- Deficiency of state budgets and excessive emission of paper money.
- Militarization of the economy and growth of military expenditures of the state.
- Monopolization of markets
- Excessive credit expansion.
- Rising prices for exported and imported goods.
- Currency crises and currency devaluations.
- Excessive taxation.

²⁹ ²⁹ Inflation (2018). In: Wikipedia: the free encyclopedia [online]. Available at: <https://en.wikipedia.org/wiki/Inflation>

Graph № 3 The inflation rate in Russia 1991-2016



Source: Inflation rate in Russian Federation. Available at: <http://inflationinrussia.com>

In Graph 3, we can observe the dynamics of inflation from 1991-2016. After the collapse of the Soviet Union, in Russia begins hyperinflation. In 1991, inflation was 160.4%. The slow decline in inflation began only in 1993, when the level of inflation fell from 2508,8 % to 840 %. Later, the decline in inflation was observed from 1993 to 1998, when inflation was about 11%. In 1999, ruble lost more than 80 %. From 2001-2011 the average inflation rate was 8% per year. The lowest inflation rate was observed from 2011-2013, and it was 6%. Starting in 2013, the inflation rate is growing and already in 2015, inflation is 13% per year. In 2016, the inflation rate fell again and amounted to 5 percent.

4.2. Analysis of the main directions of foreign trade in Russia

Foreign trade has always been an important and integral part of the economy of any country. After the collapse of the USSR, the dynamic development of foreign trade played an important role in national economic development. According to the calculations of the World Bank, since 1992-2011, exports of Russian goods grew 8.45 times, and imports - 7.1 times. Export is the transport of national goods to other countries for sale. Usually countries want to increase the number of export. The largest exporting countries in the world are China and United States. Russia is the 19th largest export economy in the world.

Import is the transport goods or services into the country from abroad for sale. The largest importer in the world is United States. Russia is 24th largest import economy in the world.³⁰

First of all, in the analytical part, we will consider the general trends of foreign trade in Russia. The table No.3 demonstrates volume of import and export for 2005-2016 in Russia.

Table № 3 Export and import in Russia in 2005-2016

Year	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Export	240024	297481	346530	466298	297155	392674	515409	527434	523275	497763	345900	285490
Import	123839	163187	223084	288673	183924	245680	318555	335771	341337	308026	184500	183600
Trade balance	116185	134294	123446	177625	113231	146992	196854	191663	181938	189737	161400	101890

Source: Federal State Statistic Service

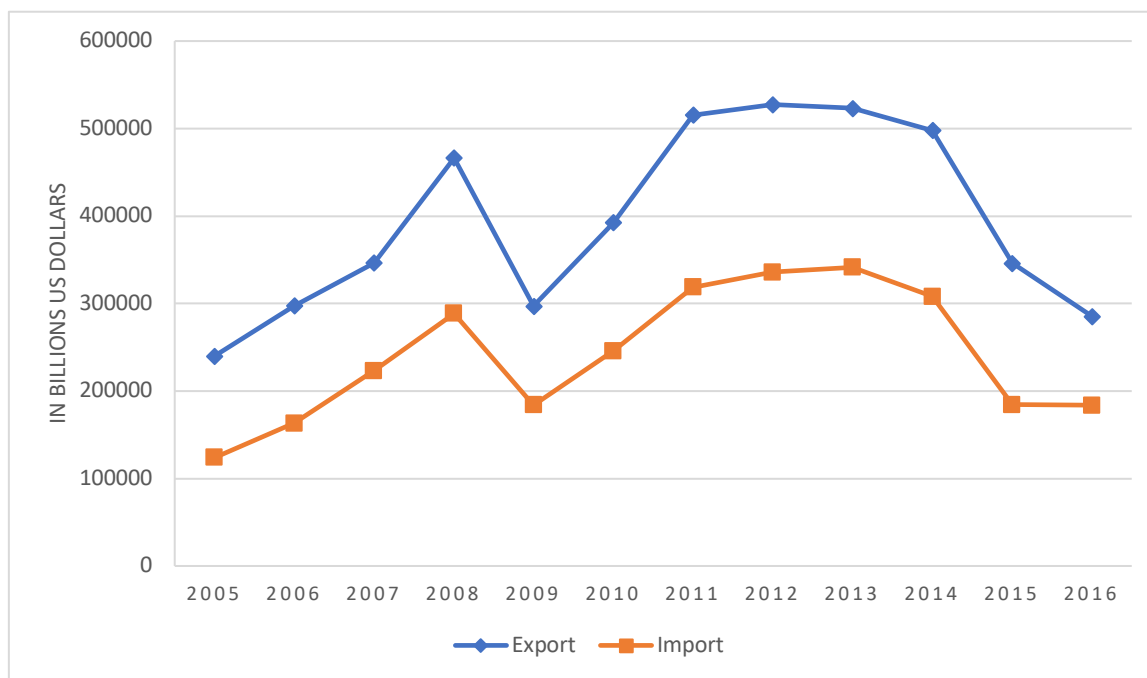
It should be noted that different sources provide different information on the effectiveness of Russia's foreign trade, so the data of the State Statistics Committee differ from the data of the State Customs Committee.

In Table №3 we can see the changes in the quantity of the exported and imported goods, and also the trade balance from 2005 to 2016. In the period from 2005-2008 we can observe a smooth growth in the number of exports and imports in Russia. The reason for this were: the growing competitive pressure associated with the strengthening of the ruble, the continued rapid growth of domestic income and demand, improving investor expectations.

This data is depicted from the Graph No. 4 all rises and falls in imports and exports for the period from 2005 to 2016.

³⁰ Russia export, import and trade partners. (2016) In: Atlas.mit.edu [online]. Available at: <https://atlas.media.mit.edu/en/profile/country/rus/>

Graph № 4 Russian export and import 2005-2016



Source: Federal State Statistic Service³¹

As it follows from the graph №4, the growth of Russia's exports and imports continues until 2008. Later, in 2009 there was a sharp decline and the reason for this recession was the global financial crisis. By early 2009, the Russian economy had entered an industrial recession. There is an increase in unemployment and inflation, a number of investment programs have been suspended. The financial system of Russia was not ready for the global economic crisis, which led to an industrial decline and, consequently, to a decrease in exported and imported products. The global crisis has led to a weakening of the exchange rate, to a slowdown in economic growth, a reduction in investment in collies and a reduction in the demand for labor. According to Table 3, in 2009, Russia's exports amounted to 297,155 billion US dollars and imports 189,924 billion US dollars, that is 36% less than in 2008.

After the financial crisis of 2009, Russia began a gradual recovery and already in 2010, the quantity of exports increased by 24,33% and amounted to 392,674 billion US dollars. The number of imports increased by 25.14% and amounted to 245680 billion US dollars. The increase in the value of exports in 2010 compared with 2009 was due to an increase in the average prices of goods exported by Russia and an increase in the physical volumes of their supplies. The basis of Russian exports in 2010 to the far-abroad countries was fuel and energy products, which accounted for 70.8% (in 2009 – 69,6 %) of all exports. The increase in the value

³¹ http://www.gks.ru/wps/wcm/connect/rosstat_main/rosstat/en/main/

of Russian imports in 2010 compared to 2009 was due mainly to the growth in the number of imported goods.

Also, in 2011, Russia had the fastest growth in export. The increase in the value of exports in 2011 compared with 2010 was entirely due to an increase in the average prices of goods exported by Russia. In 2012, the level of exports and imports slightly increases compared to 2011. In 2013, an import growing by 1,7% and export fell by 0,7% compared to 2012.³²

The main factors that affected these indicators are:

- One of the reasons for the decline in exports was the appreciation of the ruble, which made Russian goods expensive;
- Russia's accession to the WTO;
- Global trends: the economy of the countries after the crisis of 2008 is developing slowly, which affects the volume of world trade;
- Negative for the economy was the decline in investment in fixed assets of large state-owned companies;
- The slowdown in consumer demand, due to large debt loads of the population.

