

Czech University of Life Sciences Prague

Faculty of Economics and Management

Department of Economics



Bachelor Thesis

Foreign Trade Development - Case Study of Russia

Author: Tatiana Lifanova

Supervisor: Doc. Ing. Mansoor Maitah, Ph.D. et Ph.D

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CZECH UNIVERSITY OF LIFE SCIENCES PRAGUE

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BACHELOR THESIS ASSIGNMENT

Tatiana Lifanova

Economics and Management

Thesis title

Foreign Trade Development – Case Study of Russia

Objectives of thesis

The aim of the final qualifying work is to assess the current state of Russia's foreign trade and the definition of future prospects of its development in the conditions of Russia's WTO membership and sanctions.

Achieving this goal requires the formulation and solution of the following theoretical and practical problems:

- study of nature, types and characteristics of the foreign trade activity of its international and government regulation;
- define the role of developed and developing countries in international trade;
- analysis of Russia's foreign trade before and after WTO accession;
- to identify the main directions of development of Russia's foreign trade in the future.

Methodology

Information and empirical basis amounted to statistics, information and analytical data of the Federal State Statistics Service of the Russian Federation, background information and documents, monographs, articles, research reports, posted on the Web-pages of the leading research centers, universities and publishers of Russia, materials of scientific seminars and conferences, legislative and other normative documents of the state authorities of the Russian Federation and its subjects.

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Keywords

Foreing Trade, Export, Import, Russia, WTO, Embargo

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doc. Ing. Mansoor Maitah, Ph.D. et Ph.D.

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prof. Ing. Miroslav Svatoš, CSc.

Head of department

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Ing. Martin Pelikán, Ph.D.

Dean

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Declaration

I declare that I have worked on my bachelor thesis titled "Foreign trade development-Case study of Russia" 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 14.03.2016

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Souhrn

Tato práce je věnována ekonomickým teoriím spojeným se hodnocením zahraničního obchodu. Na teoriích jsem identifikovala základní ekonomické faktory, které tvářejí mezinárodní obchod a důsledky, které jsou utvářeny obchodu. Můj výzkum je určen relevanci strukturálních změn odehrávajících se v ruském zahraničním obchodě. První část zkoumá teoretický základ pro analýzu zahraničního obchodu v Ruské federaci. Cílem práce je zhodnotit současný stav ruského zahraničního obchodu a uvést příčiny těchto podmínek, definovat potenciál a vyhlídky pro budoucí rozvoj ruského zahraničního obchodu, pokud jde o krizi a sankcí. Sledované období od roku 2005 do roku 2015 se vyznačuje několika krizemi a probuzení. Pomocí tohoto dokumentu da se najít hlavní faktory, které mají vliv na ruský zahraniční obchod během této doby. Finální práce zkoumá, jaké produkty jsou dominantní ve vývozu a dovozu a jaká je jejich dynamika v průběhu 10 let. Poslední kapitola se soustředí na ruském obchodě v roce 2015. Tento odstavec detailně analyzuje všechny hlavní tendenci minulého roku. Hlavní metody, které byly použity v teoretické části jsou popis a těžba. V praktické části autor aplikuje komparativní a deskriptivní metody.

Souhrnným výsledkem práce: ruský zahraniční obchod je závislý na exportu nerostných surovin, ceny ropy mají silný vliv na příjmy z vývozu a nedostatek produkce činí na ruském trhu v závislosti na dovážené zboží.

Jak již bylo řečeno M. Porterem, klíčové faktory pro konkurenceschopnost národa není předané dědictvím, ale vytvořením. Při absenci průmyslového exportu není možné dosáhnout vynikajících výsledků v ekonomice. Domnívám se, že existence sankcí má nejen negativní, ale i pozitivní vliv. Přispívají k poznání, že je nutná domácí výroba, a v důsledku toho začátek vývoje výroby.

Summary

This thesis deals with the economic theories connected with assessment of foreign trade. Based on the theory author identified basic economic factors that shape the international trade and vice versa consequences, which are shaped by trade. This research is determined by relevance of the structural changes taking place in Russian foreign trade. The first part is used as a theoretical base for the analysis of foreign trade in Russian Federation. The aim of the study is to evaluate the current state of Russian foreign trade and indicate the causes of these conditions, define potential and prospects for the future development of Russian foreign trade in terms of crisis and sanctions. Observed period from 2005 up to 2015 is characterized by multiple crises and revivals. This paper tries to find main factors that influence on Russian foreign trade during this time. The final work examines which products are dominant in exports and imports and their dynamics during the 10 years. Last chapter concentrates on Russian trade in 2015; this paragraph in detail analyzes all main tendencies of the last year. The main methods that were used in theoretical part are description and extraction. In practical part author applied comparative and descriptive methods.

To summarize the results of the work, Russian foreign trade is dependent on mineral resources exports, oil prices have a strong impact on export earnings and lack of production makes the Russian market dependent on imported goods. As it was said by M. Porter the key factors for the competitiveness of the nation are not inherited, but created. In the absence of industrial exports it is impossible to achieve great results in the economy. I consider that the existence of sanctions has not only negative but a positive effect too. They contribute to the understanding the need in domestic production, and as a consequence the beginning of the manufacture development.

Klíčová slova:

Zahraniční obchod, export, komoditní struktura, import, obchodní bilance, obrat, komparativní výhoda, absolutní výhodu, obchodní politiky, Ruská federace.

Keywords:

Foreign trade, export, commodity structure, import, trade balance, the turnover, comparative advantage, absolute advantage, trade policies, Russian Federation.

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1. Introduction

The subject of this bachelor work is «The foreign trade of the Russian Federation». In this bachelor thesis author will research one of the most important sectors of economy – international trade, particularly, foreign trade of the Russian Federation.

All of us purchase goods in the store but not all of them are produced domestically but also brought from different parts of the world. Corporations use imported equipment or raw materials for the manufacturing products orientated on export. These and other examples show that the financial system is becoming more interdependent and opened within the global economy. Core elements of this system are international trade in goods and services, international movement of capital and labour, foreign exchange, credit and financial relations.

The relevance of the research is caused by the fact that international trade is one of the most developed and traditional forms of international economic relations. Analysis of the specific problems of an open economy usually begins with the foreign trade as the most important form of international relations.

In the theoretical part of the work author is making a short summary of the development of foreign trade since the time of mercantilism. Following part is devoted to assessment of various policies regarding foreign trade. Different countries implement different approaches in the world economy; each participant holds a specific policy in this area to protect their interests. Besides of classical theories it is significant to talk about global organizations. The internationalization of economic life and the growing interdependence between the countries in the world economy has predetermined the need for regulation of international economic relations among countries.

The goal of the practical part is to analyse the importance of the foreign trade for the Russian Federation. In order to understand the function of the foreign trade, it is necessary to explain the development of the Russian economy after the collapse of the USSR till the present time. The analysis of Russia foreign trade consists of two parts. In the first part author evaluate Russian import and export for the period of 2005 - 2014, showing the commodity structure and what favourable export and import products are there. The second part of the work is dedicated to analyze in details the Russian foreign trade in 2015

in terms of crisis, sanctions and default of national currency. The main sources used in the work are Federal Customs Service and Russian Federal State Statistics Service.

2. Thesis Objective and Methodology

Objectives

Objective of this thesis is to find out (based on economic theories), what are the main factors determining foreign trade in Russia. Aim of the work is to analyze development of Russian foreign trade during the years 2005- 2014 and explain all happened changes. Analyse of dynamics indicates major factors that influenced further trade development and justified tendencies in foreign trade in 2015.

Methodology

The first chapter of the bachelor thesis is a theoretical part. It includes the overview of the main economic theories; main policies are used in foreign trade and short review of the world organizations regulating the international trade. The main methods used in the work are description and extraction. In practical part author applies comparative and descriptive methods to assess current state of Russian foreign trade with the help of sources like World Bank, Federal Customs Service and Russian Federation State Statistic Service.

3. Theoretical Foundation

In the theoretical part of the work author will make a short synopsis of the development of foreign trade since the time of mercantilism. After it author will write about different policies in foreign trade. Different countries take different positions in the world economy. Each participant holds a specific policy in this area to protect their interests. Besides of classical theories it is significant to talk about global organizations.

3.1 The international trade and the world economy

All of us purchase goods in the store but not all goods are produced only domestically but also brought from different parts of the world. Corporations use imported equipment or raw materials for the manufacturing products, some of them are aimed at sell abroad. Millions of people work abroad. These and other examples show that the financial system is becoming more interdependent and opened within the global economy. The main elements of this system are the international trade in goods and services, the international movement of capital and labor, foreign exchange, credit and financial relations.

The development of the world economy is a long process started in the 14th century continuing to 15th century and thanks to the great geographical discoveries begin to form the world market. Foreign trade began to grow rapidly after the appearance of a large factory industry. A new form of economic relations appeared with the expansion of modern transportation system and communication.¹

The globe economy depends on the worldwide sharing out of work. Cooperation in the overall division of work implies that a state represents considerable authority in the production of merchandise and creates it in expansive amounts than it is required to fulfill their own needs. The nation will have an overflow of items. Such abundance is framed in different nations. Financial aspects of these nations will get to be interconnected in light of the fact that they should change their products.²

For different countries specializations were different preconditions such as the country's natural resources (climate, geographic position and minerals) the current level of economic

¹ MANESCHI, Andrea. Comparative advantage in international trade: a historical perspective. Northampton, MA: Edward Elgar Pub., c1998. ISBN 18-589-8300-2.

² KIREEV., Aleksei. Mezhdunarodnaya ekonomika (International economics). Moskow: Mezhdunarodnye otnoshenija, 1997. ISBN 57-133-0899-5.

or technological development, established traditions in the production of various types of products.