In 2014, Russia reduced trade with other countries. Export fell by 4.87%, imports decreased by 9.8%. The reason for that were the debt and fiscal crisis of the ruble area and also the impact of sanctions. Russia's exports in 2014 amounted to 497,763 billion US dollars. Import fell to 308,026 billion US dollars. The main trading partners of Russia in 2014, continue to be far abroad countries. With foreign countries, foreign trade turnover amounted to 229.3 billion US dollars, with the CIS countries - 33.4 billion US dollars. In trade with CIS countries, exports decreased by 7.6% and amounted to 23250 million US dollars. Import fell by only 1.1% and amounted to 12974.9 million US dollars. Due to the decline in oil exports, the overall export to the CIS countries has declined. Negative impact on the economies of the CIS countries was also affected by geopolitical conflicts and lower prices for metals and minerals. In 2014, the volume of trade with Ukraine decreased by 28.8% and amounted to 28.2 billion dollars.³³

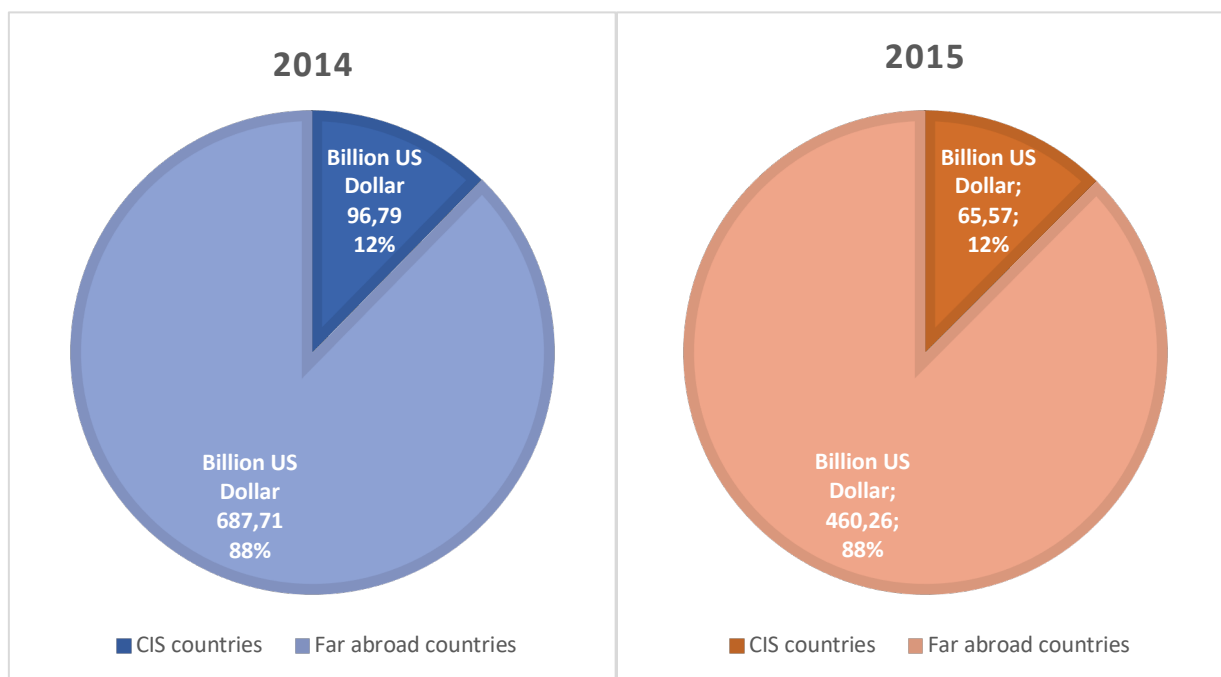
In 2015, Russia's external trade performance continue to fall. The number of exports is reduced by 30.5% and amounts to 345900 billion US dollars. The number of import is reduced by 40.1%

³² The analysis of Russian export and import in 2013(2016) In: ПРОВЭД [online]. Available at: <http://провэд.рф/analytics/research/5866-analiz-export-import.html>

³³ The Russian foreign trade in 2014. (2014) In; Global-finances [online]. Available at: [global- finances.ru](http://global-finances.ru)

and amounts to 184500 billion US dollars. But as can be seen in figure 4, the structure of foreign trade by group of countries did not change by the end of 2015, compared to 2014 - 12% are occupied by the CIS countries and 88% by far abroad countries.

Graph № 5 Structure of foreign trade 2014-2015 (Billion US dollar)



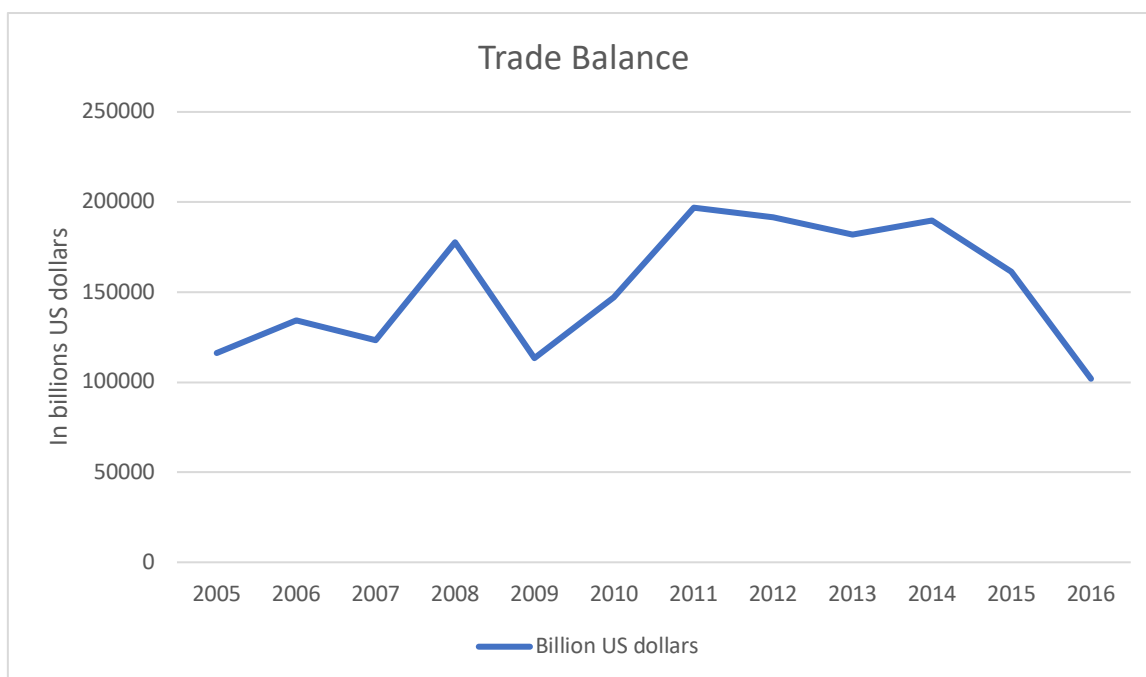
Source: Federal Customs Service³⁴

The figures for this year were the lowest in the last five years. The main reason for this was a decline in oil prices. The fall in oil prices caused the strongest devaluation of the ruble. Because of this, there was a drop-in import, demand for many foreign goods and raw materials fell sharply. Along with this, the tax legislation became tougher, taxes on real estate grew. These factors led to a reduction in production and, as a result, a reduction in exports of individual goods. During this period, industrial production in Russia fell by more than 4% and for individual goods by 25-30%.

In accordance with Table №3, in 2016 in Russia, the number of exports and imports continues to decline. In 2016, Russia's exports fell by 17,5% to 285490 billion dollars. Import amounted to 183600 billion US dollars, which is only 0.5% lower than in 2015. The main factor that influenced the decline in exports was the level of prices for crude oil. Such export dynamics is due to the fact that Russia exports mainly hydrocarbons - oil and gas - and together with the fall in prices for them, the total value of exports also fell. In 2016, Russia increased the supply of

many food products to China, Asia and Europe. Also, in 2016, Russia increased the export of wheat, meat, butter, milk, cheeses and cottage cheese. The main reason for the drop-in imports was the fall in the ruble exchange rate. In addition, the fall in total imports was the result of various bans. In 2016, the foreign trade turnover with the CIS countries amounted to 12%, with the countries of the European Union 42.8%, APEC countries 30% and the remaining countries 15.1%.