The characteristic features of the modern world economy are:

- The development of international flow such as export-import of capital, labor and equipment;
- Growth of international forms of production at enterprises
- Economic policy of providing support to the international movement of goods and factors of production
- Appearance of open economy

Exchanging of money, services and products across international borders is a meaning of the foreign trade. In many states, it characterizes a gross domestic product. Living inside the state people are needed to consume specific goods and services. Manufacturing requires resources. The problem is limited resources of the state; Country cannot produce all the existing goods and services. Thus the country should buy them where they are produced to satisfy needs of the citizens in specific products. In addition, each state has a certain product in a surplus and therefore sells it. Usually no country is self-sufficient.

Trade is the idea of exchanging of something between two or more bodies. International trade is the concept of exchange between bodies in two or more different countries.³

3.2 The evolution of international trade and classical theories of international trade

3.2.1 Mercantilism theory of international trade

International trade is the most advanced form in global financial relations. It was born with the development of the first countries in the IV - III millennia BC. In any case, in that time just a little piece of fabricated items fell in a worldwide trade. Subsistence farming was the dominant form of economy. The first attempt at theoretical understanding of global trade was the principle of mercantilism. The idea of "mercantilism" originates from Latin *mercari* (trade). In English and French *mercantile* means "shopping", and the Italian *mercante* means "merchant" or "trader".⁴

³ KIREEV., Aleksei. *Mezhdunarodnaiya ekonomika (International economics)*. Moskow: Mezhdunarodnye otnoshenija, 1997. ISBN 57-133-0899-5.

The ideologists of mercantilism were convinced that the only money represent the wealth of the nation and the state. Early mercantilism emerged in the late 15th century and it was based on the desire to increase monetary wealth. To keep the money in the country government forbidden the currency exportation. Foreigners should spend all money comes from the sale on the purchase of local goods. Early mercantilists believed that the state should sell in the foreign market as much as possible and buy as little as possible. They considered that this should lead to accumulate gold, which was a symbol of wealth. However, direct restrictions on the movement of metals between the two countries not only hinder the development of the trade, but also the emerging manufactory production as artificially narrowed the market. ⁵

Late mercantilism evolved in the second half of the 16th century until the middle of the 18th century. The central position of the late mercantilism was the system of trade surplus. Wealth was equated with excess goods that are already on the international market should turn into money. In order to achieve trade surplus makes recommendations:

- 1) Conquer foreign markets due to relatively cheap goods (ie low prices), as well as the resale of the goods of some countries in other countries;
- 2) Prevent the import of goods while maintaining the country's trade surplus;
- 3) Export of gold and silver for profitable trading transactions and mediation.⁶

However, the mercantilists did not create a single coherent doctrine but follow the general "principles" scientific viewpoint. British economist Mark Blaug formulated these principles:

- 1) Gold and treasures of any kind is an expression of the essence of wealth;
- 2) Regulation of foreign trade with the purpose of ensuring the flow of gold and silver;
- 3) Support industry by importing cheap raw materials;
- 4) Protectionist tariffs on imported industrial goods;
- 5) Promotion of exports, especially of finished products;
- 6) Population growth in order to maintain low wages. ⁷

⁴ Mercantilism. In: Wikipedia: the free encyclopedia [online]. San Francisco (CA): Wikimedia Foundation, 2001- [cit. 2016-01-15]. Available at: <https://en.wikipedia.org/wiki/Mercantilism>

⁵ BRUE, Stanley L. *The Evolution of Economic Thought*. South Western Educational Publishing, 2012. ISBN 9781111823689.

⁶ YADGAROV., YA.S. *Istoriia ekonomicheskikh uchenii*. 3RD edition. Moskva: INFRA-M, 2000. ISBN 5862257799.

⁷ BLAUG, Mark. *Economic theory in retrospect*. 5th ed. New York: Cambridge University Press, 1997, xxv, 725 p. ISBN 05-215-7701-2.

3.2.2 Adam Smith and Absolute advantage theory

Mercantilist ideas were not declined until the Industrial Revolution came. Faith in mercantilism started to blur in the late eighteenth century, as the contentions of Adam Smith and the other traditional theories.

«Adam Smith and David Hume are considered to be fathers of anti-mercantilist thought. Adam Smith criticized mercantilist thinking that money is the main indicator of wealth, advancing the argument that the essence and nature of wealth is labor. He was convinced that technological progress is the main stimulus for growth of welfare in any country».⁸

In the 18th century, Adam Smith spoke about the reasonableness of worldwide trade. His well-known work, "The Wealth of Nations" (1776) was a criticism of mercantilism. The main idea of the book was the theory that the state can be beneficial not only for sale, but also the purchase of goods in foreign markets. So, he believed that in trade all trading partners can benefit. Adam Smith analyzed which products profitable to export, and what to import. In economics it is called model theory of absolute advantage.⁹

A country has an absolute advantage, if there is a product which per unit of input, they can produce more than other countries. These benefits can be generated by the natural factors - climatic conditions, availability of natural resources. The natural advantages play an important role in agriculture industries. On the other hand, the advantages can arise from the development of technology, training of the employees, improving the organization of production. In circumstances where there is no foreign trade, each country can consume only those products, and only then the number that it produces.¹⁰

Adam Smith has revealed principles that are considered characteristic for the work of reasonable business entity, and transfer them to foreign trade. Opposite to mercantilists Smith believed that government interference, such as making monopolies, supporting financially exports, limiting imports, and others, hampered the economic development. Competition was essential in the general public that Smith proposed. Rivalry guaranteed that every individual and country would do what they were best fitted to do, and it

⁸ KIREEV., Aleksei. Mezhdunarodnaya ekonomika (International economics) Moscow: Mezhdunarodnye otnoshenija, 1997. ISBN 57-133-0899-5.

⁹ CARBAUGH, Robert. International Economics. 13th Edition. South-Western College Pub., 2010. ISBN 978-0324581485.

¹⁰ DUNCAN K. FOLEY. Adam's fallacy a guide to economic theology. Cambridge, Mass: Belknap Press of Harvard University Press, 2006. ISBN 978-067-4027-077.

guaranteed every one the maximum donation to the common good. Thus, the government should not interfere into the commerce.¹¹

The basic rule of every prudent head of the family is to try purchasing on the side goods that are expensive to produce at home. Taylor himself does not try to sew his own boots, but buys them of the shoemaker. Shoemaker does not try to sew their own clothes, but uses the services of a tailor. The farmer does not try either one or the other, but uses the services of both of these artisans. All of them find it more profitable to devote all his work in the area in which they have some advantage over their neighbors and all they need to buy in exchange for a product or part that is the same as the price of the product of their labor.¹²

That seems a reasonable course of action in any particular family. It may be wise for the whole kingdom. If a foreign country can supply us with goods at a cheaper price than we are able to produce, it'd be better to buy it from them on some of the products of our own industrial labor supplied in the area in which we have some advantage.¹³

Smith completes concept of “division of labor” to “international division of labor.” Specialization, cooperation, and exchange were responsible for the world’s economic progress, and therein lay the road to future achievements. International trade was thus a positive game to Smith.

However, if we continue the idea of Adam Smith, it is possible to come to a paradoxical conclusion: if country can found abroad product for a lower cost and without restrictions, it is in its interest to acquire abroad everything that it should consume. Will it have something to sell? How will it pay for their purchases abroad?¹⁴

¹¹ CHO, Tong-sōng a Hwi-ch'ang MUN. From Adam Smith to Michael Porter: Evolution of competitiveness theory[online]. N.J.: World Scientific, 2013, [cit. 2016-01-29]. Asia-Pacific business series, v. 7. ISBN 9789814401661.

¹² SMITH, Adam. The Wealth of Nations. Hackett Publishing Company, Inc.; Abridged edition. ISBN 0872202046.

¹³ KIREEV., Aleksei. Mezhdunarodnaya ekonomika (International economics). Moskow: Mezhdunarodnye otnoshenija, 1997. ISBN 57-133-0899-5.

¹⁴ SMITH, Adam. The Wealth of Nations. Hackett Publishing Company, Inc.; Abridged edition. ISBN 0872202046.

3.2.3 Comparative advantage by David Ricardo

Ricardo, unlike Smith, believed that a precondition for international exchange differences is not necessarily absolute costs.

«Ricardo has created a model showed that the non-compliance of the principle of Adam Smith is not a barrier to fair trade. The country should specialize in the selling of goods, production of which has the largest absolute advantage (if it has an absolute advantage in both goods) or the smallest absolute disadvantage (if it does not have absolute advantage on any of the products) ».¹⁵

For example, you are the best advocate and as well you can type very fast. Do you need to have worker who will type for you but not so fast? Ricardo would say yes! The reason is you will can take more deals and for sure earn more money from it. Now I want to show how it works on Ricardo's example.

All people who ever study economy knows his famous example about the exchange of English cloth in the Portuguese wine, in which benefit both countries, even if the absolute cost of production of cloth and wine in Portugal is lower than in England.¹⁶

Suppose that in England for the production of 1 m² of cloth required 100 hours of work, and for the production of 1 liter of wine - 120 hours; Portugal 1 m² of cloth costs 90 hours of labor, and 1 liter of wine - in 80 hours. Portugal has an absolute advantage in the production of both goods, and at first glance it seems that the two countries cannot be a mutually beneficial exchange of goods. However, note that in this example, each country has a comparative advantage in the production of goods. England, giving up 1 liter of wine, may further generate 1.2 m² cloth, and Portugal by reducing the production of 1 liter of wine can be obtained only 8/9 m² cloth. Accordingly, if in Portugal to reduce the production of cloth per 1 m², at the expense of the released costs can get 9/8 liter of wine, and in England, reduced production of cloth per 1 m² frees resources for only a 5/6 liter of wine.¹⁷

¹⁵ CARBAUGH, Robert. International Economics. 13th Edition. South-Western College Pub., 2010. ISBN 978-0324581485.

¹⁶ EKELUND, Robert B a Robert F HÉBERT. A history of economic theory and method. 4th ed. New York: McGraw-Hill, c1997. ISBN 00-702-1327-5.

¹⁷ CHO, Tong-söng a Hwi-ch'ang MUN. From Adam Smith to Michael Porter: Evolution of competitiveness theory[online]. N.J.: World Scientific, 2013, [cit. 2016-01-29]. Asia-Pacific business series, v. 7. ISBN 9789814401661.

David Ricardo showed that the presence of such differences in the relative costs of production benefit of the country is beneficial to specialize in products that require a relatively lower cost and share their products. This is clearly illustrated in table 1 which presents the cost of obtaining cloth 1 m² and 1 liter of wine in each of the countries in the absence and in the presence of commodity there between.¹⁸

Table No. 1 Differences in the relative costs

product	no	exchange	There is	An exchange
	England	Portugal	England	Portugal
1m of cloth	100	90	200	-
1l of wine	120	80	-	160
total	220	170	200	160

Source: made by author using book Fomichev, Victor. *Mezhdunarodnaya trgovlya (International trade)*

Later this theory became known as the single-factor model of Ricardo in the mechanism of foreign trade. Actually, Ricardo developed a key principle of the international division of labor, which indirectly formulated Smith. The theory of comparative advantage allows you to build foreign economic relations on a scientific basis, provides an opportunity to prove protectionist practices in foreign trade. Ricardo dynamically opposed the Corn Laws introduced in Britain after the defeat of Napoleon in 1815, which benefited the landed aristocracy, but harmed the industrial capitalists. However, Ricardo expounded their views from the standpoint of economic theory, demonstrating the profitability of free trade to the interests of the UK. For the first time economic theory was used as a policy tool.¹⁹

The highlights of Ricardo's Model

- 1) Trade occurs due to dissimilarities in manufacture knowledge.
- 2) A superior country can fight against some low foreign income industries.
- 3) Even an undeveloped country can benefit from free trade.
- 4) Trade is beneficial for everybody in both countries.²⁰

¹⁸ FOMICHEV, Victor. *Mezhdunarodnaya trgovlya [International trade]*. 2. Moscow: INFRA-M. 445 s., 2001. ISBN 5-16-000145-X.

¹⁹ MANESCHI, Andrea. *Comparative advantage in international trade: a historical perspective*. Northampton, MA: Edward Elgar Pub., c1998.

²⁰ CHO, Tong-söng a Hwi-ch'ang MUN. *From Adam Smith to Michael Porter: Evolution of competitiveness theory*[online]. N.J.: World Scientific, 2013, [cit. 2016-01-29]. Asia-Pacific business series, v. 7. ISBN 9789814401661.

3.2.4 "Principles of Political Economy" John Stuart Mill

English philosopher and economist John Stuart Mill in his "Principles of Political Economy" (1848) has complemented theory and has shown, at what price is carried out international commodity exchange. According to Mill, the exchange price set by the law of supply and demand at a level such that the total exports of each country allow covering its total imports. No doubts that an important achievement of J. S. Mill is formulation «the theory of international value". The theory of international value indicates that there is a price that optimizes the exchange of goods between countries. This market price depends on supply and demand.

Ricardo explained that comparative advantage occurs from differences in labor productivity, but did not make clear why work productivity is not similar between countries.²¹

3.2.5 Heckscher-Ohlin theory

As it was noted above, Adam Smith and David Ricardo considered that the main factor in the manufacture of goods is labor. Followers of classical political economy began to explain the theory of international trade through the factors of production.

«At the end of the XIX century - early XX century structural changes took place in international trade. In the same period the Swedish academic economists E. Heckscher and B. Ohlin explained the fundamentals of modern ideas about what factors determine the direction and structure of international trade flows, the possible benefits of international exchange».²²

In 1919 E. Heckscher's theory was published in a newspaper article. Later his student B. Olin has compiled and developed the basic provisions of the hypothesis.

The Heckscher-Ohlin theory is a two-factor, because it compares only two of the three factors, such as labor and capital. Thus, some goods are labor intensive, and others - capital intensive. Various countries in varying degrees endowed with capital and labor. Therefore, in a country where labor resources are abundant, and the capital is not enough labor will be relatively cheap, and capital - expensive, and vice versa, in a country where the labor force is small, and the capital available in sufficient quantities, the work will be expensive, and

²¹ CHO, Tong-söng a Hwi-ch'ang MUN. From Adam Smith to Michael Porter: Evolution of competitiveness theory[online] N.J.: World Scientific, 2013, xxii, 324 p. [cit. 2016-01-29]. Asia-Pacific business series, v. 7. ISBN 9789814401661.

²² BRUE, Stanley L. The Evolution of Economic Thought. South Western Educational Publishing, 2012. ISBN 9781111823689.

the capital - cheaper . Each of these countries will export those goods that are relatively cheaper to produce, using more "cheap factor of production."

In another words, H-O theory foresee the model of foreign trade between nations based on their characteristics. The H-O theorem says that a capital-intensive state is more likely to sell the capital-intensive good while the labor-abundant country would like to export the labor-intensive good. The conclusion is that the more abundant a factor is, the smaller its price.²³ It is necessary to add that the HO model has been prolonged by three significant theorems:

3.2.5.1 The factor price equalization theorem

«The factor-price equalization theorem says that when the product prices are equalized between countries as they move to free trade in the H-O model, then the prices of the factors (capital and labor) will also be stable between states».(FOMICHEV)

Factor-price equalization arises mainly since of the guess that the two nations have the same skill in production.

H-O model contrasts with the Ricardian model result in which countries could have different factor prices after opening to free trade.²⁴

3.2.5.2 The Stolper– Samuelson theorem

It says that if the price of any product increases (at constant other factors) it leads to higher prices of resources that are used relatively intensive in the manufacture of this product and a reduction in prices of resources that are used in its production less intensively.

3.2.5.3 The Rybczynski theorem

The theorem says that a surplus in a state's endowment of a factor can be a reason of an increase in production of the good which uses that factor a lot, and a cut in the production of the other good. The most famous example called Dutch disease.

Dutch disease is a situation in which the rise in prices for mineral raw materials (or the discovery of deposits of minerals or major technological innovation, etc.), changing the nature of the comparative advantages of the country, leading to entry into the country the foreign currency and thus increase the cost of the national currency. This, in turn, inhibits

²³ HECKSCHER, Eli F. Heckscher-Ohlin Trade Theory. MIT Press (MA), 1991. ISBN 0262082012.

²⁴ PAUL R. KRUGMAN, Paul R.Maurice Obstfeld. International economics [online]. 9th ed., Global ed. Harlow: Pearson Education, 2011 [cit. 2016-01-29]. ISBN 978-027-3754-206.

the traditional exports. For example, when Holland discovered oil in the North Sea, the export of Dutch tulips plummeted and unemployment in this and related sectors has grown. Thus the name came.

All three analyzed theorem in its unity are the theory of factor proportions, which is the basis of modern ideas about the causes and results of foreign exchange.

3.2.6 The Leontief paradox

In 1954 American economist Wassily Leontief theory was published. He tested the Heckscher-Ohlin theory, it was based on calculation of the total cost of labor and capital in the export and import of the United States (United States was considered a capital surplus country). It was assumed that the United States exported capital intensive goods, and imported labor intensive. This assumption stems from the fact that after the Second World War in Europe there was a shortage of capital and the relative abundance of labor, while the US was able to end the war to provide capital growth. The result was reversed and called the Leontief paradox. It was found that the relative abundance of capital in the United States is not reflected in US foreign trade. US exported more laborious and less capital intensive products than imported. Large US labor productivity due to more highly qualified American workers, paving the way for the emergence of the model of "skilled labor."²⁵

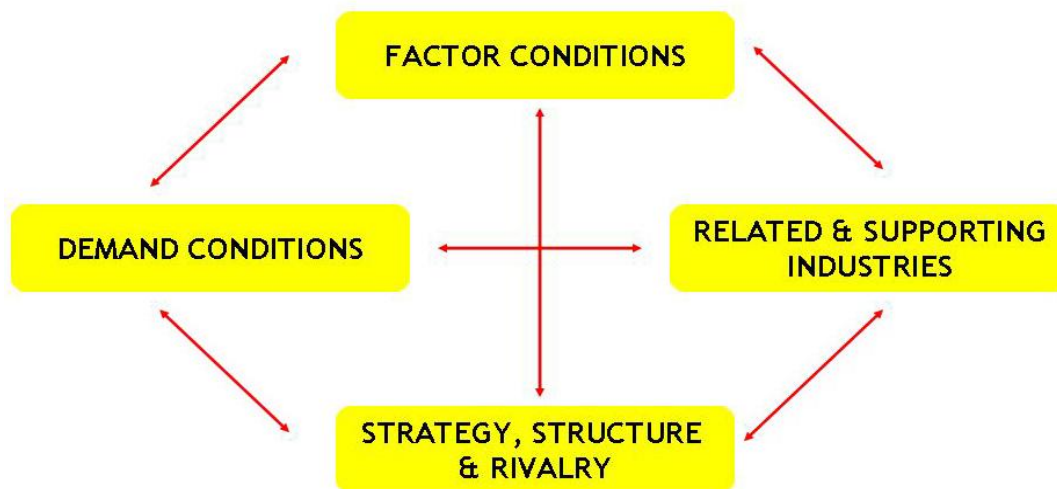
Leontief assumed that there are four factors: skilled labor, unskilled labor, capital and land. The relative abundance of professional staff and highly skilled workforce leads to the export of goods, which is produced by skilled workers. The substandard products can be produced by unskilled workers and countries with unskilled labor surplus can export these goods.

3.2.7 M. Porter's theory.

In 1990 Michael Porter, the professor of Harvard, published a monograph "Competitive Advantage of Nations". He identifies the causes of the country's success in international competition in a particular industry with the help of four indicators - "competitive diamond pattern." These indicators are general in nature and form an environment in which local firms are competing.

²⁵ FOMICHEV, Victor. Mezhdunarodnaya trgovlya [International trade]. 2. Moscow: INFRA-M. 445 s., 2001. ISBN 5-16-000145-X.

Graph No. 1 The Porter's diamond model



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

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

- 1) Human resources,
- 2) Natural resources, including geographical location and climate;
- 3) Capital.
- 4) Scientific and information potential.
- 5) Infrastructure.