Graph № 6 Foreign trade turnover in Russia in 2005-2016



Source: Federal State Statistic Service

The trade balance is the difference between country's import and export payments. The first thing we can see by looking at Graph №6 is that Trade Balance has always been positive in the period from 2005-2016. This happened because the export level was always higher than the import level. The lowest indexes were committed in the 2016. In 2005, the index was also low and amounted to 116.185 billion dollars. Next year, the index grows to 134.294 billion dollars, which is 13.5% more than last year. In 2008 it was observed the rapid recession. As already mentioned earlier, the fall in 2009 was due to the global crisis. It is surprising that the index in 2014 was higher than in 2013, it is explained by the low level of imports in 2014. The highest foreign trade turnover was in 2011, because the difference between exports and imports was greater than in previous years. The Russian economy is highly dependent on world crises. The strong dependence on exports of goods makes Russian economy very vulnerable to global economic changes.

The commodity composition of the export in Russia

Russia is a big country; the country's territory is 17 125 191 square kilometers. It is not surprising that the Russia has a large number of resources, which country exports to other countries. Russia exports mainly oil, gas, coal, ferrous and non-ferrous metals, minerals.³⁵The main part of Russian exports is provided by oil and oil products. Also, the leading export items are natural gas, wood, mineral fertilizers, machinery and equipment, weaponry. More than 300 million tons of oil and about 250 billion cubic meters of gas are exported to the countries of the far and near abroad. The main trading partners of Russia are Germany, Italy, China, Turkey, Poland, Switzerland, Great Britain, USA, Finland. Russia is the main supplier of oil and oil products, gas, wood, machinery and equipment for the CIS (The Commonwealth of Independent States) countries. For most of the near abroad countries, Russia remains the main trading partner.

Table № 4 Commodity composition of Russian export 2005-2014

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Export in Billions of US Dollars	242	302	352	468	302	397	517	525	527	497	343
Mineral products	156	199	229	327	203	272	368	374	377	350	219
Foodstuffs and agriculture	4.5	5.6	9	9.3	10	8.8	13.3	16.8	16.2	18.9	16.2
Paper products and wood	8.3	9.5	12.2	11.5	8.4	9.6	11.3	10.2	11	11.6	11.1
Rubber and chemical products	14.3	16.8	20.9	30.2	18.7	24.5	32.6	32.1	30.8	29.1	25.3
Precious stones and products	40.5	49	56	61.7	38.5	50.3	58.7	58.3	55.1	52.4	40.9
Furs and products	0.33	0.36	0.35	0.35	0.24	0.3	0.38	0.5	0.6	0.4	0.3
Textile and footwear	0.96	0.96	0.95	0.87	0.7	0.8	0.9	0.8	0.9	1.1	0.7
Equipment and vehicles	13.5	17.4	19.6	22.7	17.9	21.3	26	26.6	28.9	26.3	23
Others	2.5	3.1	4.4	4.5	3.8	4.3	5.8	5.6	6.6	6.9	6.5

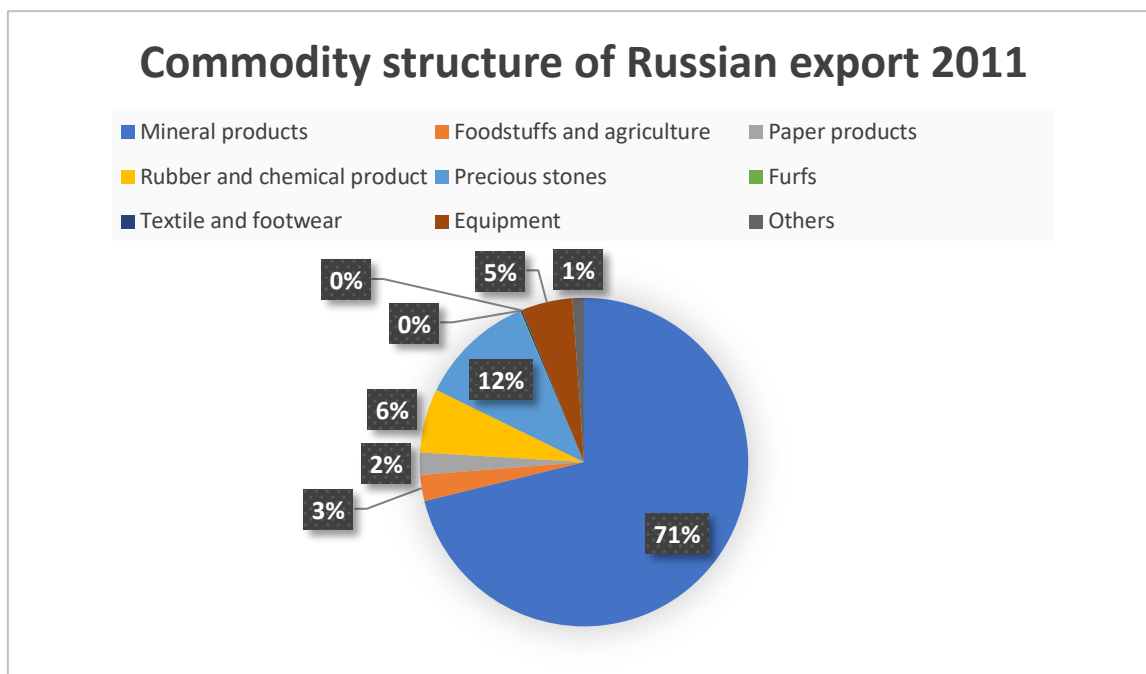
Source: Federal State Statistic Service. Available at: http://www.gks.ru/wps/wcm/connect/rosstat_main/rosstat/ru/

The main exported product in Russia are mineral products, they account for almost 3/4 of the country's exports. The second most popular export products are precious stones. As it was install by the Federal Customs Service (FCS), in 2011, the revenue from the export of mineral products increased by 27% compared with 2010. In real terms, exports of petroleum products decreased to

³⁵ Russia (2018). In: Wikipedia: the free encyclopedia [online]. Available at: <https://en.wikipedia.org/wiki/Russia>

244 million tons, this is 2.4% less than last year. Due to rising crude oil prices, revenues from oil exports increased by 25% in 2011.

Graph № 7 Commodity composition of Russian export 2011



Source: Federal State Statistic Service. Available at: http://www.gks.ru/wps/wcm/connect/rosstat_main/rosstat/ru/

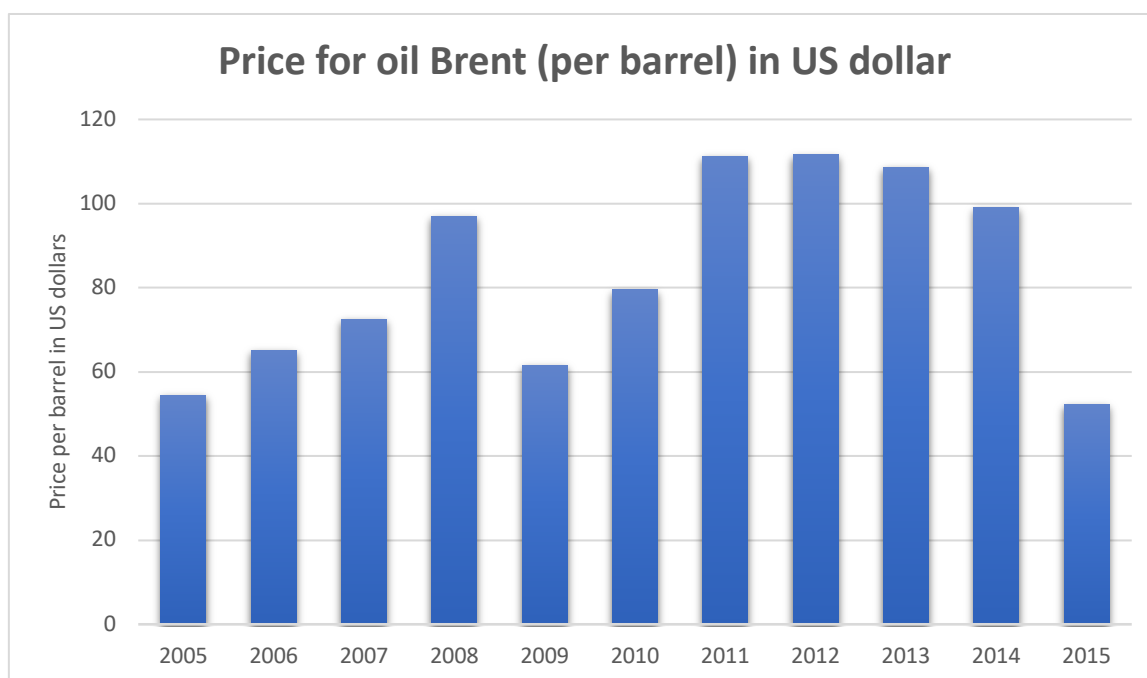
In accordance with Graph 7, 71% of exported goods were mineral products, 12% were precious stones, 6% rubber and chemical products, 5% equipment, 3% foodstuffs and agriculture, 2% paper products, 1 % other products and less then 1 % were furs and textile. In 2012, coal production grew by 5.2% to 354 million tons. The number of mining operations increased by 1.1% compared with 2011. The amount of oil produced was 517 million tons, which is 0.9% more than last year. In 2012-2013, the number of exports of mineral products has greatly increased. But already in 2014, the amount of exports decreased by 8%. Oil is the main exported product from Russia. The share of oil export is 33% of all exports (together with oil products 49%).

Table № 5 Oil export 2005-2014 (Billion US dollars)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Crude oil exports	83.4	102.3	121.5	161.1	100.6	135.8	181.8	180.9	173.7	121.4
Exports of oil products	33.8	44.7	52.2	79.9	48.1	70.5	95.7	103.6	109.3	89.9
Total export	240	297.5	346.5	466.3	297.2	392.7	515.4	527.4	523.3	381.3

Source: The Federal Customs Service

The revenues from oil exports in Russia increased significantly in 2011 and amounted to 515.4 billion US dollars, which is 23.8% more than in 2010. In 2013, the amount of exported oil fell by 0.8%, and already in 2014, the total export was 381.3 billion dollars, which is 27% less than in 2013. This was due to a fall in oil prices and a reduction in the amount of oil exports. Thus, in 2014, the average price for 1 barrel of Brent oil was 99 dollars, which is 9% lower than in 2013 (108,56 dollars per barrel).

Graph № 8 Price crude oil Brent (per barrel) in US dollars

Source: Average annual Brent crude oil price from 1976-2018. Available from: <https://www.statista.com/statistics/262860/uk-brent-crude-oil-price-changes-since-1976/>

A sharp rise in prices for 1 barrel of Brent oil was observed in January 2008. Already in the summer of 2008, the average price was 97 dollars per barrel. This caused the increase in the level of the economy in the country and, consequently, the improvement of the quality of life. However, at the end of 2008, the price of oil began to fall and amounted to 62 dollars per barrel. The reason for this was the global crisis. But the price drop was not long and in half a year the price started to rise again. In the period from 2005-2015, the peak of oil prices was in 2011-

2012, the average price was 110 dollars per barrel, which is 45% more than in 2009. In 2014, the price began to fall again and amounted to 99 dollars per barrel. Due to recent events, the lowest price was reached in 2015 and it was 55 dollars per barrel.

The commodity composition of the import in Russia

There are two main types of imports: imports of industrial and consumer goods, and imports of intermediate products (raw materials) and services. Foreign companies that import goods and services to the domestic market of the country tend to ensure that their quality is as high as possible, while the price is lower than that of domestic companies. At the same time, foreign manufacturers are trying to import into the country those types of products that for some reason are not available in the local market.

Table № 6 The commodity composition of the Russian import in billions of dollars

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Import in Billions of US Dollars	98.7	137.8	199.7	267	167	229	306	317	315	286	182
Mineral products	3.03	3.3	4.6	8.2	4.1	5.2	9.9	7.5	6.9	7.2	5
Foodstuffs and agriculture	17.4	21.6	27.6	35.1	30	36.4	42.5	40.7	43.2	39.7	26.5
Paper products and wood	3.2	3.9	5.3	6.5	5.1	5.9	6.7	6.2	6.6	5.9	4.7
Rubber and chemical products	16.2	21.7	27.5	35.2	27.9	37	46	48.6	50	46.4	33.9
Precious stones and products	7.6	10.6	16.3	19.3	11.3	16.8	23	23.3	22.6	20.3	12.3
Furs and products	0.2	0.4	0.69	1	0.8	1.2	1.6	1.7	1.5	1.3	1
Textile and footwear	3.6	5.4	8.6	11.6	9.5	14.1	16.7	18	18	16.3	10.8
Equipment and vehicles	43.4	65.7	101.7	140.7	72.7	102	148	158	153	136	81.8
Others	3.6	4.8	7.1	9.1	6	8.6	11.2	12.9	13.5	12.6	6

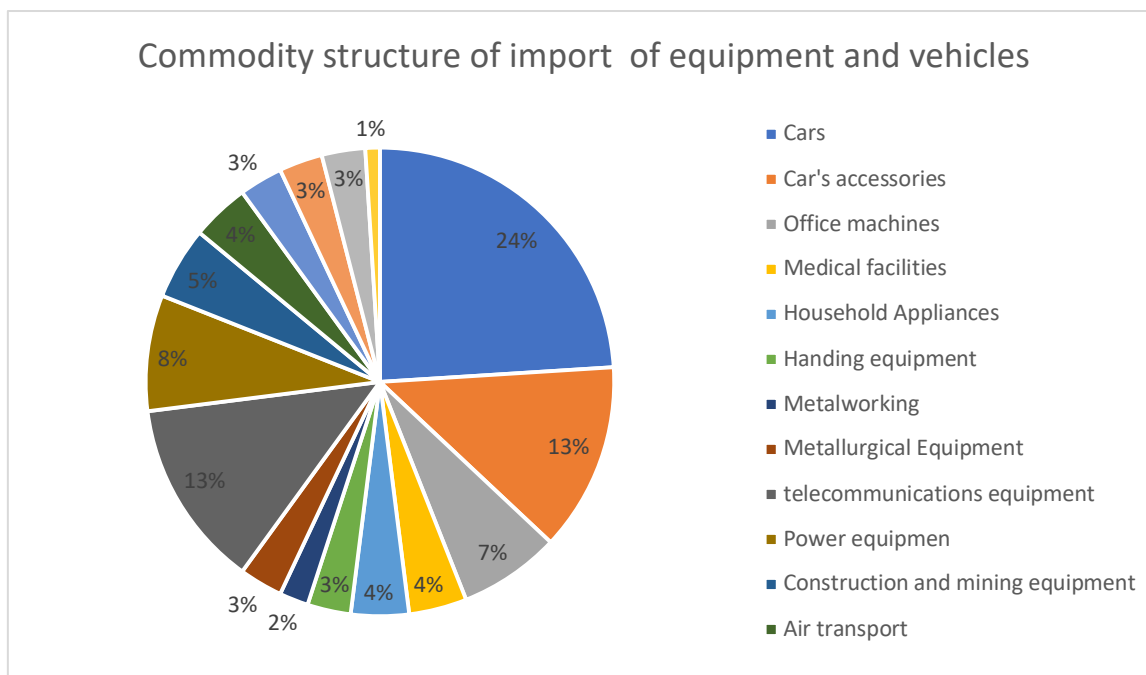
Source: Federal State Statistic Service

In accordance with Table 6, in 2012 in Russia, the amount of imports had its maximum value and amounted to 317 billion dollars, which is 4.5% more than in the previous year. In 2012, imports of machinery products amounted to 158 billion dollars, which is half of all imports for this year. Due to the sanctions, the number of imported goods declined significantly and

amounted to 182 billion dollars, which is 36.3% less than in 2014. According to Table 6, the main imported goods in Russia are cars and equipment, as well as food and chemical products.