The main idea of M. Porter is that the key factors for the competitiveness of the nation are not inherited, but are created. And rates of creation and mechanisms of improvement of factors are essential.

Conditions of domestic demand are still very important. Quality plays a major role in domestic demand and trends of development of demand in the world market. Country has won the competition, where the development of a particular market segment has been given greater attention in connection with the special internal conditions, while the demand for these products in other countries was still small.²⁶

Company's countries benefit if their customers are by world standards the most demanding and qualified. When internal competition is present in the large market it is a positive quality. Under other conditions, a large domestic market can be a negative phenomenon, as firms lose the incentive to constant updating and improvement.

²⁶ PORTER, Michael E. The competitive advantage of nations: with a new introduction. New York: Free Press, c1998. ISBN 06-848-4147-9.

Related and supporting industries are also an important indicator of national competitive advantage. Also, the interaction of related industries could have a positive impact on international competitiveness. For example the Silicon Valley in California is the center of the computer industry.²⁷

The strategy and structure of companies and rivalry is very different from each other, but it is especially important for understanding the factors of competitive advantage. In different countries the objectives, methods and strategies of the organization of firms are significantly different. In the world there is no universal management system. Recently, differences in business culture of different countries have to rank the factors of international competitiveness.

Rivalry in domestic market is very important by Porter, for the reason that the presence of their rivals much stronger stimulates production than foreign competition. Domestically, the company on an equal footing with respect to the cost of labor, raw materials, legislation, so they have to invent something new.

Porter did not add government in his model. He believed that government harmfully influences competitiveness. M. Porter's theory has been applied in practice by countries such as the USA, Australia, and New Zealand. In the 1990s it became the basis of government recommendations to improve the competitiveness of these products on the world market.²⁸

3.2.8 Globalization

Globalization is commonly called the progression of increasing financial interdependence of countries in the world due to the increasing integration of their national markets for goods, services and capital. The development of international trade and the growth of foreign investments are the main components of this process. The processes of globalization began after the Second World War and speeded up significantly since the mid-1980s. New technical achievement, reduce the cost of international transport and the increasing markets liberalization contributed the development of globalization. International organizations such as the General Agreement on Tariffs and Trade (GATT),

²⁷ CHO, Tong-sŏng a Hwi-ch'ang MUN. From Adam Smith to Michael Porter: Evolution of competitiveness theory[online]. N.J.: World Scientific, 2013 [cit. 2016-01-29]. Asia-Pacific business series, v. 7. ISBN 9789814401661.

²⁸ PORTER, Michael E. The competitive advantage of nations: with a new introduction. New York: Free Press, c1998. ISBN 06-848-4147-9.

transformed in 1994 into the WTO International Monetary Fund and the World Bank, played an important role in the widespread policy of free trade.

The main advantages of "free" international trade facilitation are obtained from the output of domestic producers on the world markets for goods, services and capital. As a result, the economy of each country on the one hand benefits from participation in the global division of labor, and on the other - thus falls under the more intense competition prevailing in the world markets. Participation in the global division of labor allows domestic producers to specialize in those sectors, development which has the most favorable conditions in the country. In addition the countries involved in international trade and benefit from the so-called overflow the latest technology from the economy of their trading partners. Such mobility technologies are particularly important for developing countries, receiving as a result of its potential to overcome the technological gap between the most developed countries of the world. However, the accelerated integration with world markets can bring some danger. The biggest danger is getting national manufacturers in terms of an unusually intense competition. As a result, less competitive and less "flexible" producers risk not withstands the competition and leaves the market.²⁹

3.3 The Foreign trade policy

Different countries take different positions in the world economy. Each participant holds a specific policy in this area to protect their interests.

Foreign policy is the influence of the state on trade relations with other countries. The main objectives of foreign policy are: changes in the degree and method of inclusion of the country in the international division of labor, change in the volume of exports and imports, changes in the structure of foreign trade; providing the country with the necessary resources (raw materials, energy, etc.); change in the ratio of export and import prices.

There are two main areas of foreign policy:

- 1) Free trade policies;
- 2) Protectionism

²⁹ Economic globalization [online]. The World Bank [cit. 2016-01-02]. Available at: http://www.worldbank.org/depweb/beyond/wrru/wnr_13.pdf

3.3.1 Free trade policies

Policy of free trade, in pure form, means that the state does not interfere in foreign trade, leaving the main role of the market regulator. However, this does not mean that the state has no effect on this area of economic activity. It concludes agreements with other countries in order to provide maximum freedom to their subjects.³⁰

3.3.2 Protectionism

Protectionism is a policy aimed on defensive the domestic economy from foreign competition. In contrast to the policy of free trade, protectionism is excluded free market forces. Limitless rivalry from stronger foreign companies could result (in undeveloped countries) to economic stagnation and the formation of inefficient for the country's economic structure.³¹

Protectionism contributes to the growth of certain industries. In agrarian country, protectionism is a necessary condition for industrialization. As well, protectionism cuts joblessness. However, prolonged usage of this policy may lead to economic stagnation, the elimination of foreign competition, leads to weak interest of domestic entrepreneurs in raising the technological level and production efficiency.³²

3.3.3 Instruments of foreign policy

Different types of bans are effective instruments of foreign policy of the state, such as bans on exports or imports of some products at all or in (to) a particular country.

The system of bilateral and multilateral treaties also relates to instruments of foreign policy. Such tools by which the State, acting on the increase or decrease in income from foreign trade are used more often. These tools include tariff and non-tariff barriers.

Customs tariffs are a classic and the main instrument of foreign policy. Customs tariff is a systematic list of customs duties. Customs duty is a tax on the import or export of goods at the moment of crossing the customs border of the state.

Customs duties are classified according to the following criteria.

-The direction of movement of goods

³⁰ ROBERTS, Russell D. The choice: a fable of free trade and protectionism. 3rd ed. Upper Saddle River, N.J.: Pearson Prentice Hall, c2007. ISBN 978-0935328325.

³¹ SURANOVIC, Steve. International Trade: Theory and Policy. ISBN 978-1-4533-2732-6.

³² ROBERTS, Russell D. The choice: a fable of free trade and protectionism. 3rd ed. Upper Saddle River, N.J.: Pearson Prentice Hall, c2007. ISBN 978-0935328325.

There are import, export and transit duties, depending on the direction of the movement of goods. The most universal are import duties, which applied to defend national market, the stage of domestic prices and for fiscal or political purposes. Export duties are applied much less often, they can prevent the penetration of local products into foreign markets. This usually happens when there is a shortage of a product within the country, as well as for fiscal purposes. Transit duties are very rarely applied.

-The method of establishing tariffs

According to the process of establishing different ad valorem duties (ad valorem) there are specific duties and combined duties. In world trade practices are most common ad valorem duties, which are set as a percentage of the price of goods.

Therefore, the method of valuation of imported goods becomes very important. Currently, this method is used in many countries; it is governed by the Agreement on the valuation of goods for customs purposes signed in the framework of the General Agreement on Tariffs and Trade (GATT). Average rates of ad valorem duties relatively low (about 6%). As a rule, import duties are growing with increasing degree of processing of goods.

There are two types of preferential taxes. Preferential tariffs are set at a level below the minimum in order to create favorable conditions for trade in any commodity or any country

The level of biased duties is above preferential duties. Among the discriminatory duties can distinguish countervailing, anti-dumping.

Response duties are a response to certain actions of the partner. They can spread to the entire trade or into separate product groups. Fees are set for exposure to a partner in order to reduce restrictions. Countervailing obligations are a reply to subsidies of sellers in other states. They are installed in order to equalize the trade conditions. Antidumping duties are a form of countervailing duties. They are put in to offset dumping, to equalize prices to a level that is measured as regular.³³

By economical factor we can differentiate

- 1) Fiscal tariffs,
- 2) Expansionist tariffs,
- 3) Protectionist tariffs.

³³ SMITH, S, Amelia HADFIELD a Timothy DUNNE. Foreign policy: theories, actors, cases. 2nd ed. Oxford: Oxford University Press, 2012. ISBN 978-019-9596-232.

The fiscal duties give maximum possible flow of income to the state treasury. For instance, there are import taxes on goods that are not manufactured in particular country (tropical fruits in Europe). Fiscal duties cannot grow infinitely, as the income of the state in this case is defined as the product of the tariff rate on the volume of trade in the product. Therefore, always state have to look for the optimal rate of duty. Protectionist duties are established to defend the home industry from more competitive foreign products. They are commonly used at the stage of industrialization and development of individual industries. Long-term use of protectionist tariffs could lead to stagnation in production.

Non-tariff trade regulation means the application of various tools of foreign trade regulation, other than customs duties. These include: quotas, licensing, voluntary export restrictions, export subsidies, administrative and technical barriers and others.³⁴

Quotation of foreign supply means limiting export and/or quantity of goods imports (quantitative quotas) or their total cost (the cost of quota) for a specified period of time. There are different types of quotations

- 1) Global quota is determined for state needs;
- 2) Natural quota - linked to the limited capacity of the pipeline, terminals in ports, etc.;
- 3) Exclusive quota - is introduced in special cases, related to ensuring national security, protection of the domestic market, the implementation of international commitments.

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.

- 1) Export quota limits the amount of goods allowed for export.
- 2) Import quota limits the number of products authorized for importation.

Licensing is a limitation in the form of entitlement, or (license) from the authorized state bodies on fulfillment of specific export and/or import operations. The license itself may provide for the manner of importation or exportation of goods. The license may also include the permission to import (export) a certain amount of goods, in this case, the license is closely linked to quotas. Licensing can be a part of the quota, or be an independent instrument of state regulation.³⁵

The main types of licenses are:

³⁴ Non-tariff barriers to trade. In: Wikipedia: the free encyclopedia [online]. San Francisco (CA): Wikimedia Foundation, 2016 [cit. 2016-03-09]. Available at: https://en.wikipedia.org/wiki/Non-tariff_barriers_to_trade

³⁵ International Trade Controls. International Encyclopedia of the Social Sciences [online]. [cit. 2016-03-09]. Available at: <http://www.encyclopedia.com/doc/1G2-3045000605.html>

The quota administered by the exporting country, not the importing country is called voluntary export restraints. It may be imposed by, for example, persuasion or threat of sanctions.³⁶

An export subsidy appears when the government or public authority of the country provides financial assistance to enterprises and economic sectors to support domestic exporters and discriminate foreign importers.