In accordance with Graph 9, the biggest percentage of the "Equipment and vehicles" are cars - 24%. In second place are telecommunication equipment and car's accessories- it is 13%. Less than 2% have: metalworking and medical facilities.

Graph № 9 Commodity composition of import of equipment and vehicles to Russia in 2012.

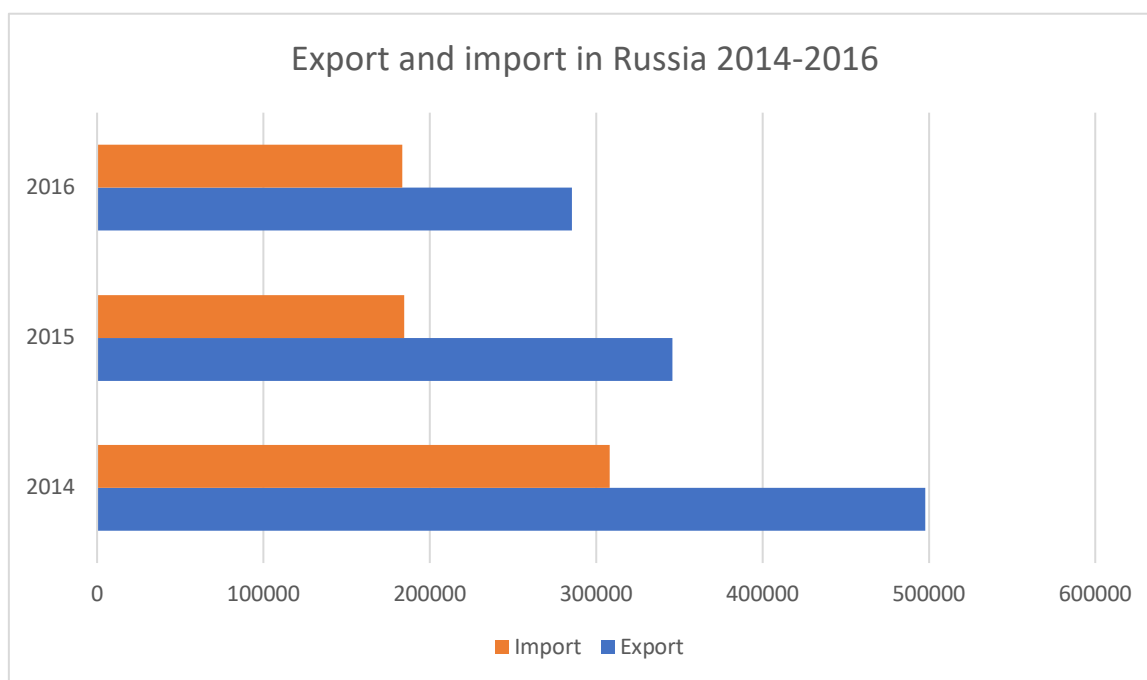


Source: Federal State Statistic Service

4.3. Analysis of Russian foreign trade in 2015-2016.

The years 2015-2016 have become very difficult for the Russian economy: the imposed sanctions, the devaluation of the ruble, the fall in oil prices, all these factors have negatively affected the economy and public life of the country. Since 2014, the amount of exported and imported goods has greatly decreased.

Graph № 10 Export and import in Russia 2014-2016



Source: Federal State Statistic Service

According to customs statistics, Russia's foreign trade turnover in 2015 decreased by 34% and amounted to 530.400 billion dollars. In 2016 Russian foreign trade turnover amounted to 469090 billion US dollars and decreased by 11,56% compared with 2015 and decreased by 41,79% compared with 2014.

Table № 7 Export and import 2014-2016

	2014	2015	2016
Export	497763	345900	285490
Import	308026	184500	183600
Trade balance	805789	530400	469090

Source: Federal State Statistic Service

In 2015, the amount of exports is equal to 345.900 billion dollars, which was less than in 2014 by 30,51% and the amount of imports 184.500 billion dollars that had fallen by 40,11%. In 2016 the amount of export is equal to 285.490 billion dollars, which was less than in 2015 by 17,47% and import had fallen by 0,5% (184.500 billion dollars). Economic sanctions had a bad effect on Russia's foreign trade turnover. So, in 2015, the foreign trade turnover amounted to 530.400 billion dollars, which is 34% less than in 2014. In 2016, the foreign trade turnover indicators also fell by 12% compared to 2015.

By 2016, the structure of Russia's foreign trade by groups of countries remains unchanged: 88% are far-abroad countries and 12% CIS countries.

4.3.1. Trade with CIS countries

The main partners of Russia from the CIS countries are Belarus and Kazakhstan. In 2015, trade with the CIS countries significantly decreased - by 30% for exports and by 27% for imports. Russia began to import less from Belorussia machinery and equipment, textiles and metals. After Russia introduced a food embargo, the export of Belarusian meat, milk, vegetables and fruits increased. In 2016, trade with the CIS countries was 12.1%, slightly down by 0.5% compared with 2015. In 2016, domestic companies exported goods to the CIS in the amount of 56.7 billion dollars, which is 14% less than in 2015, and imported by 19.3 billion dollars fell by 8% compared to last year.³⁶

Table № 8 Foreign trade turnover with the CIS countries in 2015-2016 in billions of US dollars

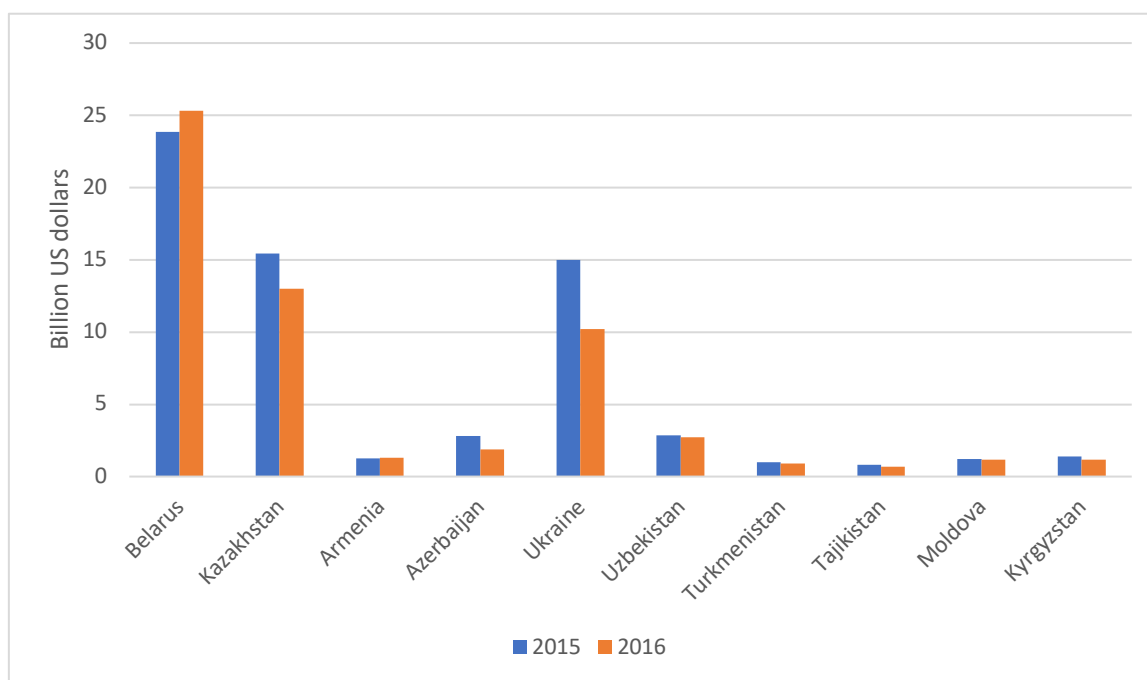
	Belarus	Kazakhstan	Armenia	Azerbaijan	Ukraine	Uzbekistan	Turkmenistan	Tajikistan	Moldova	Kyrgyzstan
2015	23,87	15,45	1,24	2,8	14,97	2,84	0,99	0,81	1,22	1,37
2016	25,3	13	1,3	1,9	10,23	2,7	0,9	0,68	1,16	1,19

Source: Federal State Statistic Service

In 2015, Imports with Tajikistan increased by 39.9% to 52.2 million dollars and trade with Kazakhstan decreased by 24% for exports and 35% for imports. In 2016, trade with Belarus amounted to 26.3 billion dollars, falling by 5%. The trade turnover with Kazakhstan decreased by 16.3% to 13.04 billion dollars, because the supplies of oil products, cars and ferrous metals decreased.