An extreme form of government restrictions on foreign trade are economic sanctions, such as a trade embargo - the prohibition of importation into the State of any country or export from any country of the goods.

Declaration and visas and permits are a common form of administrative measures to control foreign trade. Among the technical barriers include the requirement of compliance with national standards, obtaining certificates of quality of imported products, specific packaging and labeling, subject to certain hygiene standards, etc.³⁷

3.4 International trade institutions

The internationalization of economic life, the growing interdependence between the countries in the world economy has predetermined the need for targeted regulation of international economic relations of the combined efforts of countries. Multilateral interstate regulation of certain areas of the world economy was born before the Second World War. However, a major factor in the world economy, it was only after the war.

Interstate regulation of international relations is a set of voluntarily undertaken by various countries obligations and general rules of action in the sphere of world economic relations.

A special role in the regulation of international trade is multilateral agreements operating under:

- GATT (General Agreement on Tariffs and Trade)
- WTO (World Trade Organization)
- GATS (General Agreement on Trade in Services)

³⁶ SMITH, S, Amelia HADFIELD a Timothy DUNNE. Foreign policy: theories, actors, cases. 2nd ed. Oxford: Oxford University Press, 2012. ISBN 978-019-9596-232.

³⁷ International Trade Controls. International Encyclopedia of the Social Sciences [online]. [cit. 2016-03-09]. Available at: <http://www.encyclopedia.com/doc/1G2-3045000605.html>

3.4.1 GATT

«General Agreement on Tariffs and Trade an international agreement concluded in 1947 with the aim of economic recovery after the Second World War, which for nearly 50 years to actually perform the functions of the international organization».³⁸

GATT performed the following functions:

- 1) Formulated a set of rules governing the behavior of governments in the area of international trade and in some related fields of economic relations;
- 2) Played the role of a forum for the negotiation of trade liberalization;
- 3) Helped the government to resolve commercial disputes with other GATT member countries.

By 1994, 111 countries have joined the GATT.

The 8 GATT rounds of multilateral negotiations have been held: 1947 - Round of Geneva, which established the GATT (23 countries); 1949 - Annecy round (13stran); 1950-1951 years - the Tokyo Round (38 countries); 1955-1956 years - Geneva Round (26 countries); 1960-1961 years - Dillonsky round (26 countries); 1964-1967 years - the Kennedy Round (62 countries); 1973-1979 years - the Tokyo Round (102 countries); 1986-1993 years - the Uruguay Round (123 countries).³⁹

The last round of GATT was the Uruguay Round. In this round it was negotiated the most liberal trade agreements in GATT history. It cut tariffs on industrial goods by an average of 40 %, reduced agricultural subsidies, and included groundbreaking new agreements on trade in services. The agreement also created a new and stronger global organization, the WTO. GATT went out of existence with the formal conclusion of the Uruguay Round on April 15, 1994. Its principles arrived at its auspices were adopted by the WTO.⁴⁰

3.4.2 The WTO

The World Trade Organization (WTO) is the largest international economic organization, which determines the rules of international trade in goods, services and intellectual property, and oversees their implementation.

³⁸ GATT. In: Wikipedia: the free encyclopedia [online]. San Francisco (CA): Wikimedia Foundation, 2016 [cit.2016-03-02].

³⁹ BURMISTROV, Vladimir. Vneshnjaja trgovlja. Jurist, 2001. ISBN 5797504022.

⁴⁰ General Agreement on Tariffs and Trade [online]. The Editors of Encyclopædia Britannica [cit. 2016-03-02]. Available at : <http://www.britannica.com/topic/General-Agreement-on-Tariffs-and-Trade>

WTO is not just a continuation of the GATT. It is a permanent organization. WTO commitments are full-scale in nature and are permanent. All agreements that are WTO-based multilateral are contained in them are obligations of all members (except, as already mentioned, the Agreement on trade in civil aircraft and government procurement, participation in which is voluntary).⁴¹

The duties of the Organization are responsible for monitoring the functioning of the multilateral trading system.

In fact, now the WTO is a permanent international intergovernmental institution, headed by the Director General and managed by an independent secretariat and the Ministerial Conference, which together provide strategic guidance. All countries represented there by governments, on whose behalf and negotiations in the WTO. The WTO Secretariat is located in Geneva. There work about 500 people. The Secretariat is responsible for WTO bodies, which are responsible for the negotiation and implementation of agreements.⁴²

3.4.3 GATTS

General Agreement on Trade in Services is a first multilateral set of rules, related to international trade in services. GATS was formed on the Uruguay Round of trade negotiations in January 2000 and since then this set of agreements became a matter of multilateral trade negotiations.⁴³

The main aspire of GATS is liberalization of trade in services and covers the following types: services in the field of telecommunications, finance and transport. From the range of actions are excluded problems of selling abroad of movies and TV shows.

3.4.4 The IMF

IMF - International Monetary Fund

The main aim of the IMF is to maintain the stability of the global financial system. In addition, the IMF's mission is to inform all members of the IMF on the financial and monetary policies of other states.

⁴¹ The WTO. World Trade Organization [online]. [Cit.2016-03-8]. Available at: https://www.wto.org/english/thewto_e/thewto_e.htm

⁴²Problems and prospects of the WTO. WTO-consulting [online]. 2010 [cit. 2016-03-02]. Available at: <http://wto-consulting.ru/problemy-i-perspektivy-vto/>

⁴³ Wto.org, (n.d.). WTO | Services trade. [online] Available at: http://www.wto.org/english/tratop_e/serv_e/serv_e.htm [cit. 12.01.2016]

IMF members are more than 180 countries worldwide. When joining the IMF, each country makes to the membership fee as a certain sum of money called a quota.

The objectives of the International Monetary Fund:

- 1) To promote the development of international cooperation in the monetary sphere
- 2) Facilitate the expansion and balanced growth of international trade
- 3) To promote swap over stability
- 4) Provide assistance to IMF members and help⁴⁴

⁴⁴ The IMF [online]. 2011 [cit. 2016-03-02]. Available at: <http://www.grandars.ru/student/mirovaya-ekonomika/mvf.html>

4. Analytical part.

In this part I will analyze the main tendencies taking place in Russian foreign trade for the last 10 years. In details I will explain changes in foreign trade structure in 2015. Also, I will show the influence of exhibition of sanctions from foreign partners.

4.1 Economic development overview.

The modern economy of Russia dates back to 1991 - with the crumple of the Soviet Union and the formation of the Russian Federation. Since that time, the country has committed itself to the economic modernization, as well as integration into the international economic space. Since the beginning of the 1990s planning system was unwanted and substituted with the market model. At the end of 1991, the administration started to introduce the essential economic reforms; as a result, large-scale privatization in Russia had happened by 1995 and formed a small layer of the holders, which owned the majority of enterprises. At the beginning of 2006 the share of private capital accounted to 77% of all fixed assets and only 23% remained in the hands of the state.

The arrangement of market economy in Russia took place in two stages.

The first phase (1990-1998) was characterized by:

- The chaotic retreat of the state from previously held positions in the economy;
- The rapid rise in prices;
- A significant decline in production and investment;
- The absence of contractual discipline in enterprises;
- Quick build-up of external and domestic debt of the state;
- The accumulation of accounts payable;
- The annual budget deficit.

Errors in economic policy were partly caused by the lack of international experience in such transformations. The situation is exacerbated by incompetent economic managers and the inability of most of them to work effectively in the market conditions.

At the end of 1997, Russia had made some economic progress: inflation rate had been reduced, the ruble become more stable, and an ambitious privatization program transferred

thousands of enterprises to the private ownership. Many important market-oriented laws were adopted, established by the arbitral tribunal to deal with economic disputes.⁴⁵

But in 1998, the Asian financial crisis, reaching Russia, it has led to a sharp decline in revenue from oil exports and a massive outflow of foreign investors. All this has led to the government's inability to carry out the economic crisis occurred in full obligations to foreign creditors resulting in Russia and the ruble fell sharply again.

In 1999, the era of economic growth, and the production volume in Russia grew for the second time since 1991 by 3.2% compared with the fall of this index by 4.6% in 1998. This growth was achieved despite a year of "turmoil", which included a change of the three prime ministers and the resignation of New Year's Eve of President Boris Yeltsin. Positive impact on the economic situation in Russia three-fold increase in world oil prices in the second half of 1999.

Revival from the slump was the beginning of the second phase at the end of 1998 (1999-2001.) the transition period. Improving the competitiveness of domestic products was a result of the ruble devaluation and the rise in world prices for hydrocarbons coincided in time and had a positive effectiveness in the Russian economy. The success of the second phase was the fast growth of real household investments in national and foreign currency deposits, which was also an important source of investment in the economy.

The economy of the Russian Federation was growing on by 7% per year since 1998, which had led to a duplication of real disposable income of citizens. However, in 2008-2009 Russian economy was unprepared for the world economic crisis. The oil prices had fallen. And as a effect of crisis all foreign asset into Russian market had stopped. The Central Bank spent about one-third of the gold and foreign exchange reserves to stop the devaluation of the ruble.