³⁶ BURKOVA, Ekaterina. (2016) The results of the Russian foreign trade in 2015: facts and figures [online]. Available at <http://xn--b1ae2adf4f.xn--p1ai/analytics/research/32060-itogi-vneshney-topgovli-possii-v-2015-godu-tsifpy-i-fakty.html>

Graph № 11 Structure of Russian partners from the CIS countries 2015-2016



Source: Federal Customers Service

The greatest decline was shown by trade with Ukraine - foreign trade turnover decreased by more than 30% due to mutual sanctions and trade restrictions. Among the CIS countries, only Armenia increased its foreign trade indicators - the number of supplies increased by 6% to \$ 1.34 billion. The main products are fish, vegetable products, alcohol, textiles and footwear.

The commodity composition of export with CIS countries.

Table № 9 The commodity composition of Russia's export with CIS countries in 2015

Total export	Mineral products	Foodstuffs and agricultural	Paper products and wood	Rubber and chemical products	Precious stone	Furs and products	Textiles and footwear	Equipment and vehicles	Metals and products from them	Others
64,12	18,38	4,23	1,71	25,34	0,21	0,05	0,61	7,35	4,81	1,43

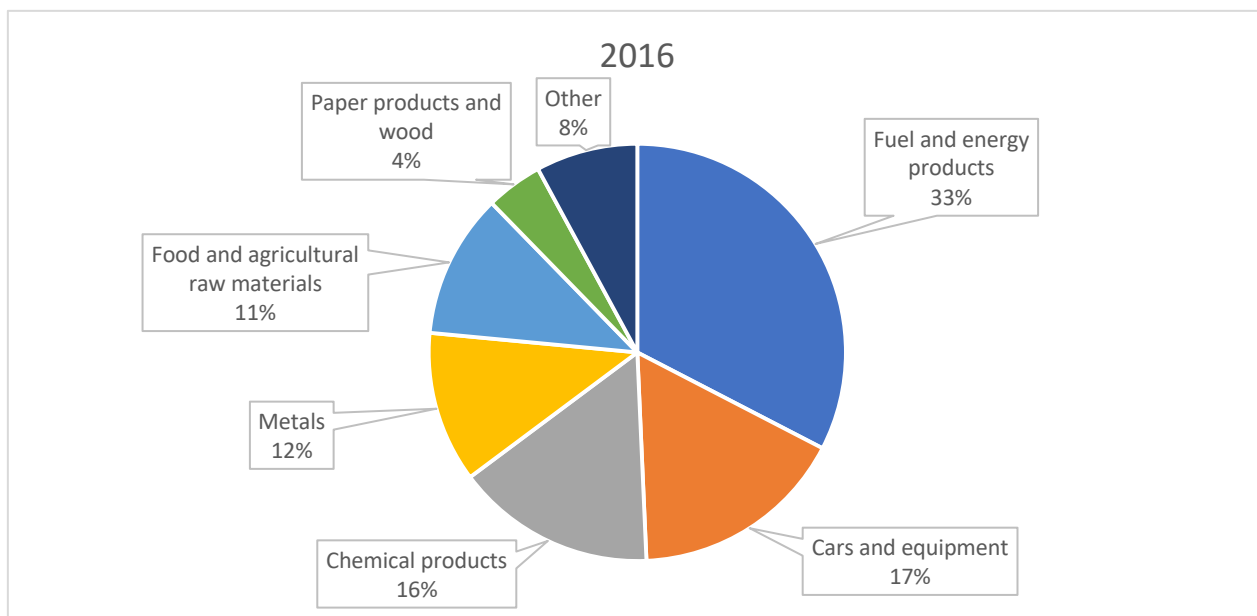
Source: Federal Customs Service

The main exported goods with the CIS countries are fuel and energy products. In 2015, fuel and energy products account for 39.5% of total exports (43.6% in January-December 2014). The 29% of export was mineral products. In 2015, physical volumes of oil exports decreased by 5.2%, petroleum products by 13.6%, natural gas by 15.2%. There is also a decrease in exports of metals and timber. In 2015, Russia increased the amount of wheat exports by 32% compared

with 2014. The reason for this was the reduction in the tax on grain, consequently Russian wheat became more attractive to foreign buyers. Due to the increase in fish catch in 2015, the number of its exports increased by 55%.

In 2016, the commodity structure of Russia's exports to the CIS countries is also dominated by fuel and energy products - they account for 32.6%, which is 6.9% less than in 2015. In 2016, gas and oil supplies to Ukraine and Belarus decreased by 31.2%. At the same time, electricity supplies decreased by 34.5%, natural gas by 16.6%, petroleum products by 3.8%. The supply of metals also decreased. However, exports of non-ferrous metals increased, exports of copper and copper alloys increased by 6.3%. Export of chemical products increased by 9.4%.

Graph № 12 Commodity composition of Russia’s export with CIS countries in 2016



Source: Federal Customs Service

The commodity composition of import with CIS countries.

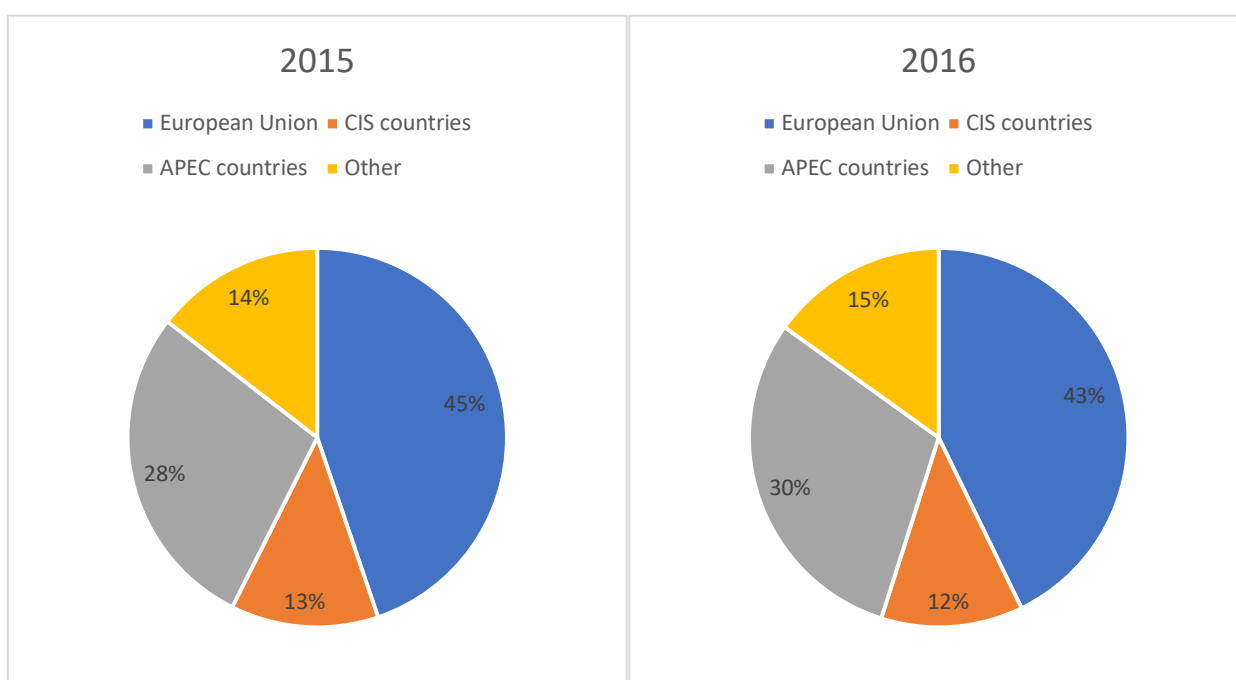
The fall of the ruble against the dollar and euro, had a bad value for Russia's imports in 2015. This led to low purchasing power of the population and, as a result, to a reduction in the number of exports. Thus, the physical volume of shipments decreased by 58% in 2015. The main decrease was in the number of imported cars. So, the purchase of cars fell to 81.8 billion dollars.

In 2016, cheese imports increased by 7.4%. At the same time, pork imports fell by 83.6% due to restrictions caused by outbreaks of African swine fever. Supplies of engineering products grew by 6.2%. Imports of textile products increased by 25%.³⁷

4.3.2. Trade with non-CIS countries in 2015-2016.

In 2015-2016, Russia had their own problems with imports from foreign countries. An important role was played by the imposed sanctions and food embargo. In 2015, exports to non-CIS countries fell by 31% to 298500 billion dollars, and imports by 36.3% to 161600 billion dollars.

Graph № 13 Structure of foreign trade turnover of Russia by groups of countries 2015-2016



Source: Federal Customs Service

In 2015, there was a decline with all countries that were the main partners of Russia. For example, with the Netherlands, trade turnover decreased by 39%, with China by 29% and Italy by 27%. In 2016, Russia's foreign trade turnover with non-CIS countries accounted for 85% of the total volume of trade. At the same time, the share of the European Union has decreased from 44.8% (in 2015) to 42.8%, with China - from 28.1% to 30%. In January-December, the foreign trade turnover with the countries of the far abroad was 413.4 billion dollars, it fell by 11%

³⁷ BURKOVA, Ekaterina. (2016) The results of the Russian foreign trade in 2015: facts and figures [online]. Available at: <http://xn--b1ae2adf4f.xn--plai/analytics/research/32060-itogi-vneshney-topgovli-possii-v-2015-godu-tsifry-i-fakty.html>

compared to 2015. At the same time, exports fell by 16.9% to 248.1 billion dollars, and imports by the end of the year increased by 0.8% to 163 billion dollars.

The commodity composition of Russia's export with non-CIS countries.

The basis of Russian exports in 2015 with non-CIS countries amounted to fuel and energy goods 68.0%, which is 6,8% less than in 2014.

Table № 10 Commodity composition of Russian export with non-CIS countries in 2015 in billions of dollars

Total export	Mineral products	Foodstuffs and agricultural	Paper products and wood	Rubber and chemical products	Precious stone	Furs and products	Textiles and footwear	Equipment and vehicles	Metals and products from them	Others
304,65	200,78	11,95	8,12	25,34	7,67	0,26	0,24	18,04	28,2	4,05

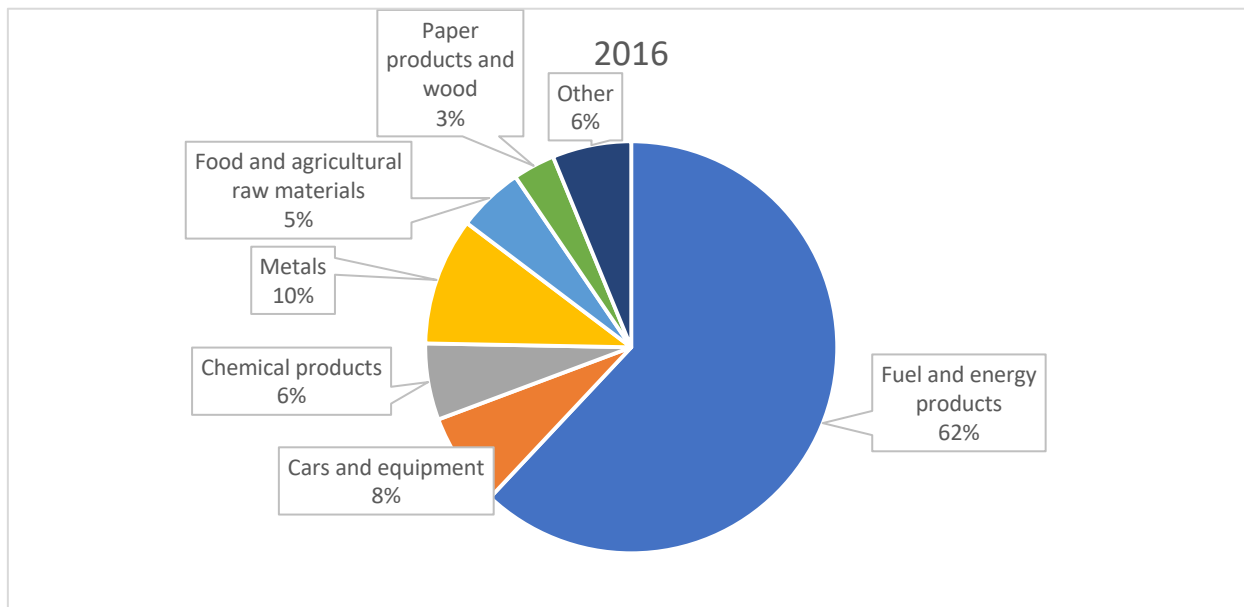
Source: Federal Customs Service

In 2015, the physical volume- increased by 6.6% and cost volume of energy products decreased by 37.5%. Among the products of the fuel and energy complex increased volume of exports of crude oil by 9.6%, natural gas - by 5.8%, electricity - by 11.7%, oil products - by 7.8%, including: kerosene - on 31.6%, liquid fuels - by 9.2% diesel fuel - by 7.4%. In 2015, exports amounted to 304.65 billion dollars, of which 200, 78 billion dollars were mineral products (65.9% of total exports). The physical volume of supplied ferrous metals and products thereof increased by 6.5%. Exports of chemical industry fell by 1.5% in 2015 compared to 2014.³⁸

In 2016, fuel and energy products account for 62% of total exports, which is 4,5% less than in 2015.

³⁸ BURKOVA, Ekaterina. (2016) The results of the Russian foreign trade in 2015: facts and figures [online]. Available at: <http://xn--b1ae2adf4f.xn--plai/analytics/research/32060-itogi-vneshney-topgovli-possii-v-2015-godu-tsifry-i-fakty.html>

Graph № 14 Commodity composition of Russian export with other countries 2016



Source: Federal Customs Service

Exports of natural gas increased by 13.8%, hard coal by 9.1%, crude oil - by 6.6%. At the same time, the export of oil products fell, diesel fuel by 5.9%, and liquid fuel - by 17.3%. Exports of metals and processed products also fell by 11.9% in value terms but increased by 4.4% in physical volume. Supplies of food increased in value terms by 7.7%, and in physical terms by 12.8%. Among large commodity groups, the decline was shown by the export of chemical products. The value of its exports decreased by 22.5%, and the physical volume by 0.6%.