In mid-2009 the refuse of economic was conquer and Russian financial system began to recover. The growth of the Russian economy was supported by high oil prices in 2011. This had helped Russia to overcome the shortage in the state budget caused by the crisis (2008-2009). According to economists long-term problems of the Russian Federation including high unemployment rates, high level of corruption, difficulty with small businesses and poor infrastructure are needed to have a huge amount of investments.⁴⁶

⁴⁵ Economy of Russia. In: Wikipedia: the free encyclopedia [online]. San Francisco (CA): Wikimedia Foundation, 2001- [cit. 2016-03-10]. Available at: https://en.wikipedia.org/wiki/Economy_of_Russia

⁴⁶ Ereport.ru, (n.d.). Jekonomika Rossii. Osnovnye cherty rossijskoj jekonomiki. [online]

Graph No. 2 Russian GDP in billions USA dollars in 1990-2015



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

Since 1998, the volume of GDP was precipitously growing. In 1999, GDP amounted to 348.40 million US dollars and rose by 6.4% compared with the previous year. The GDP grew in average by 7 percent every year in the period from 1999-2008. Such results provided a third place in the world economy after China and Japan. In 2007, the rate of growth of the Russian economy (8.54%) was the highest in recent years. By the end of this year, Russia entered to the 7 major economies in the world. In 2008 the economy reached its peak before the global crisis. However later we can see the GDP drop caused by crisis. In 2009, GDP fell by 7.80%.⁴⁷ Despite the crisis, the decline was brief and in 2010 the level of GDP rose by 4.5%. As it is seeable in the chart the largest volume of GDP was established in 2014, 675.30 billion dollars, but its growth is significantly decreased, compared to previous years, to 0.60%. And already in 2015, a decline in GDP was 3.80%.⁴⁸ This is due to the unstable exchange rate of the ruble, the sanctions, the drop in oil prices and other processes occurring in the world.

The inflation rate is another important thing that influences Russian economy or economy of whatever country. Historically, inflation has emerged in the 50-60-ies of XX century in the Russian economy and it is associated with a sharp drop in the efficiency of social production. The open inflation explosion occurred in January 1992, when all prices were released, except for energy and food prices. Since then, the inflationary process began to

Available at: <http://www.ereport.ru/articles/weconomy/russia.htm> [cit. 2015-12-28].

⁴⁷ The Russian GDP. Interfax [online]. 2014 [cit. 2016-02-28]. Available at: <http://www.interfax.ru/business/421178>

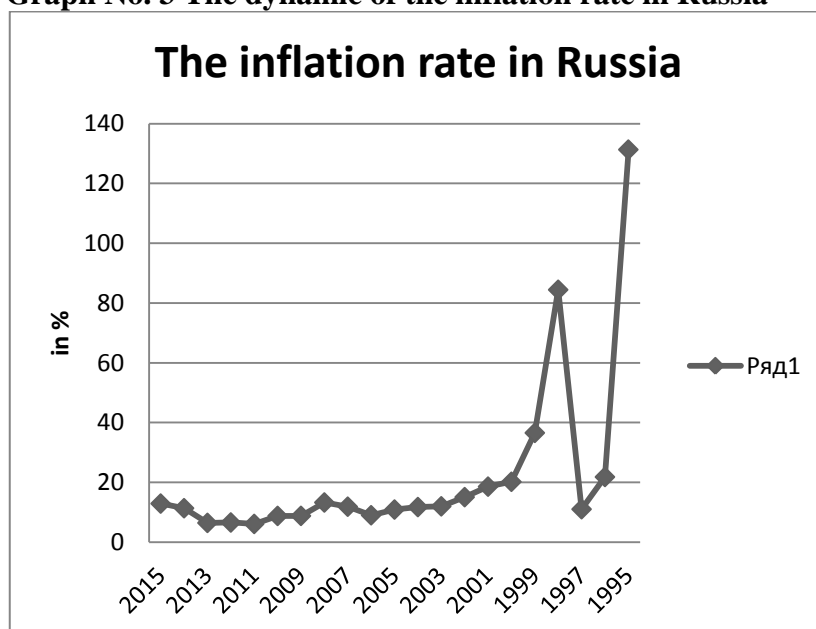
⁴⁸ Ereport.ru, (n.d.). Jekonomika Rossii. Osnovnye cherty rossijskoj jekonomiki. [online] Available at: <http://www.ereport.ru/articles/weconomy/russia.htm> [cit. 2016-01-24].

grow rapidly. Domestic type of inflation is dissimilar from all identified types, due to the situation (the change from a planned to a market economy).

The causes of inflation in Russia:

- deep deformations and distortions of social production;
- structural imbalances of the economy;
- monopolization of commodity producers;
- militarization of the economy;
- excessive state apparatus.

Graph No. 3 The dynamic of the inflation rate in Russia



Source: Completed by author based on Inflation Rate in Russian Federation⁴⁹

In the graph 3 there is a dynamic of the inflation in Russia. The huge inflation was observed in 1995, next default was in 1999, and then the national currency lost more than 80 %. After the 2001 the average inflation was 8% per year. The lowest inflation rate you can see in the period 2011-2013 and it was approximately 5%. After that time the inflation started to grow, and in 2015 it was 13%.

⁴⁹ Available at: <http://inflationinrussia.com/>

4.2 The analysis of the general tendencies in Russian foreign trade.

The collapse of the Soviet Union had very painful effect on the economy of precipitated countries. The strong drop in industrial production had a negative impact on the economy. This is explained by the break of economic ties, which was due to the emergence of the state borders and barriers.

Foreign trade has always played and continues to play a huge role in the economic life of country. The presence of large reserves of mineral resources has become for Russia lifesaver, helping to compensate for the errors and failures in economic policy.

Therefore it is easy to understand how serious economists and the government are interested in what is happening in the Russian foreign trade: how to change the volume of exports and imports, what Russia is exported and imported.

The analytical part starts from the overview of the general tendencies in Russian foreign trade. The table No.2 shows volume of import and export for 2005-2014 in Russia.

Table No. 2 The distributions of Russian foreign trade data (according to the balance of payments methodology)

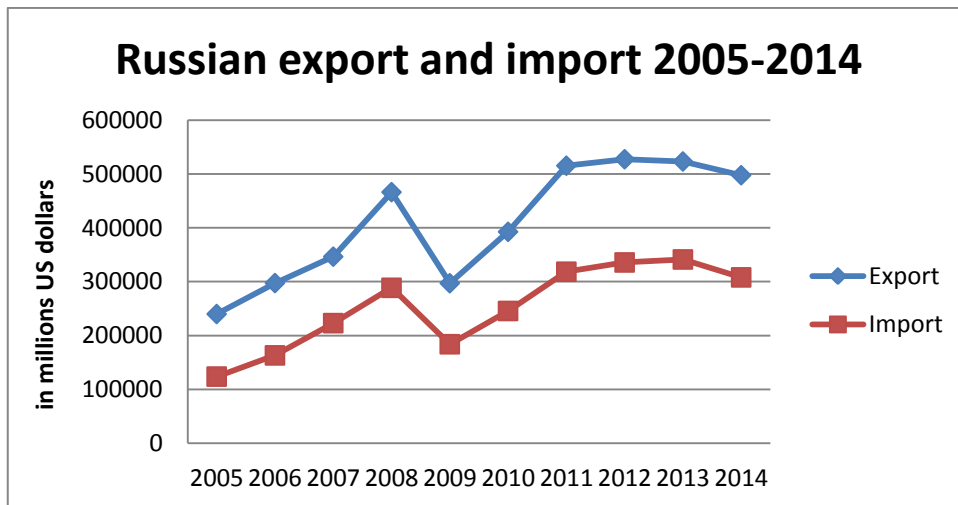
Year	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Export	240024	297481	346530	466298	297155	392674	515409	527434	523275	497763
Import	123839	163187	223084	288673	183924	245680	318555	335771	341337	308026
Trade balance	116185	134294	123446	177625	113231	146994	196854	191663	181938	189737
Turnover	363863	460668	569614	754971	481079	638354	833964	863205	864612	805789

Source: Federal State Statistic Service⁵⁰

It should be noted that various agencies provided the contradictory data on the performance of foreign trade of the Russian Federation. Thus, data on the total volume of Russia's foreign trade according to the State Statistics Committee is different with the figures of the State Customs Committee (GPC) and very significantly, as an estimated annual cost of GPC "black" imports of about \$ 6-7 billion.

⁵⁰ Available at: http://www.gks.ru/wps/wcm/connect/rosstat_main/rosstat/ru/statistics/fttrade/#

Graph No. 4 Export and import in billions US dollars in 2005-2014
 (According to the balance of payments methodology)



Source: Compiled by the author based on data Federal State Statistic Service

It is depicted from the graph No. 4 all rises and falls in imports and exports for the period from 2005 to 2014. The growth of the Russian economy in 2005 was influenced by three main factors: the continued rapid growth of domestic incomes and demand, improvement in the expectations of investors and the growing competitive pressures associated with the strengthening of the ruble. As it follows from graph No. 4 the trend of export and import continue growing until 2008.

It is obvious that the global financial crisis affected on all indicators in 2009. The world crisis had led to a slowdown in global economic growth, a weakening of the exchange rate, reducing the demand on the markets and an unfavorable business climate. According to table No. 2, in 2009 Russia's foreign trade turnover amounted to 481.079 billion US dollars and fell to 36.3% in comparison with 2008.