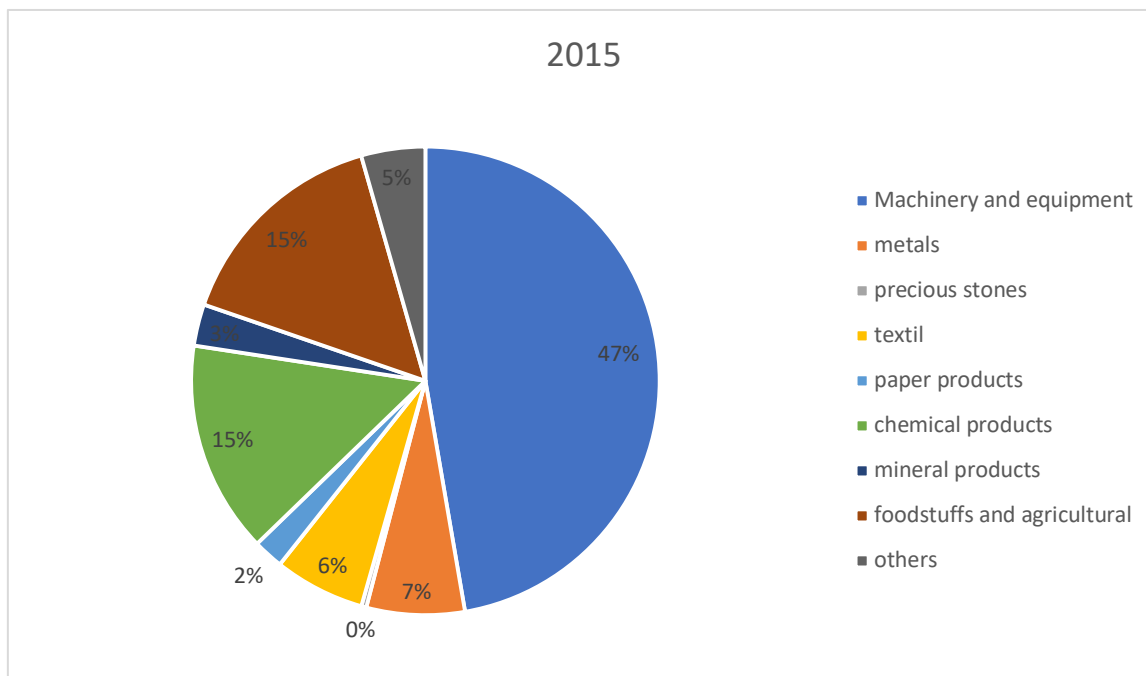
The commodity composition of Russia's import with other countries.

Imports from non-CIS countries fell in value and volume terms. The fall of the ruble led to the low purchasing power. Commodity structure of imports from foreign countries is different from export: first place took the machinery and equipment import, chemical products and rubber import and food products import.

In 2015, imports of machinery and equipment from non-CIS countries fell by 39.4%, including mechanical equipment by 33.1%, electric - by 36.5%, land transport - by 52.2%. The most dramatically decreased imports of cars: freight by 65.9%, cars by 49.9%. Import of products of the chemical industry also decreased, the value of volume decreased by 27.6%, and physical

volume by 15%. The food supplies fell by 35% and 20.5% respectively. The reason for this was the imposed food embargo.³⁹

Graph № 15 Commodity composition of the import of the far abroad countries 2015 (Billion dollars)

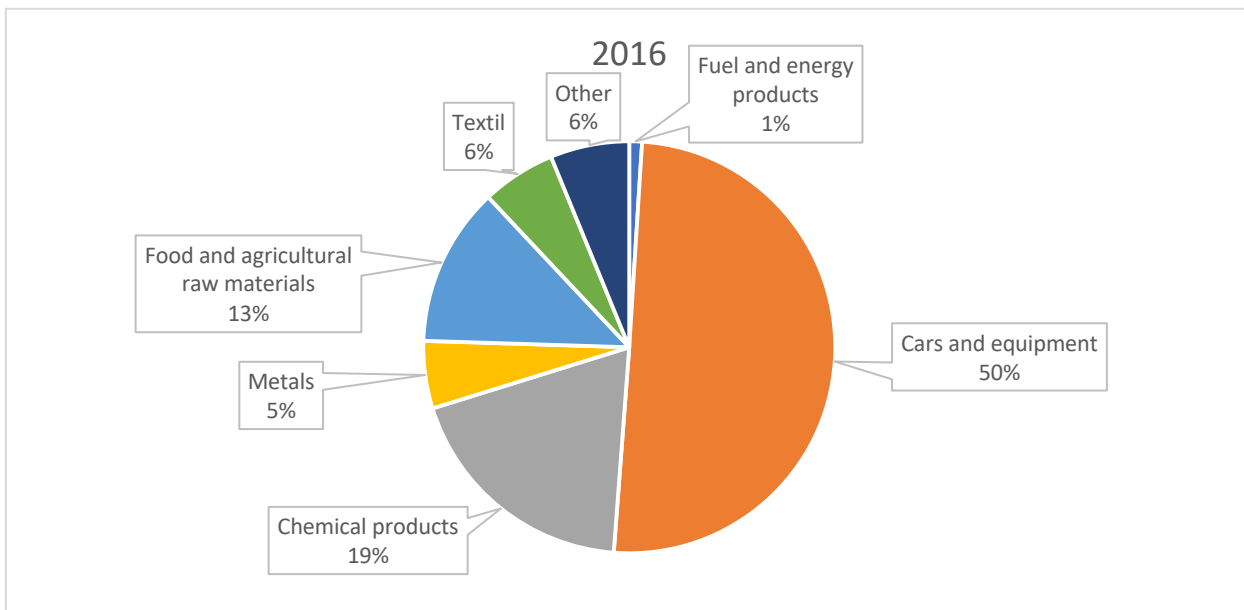


Source: Federal Customs Service

In 2016, in the commodity structure of imports to foreign countries, the main part is occupied by machinery and equipment. In the total volume, imports increased from 48% to 50.2%. The second largest import item also showed positive dynamics. Import of chemical goods by physical volume increased by 4%. Other groups of goods showed a decline. The physical volumes of food products fell by 9.1%, by 8.5% of textiles and by 5.1% of metals and metal products.

³⁹ BURKOVA, Ekaterina. (2016) The results of the Russian foreign trade in 2015: facts and figures [online]. Available at: <http://xn--b1ae2adf4f.xn--plai/analytics/research/32060-itogi-vneshney-topgovli-possii-v-2015-godu-tsifry-i-fakty.html>

Graph № 16 Commodity composition of Russian import with far abroad countries 2016



Source: Federal Customs Service

Because of the crisis and sanctions, the level of the Russian economy in 2015-2016 continues to decline. But there are also positive consequences of sanctions: domestic production began to develop; due to the devaluation of the ruble, domestic goods became cheaper, which led to an increase in non-commodity exports in Russia.

5. Conclusion

As it was noted before, foreign trade is the most important part of any modern state. Thanks to world trade, consumer choice in country is expanding, competition is increasing, quality of products is growing, production efficiency is increasing. Also, there is a strengthening of political ties. Moreover, foreign trade is the main source of annual income in any country.

After analyzing the period from 2005-2016, the author can draw the following conclusions. The main exported products during the whole period are fuel and energy products. Revenues from Russia's foreign trade are highly dependent on external factors, such as: the amount of oil exported and the price of oil. The most imported goods throughout the whole period are cars and equipment. In 2015-2016, under conditions of sanctions and crisis, foreign trade indicators fell sharply. Also, trade turnover fell sharply with the main partners of Russia, such as Belarus and Ukraine, China and Germany. But, the main advantages of Russia are still a large volume of the market and relative macroeconomic stability. But at present Russia's competitiveness is at an unacceptable level for such a country. The main partners of Russia in international trade are the countries of the European Union, the Asia-Pacific Economic Cooperation (APEC), the Commonwealth of Independent States (CIS). Especially Germany, Italy, China, Turkey, Poland, Switzerland, United Kingdom, United States, and Finland. Russia provides most of the needs of the CIS countries in oil and oil products, gas, timber, machinery and equipment. For the majority of CIS countries Russia stay the main trading partner.

Summing up, we can say that recently there was a strong decline in the economy of Russia because of sanctions and crisis. Sanctions that were introduced in 2014 had not only a negative but also a positive effect. Due to sanctions, Russian business entered the Asian financial markets and domestic production started to develop.

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