In March 2010, the World Bank report noted that the loss of the Russian economy were lower than expected at the beginning of the crisis. According to the World Bank, this was due to the large-scale anti-crisis measures were taken by the government. In almost all sectors (except agriculture and construction) totals were higher than in 2009. The increase in investment and consumer demand was especially important, but they were still far from pre-crisis levels. Also significant increase was recorded in the industry. Economic had started the revival process and it influenced on trade. As you can see in the graph No.4 in 2010 there is a rise in import and export. In 2011 the surplus of Russia's foreign trade balance was 196.8 billion US dollars. Russia's foreign trade turnover reached 833.9 billion

US dollars, it increased by 33.5% compared with 2010. Ex-president Medvedev about the economy in 2010:

"The script that we implemented this year is not the worst. It was affected by internal difficulties - the structural defects of the economy and natural disasters that spoiled the macroeconomic indicators"

In addition in 2011 it was recorded the fastest rise in export performance. Indicators in 2012 differ from the previous year but very slightly (see graph No.4). In 2013, an export falling by 0.7% is observed and the small import growth by 1.7 compared to previous year. Among the most important factors impacting on these indicators, the following should be highlighted:

- 1) The global trend: after the 2008 crisis, the economies of developing slowly, this affects the volume of world trade.
- 2) Russia's accession to the WTO. This factor is rather "internal" reason for the decrease in foreign trade.
- 3) One of the reasons for the decrease in exports to the experts was to increase the rate of the ruble, which is why the Russian goods, along with so low competitiveness, expensive cost. This caused a drop in sales volume.⁵¹

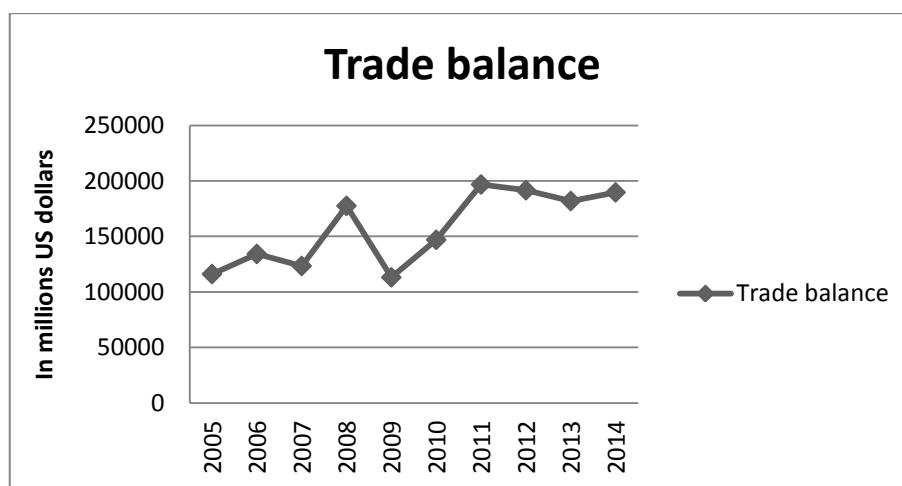
We can also observe the negative growth in exports and imports in 2014, the reason for that served as the fiscal and debt crisis of the ruble area and impact of sanctions.

According to the Federal Customs Service in 2014, Russian foreign trade turnover had amounted to \$ 782.9 billion, which is lower than previous year by 7%. This decrease occurred both in exports and imports (by 5.8% and 9.2%). Export to CIS countries was reduced mainly due to the decline in oil exports. And another important reasons is a sharp drop (by 28.8%), of the volume of trade with Ukraine - up to 28.2 billion dollars. In trade with non-CIS countries export and import declined, but not as dramatically. In January-December 2014 it was mainly supplied fuel and energy goods, whose share in the commodity structure of export to these countries amounted to 73.3%. In this regard, the decline in oil prices and has identified this trend. The decline in metal prices had also

⁵¹ The analysis of Russian export and import in 2013. ПРОВЭД [online]. Saint-Petersburg, 2013 [cit. 2016-02-28] Available from: <http://провэд.пф/analytics/research/5866-analiz-export-import.html>

affected on the dynamics of the trade turnover.⁵² The reduction in imports was due to the fall of the ruble by 40%. The recession in imports is characterized not only by recession in food import (although on a number of imported products such as meat decline of up to 30-40%) for example, the volume of cars import was reduced as well. It was significantly reduced imports of equipments, chemical products; more than 20% reduced in import of pharmaceutical products.⁵³

**Graph No. 5 The Russia's foreign trade turnover 2005-2014
(According to the balance of payments methodology)**



Source: Compiled by the author based on data Federal State Statistic Service

The trade balance is the difference between the total value of exported and imported goods. The first thing that catches the eye is the fact that, in spite of the crisis and the falls, the trade balance was always positive. It was possible because of the predominance of exports over imports. As you can see in the graph No.5 the tendency is the same as in the graph No.4.

The lowest indexes were committed in the 2005. Next year the trade balance had become grosser. In 2008 it was observed the rapid recession in the turnover. The fall was committed in the 2009 and as it was said previously it was caused by the global crisis. The curious thing is that index in 2014 is higher than in 2013, it is explained by the low import in 2014 (see table 2). The highest turnover was observed in 2011, this year the difference between export and import was the more visible. Russian economy was very dependent on

⁵² The Russian foreign trade in 2014. Global-finances [online]. 2014 [cit. 2016-02-28]. Available at: global-finances.ru

⁵³ What does Russia buy? Structure and tendencies of the Russian import.(translated) [online]. 2015 [cit. 2016-02-28]. Available at: <http://провед.рф//analytics/research/24236-chto-pokupaet-possiya-stpuktupa-i-tendentsii-possijskogo-impopta.html>

the world economic crisis. This dependence on commodity exports makes Russian economy very vulnerable to global economic changes and highly unstable global commodity prices.

The commodity structure of the export in Russia

Russia is unique country in terms of funds of mineral resources. The country has stocks of all kinds of fuel resources (oil, natural gas, coal), ores of ferrous and non-ferrous metals - iron, copper, nickel, tin, and uranium ores, gold and platinum, as well as many kinds of non-metallic minerals - apatite, cookbooks and potassium salts, asbestos, diamonds and others.

Table No. 3 The commodity structure of the Russian export in Billions of US dollars

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Export in Billions US dollars	242	302	352	468	302	397	517	525	527	497
Including:										
mineral products	156	199	229	327	203	272	368	374	377	350
foodstuffs and agricultural	4.5	5.6	9	9.3	10.0	8.8	13.3	16.8	16.2	18.9
paper products and wood	8.3	9.5	12.2	11.5	8.4	9.6	11.3	10.2	11.0	11.6
rubber and chemical products	14.3	16.8	20.9	30.2	18.7	24.5	32.6	32.1	30.8	29.1
precious stones and products	40.5	49	56	61.7	38.5	50.3	58.7	58.3	55.1	52.4
furs and products	0.33	0.36	0.35	0.35	0.24	0.3	0.38	0.5	0.6	0.4
textiles and footwear, textiles	0.96	0.96	0.95	0.87	0.7	0.8	0.9	0.8	0.9	1.1
equipment and vehicles	13.5	17.4	19.6	22.7	17.9	21.3	26.0	26.6	28.9	26.3
Others	2.5	3.1	4.4	4.5	3.8	4.3	5.8	5.6	6.6	6.9

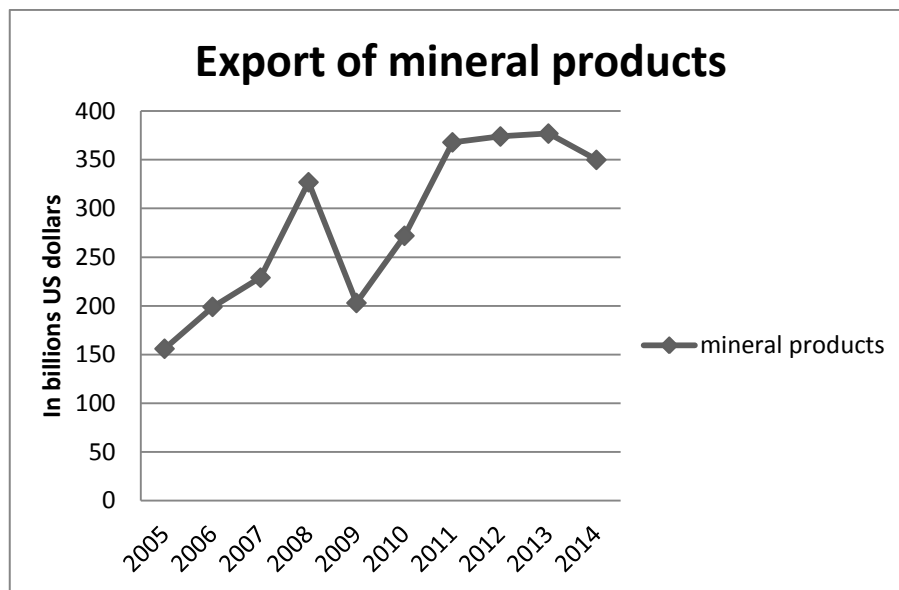
Source: Compiled by the author based on data Source: Federal State Statistic Service⁵⁴

Mineral resources have a great importance in the development of the country's economy. Russia owns mineral raw materials, with the fuel and ore resources and the export value - the share of mineral fuels, ores of ferrous and nonferrous metals account for almost 3/4 of the country's foreign exchange earnings.⁵⁵ As it was install by the Federal Customs Service (FCS), revenues from the export of mineral products from Russia in 2011 increased by 27% - up to 368 billion dollars. In real terms, exports of petroleum products decreased by 2.4% - up to 244 million tons. Revenues from the crude oil exports in 2011 had increased by 25.4%. It was caused by the increase of crude oil prices (see graph No.6).

⁵⁴ Available at: http://www.gks.ru/free_doc/new_site/vnesh-t/exp-to.htm

⁵⁵ Russian geography [online]. [cit. 2016-01-28]. Available at: <http://geographyofrussia.com/>

**Graph No. 6 The dynamic of Russian export of mineral products in 2005-2014
(According to the balance of payments methodology)**



Source: Compiled by the author based on data *Federal State Statistic Service*

The export of mineral products is the main export for Russia (see table No.4).

In 2012 the volume of mining operations had increased by 1.1% compared with the previous year. Coal production reached 354 million tons, which is 5.2% more than in 2011. The volume of oil production (including gas condensate) has reached 517 million tons, an increase of 0.9% year on year. In 2009, Gazprom has become the most profitable corporation in the planet. From 2012-2013 the volume of exports of mineral products was on the rise. Economic Revival observed after the economic crisis. In 2014 the decline in exports was again 8% compared with the previous year.

**Table No. 4
Dynamic of Russian crude oil export revenue and average year price for the crude oil**

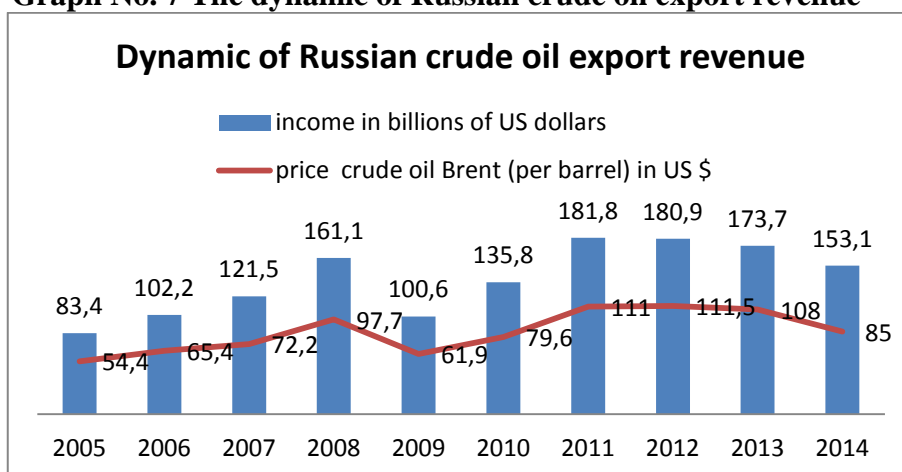
Year	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
export in millions tones	252,5	248,4	258,6	243,1	247,5	250,7	244,5	240,0	236,6	223,4
income in billions of US dollars	83,4	102,2	121,5	161,1	100,6	135,8	181,8	180,9	173,7	153,1
price crude oil Brent (per barrel)	54,4	65,4	72,2	97,7	61,9	79,6	111	111,5	108	85

Source: the Federal Customs Service of Russia and Rosstat⁵⁶

⁵⁶ Available at: http://www.gks.ru/wps/wcm/connect/rosstat_main/rosstat/ru/statistics/ftrade/#

Russian oil export revenues markedly reduced in 2012 - by 11.3% in comparison with 2013 year, which was due to a reduction in the physical supply of oil exports and a fall in its price (see table No.6). Thus, the average price for Brent oil stood at \$85 in 2014 per barrel compared to \$ 108 per barrel in 2013, had fallen by 9.5%.

Graph No. 7 The dynamic of Russian crude oil export revenue

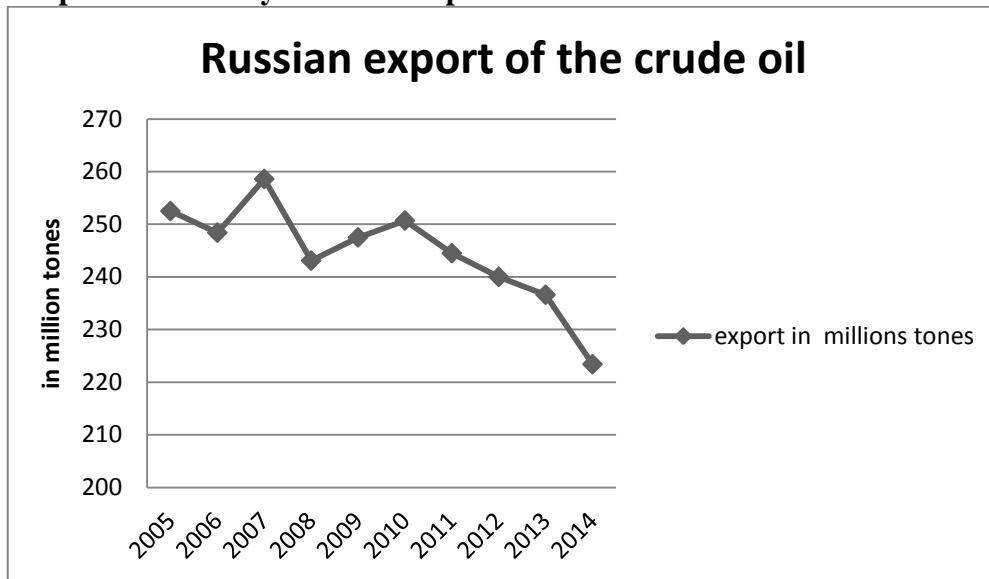


Source: Compiled by the author based on data Rosstat

Since the beginning of January 2008 the prices had a powerful growth. In June 2008, the price of oil was \$ 135 per barrel. Naturally, Russia had begun a good economic recovery, for example wages increased. However, the price of the Brent crude oil in the end of July begins to decrease - in December 2008 the price of oil was \$ 43. It was the peak of the crisis. The crisis of 2009 was caused by only a half-year fall in the value of oil. Then prices started to rise again. The average price peak was observed in 2012 the price of oil reached 120 dollars per barrel. Since 2012, the price was maintained in average 108-110 \$ per barrel until 2013. In 2014 the price had fallen to 85\$ per barrel. Now, recent events had shown a strong decline in oil prices in 2015, when the index value dropped to \$ 56.⁵⁷

⁵⁷ The dynamic of the crude oil prices [online]. novosti-online.info, 2015 [cit. 2016-01-28]. Available at: <http://novosti-online.info/517-cena-na-neft-dinamika-za-10-let.html>

Graph No. 8 The dynamics of export volume of crude oil in million tones



Source: Compiled by the author based on data Federal Customs Service

In 2007 the biggest export volume was observed. After this year there was a drop in exports volume. In 2011 the export of the crude oil fell by 2.5 %, 2012 by 1.9%, in 2013 by 1.7%, and finally in 2014 the biggest drop for this period-5.6%. As it was already noticed before, the interesting thing about crude oil export is that the revenues are very influenced not by exported volume but by the prices. In 2007 it was depicted the biggest imported volume, it is much higher than for example in 2012 (see graph No.7). But revenues in 2012 from crude oil export are much higher (see graph No.6).

The commodity structure of the import in Russia

Import (from the Latin importo -. to bring, to enter) - the importation of goods, services, etc. to the customs territory of the country from abroad without the obligation to re-export.⁵⁸

⁵⁸ Import : *Wikipedia: the free encyclopedia* [online]. San Francisco (CA): Wikimedia Foundation [cit. 2016-02-28]. Available at: <https://ru.wikipedia.org/>

Table No.5 The commodity structure of the Russian import in billions of US dollars

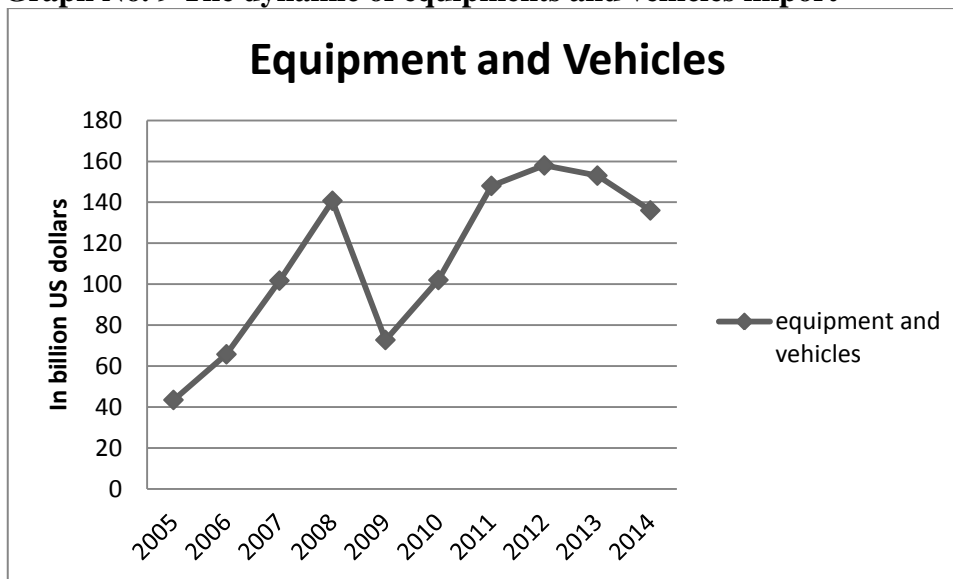
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Import	98,7	137,8	199,7	267						
Including:					167	229	306	317	315	286
mineral products	3,03	3,3	4,6	8,2	4,1	5,2	9,9	7,5	6,9	7,2
Foodstuff, and agric. material	17,4	21,6	27,6	35,1	30,0	36,4	42,5	40,7	43,2	39,7
paper products and wood	3,2	3,9	5,3	6,5	5,1	5,9	6,7	6,2	6,6	5,9
rubber and chemical products	16,2	21,7	27,5	35,2	27,9	37,0	46,0	48,6	50,0	46,4
precious stones and products	7,6	10,6	16,3	19,3	11,3	16,8	23,0	23,3	22,6	20,3
furs and products	0,2	0,4	0,69	1	0,8	1,2	1,6	1,7	1,5	1,3
textiles and footwear, textiles	3,6	5,4	8,6	11,6	9,5	14,1	16,7	18,0	18,0	16,3
equipment and vehicles	43,4	65,7	101,7	140,7	72,7	102	148	158	153	136
others	3,6	4,8	7,1	9,1	6,0	8,6	11,2	12,9	13,5	12,6

Source: Federal State Statistic Service⁵⁹

Russian imports in 2014 totaled 286 billion US dollars and decreased by 10% compared to 2013. According to the table the most imported goods in Russia are equipment and vehicles, foodstuffs and agricultural raw materials (except textile), the rubber and chemical products.

Import of cars and equipment is the most basic in Russia (see table No.5). One of the main reasons is the lack of timely state support for the vehicle's production and as a consequence the lost time.

Graph No. 9 The dynamic of equipments and vehicles import



Source: Compiled by the author based on data Federal State Statistic Service

⁵⁹ Available at :http://www.gks.ru/wps/wcm/connect/rosstat_main/rosstat/ru/statistics/fttrade/#

The peak of the import is observed in 2012(see graph No.8). In this year, Russia's economy was on the rise and the purchasing power of the population was quite high. This type of import is very sensitive to economic situation. The lowest the purchasing power of nation the smallest vehicles importation is observed. In 2012, imports of machinery products reached \$ 158 billion US dollars. In the table No. 6 it is presented the exact consistence of machinery import in 2012.

Table No. 6 The commodity structure of machinery import to Russia in 2012

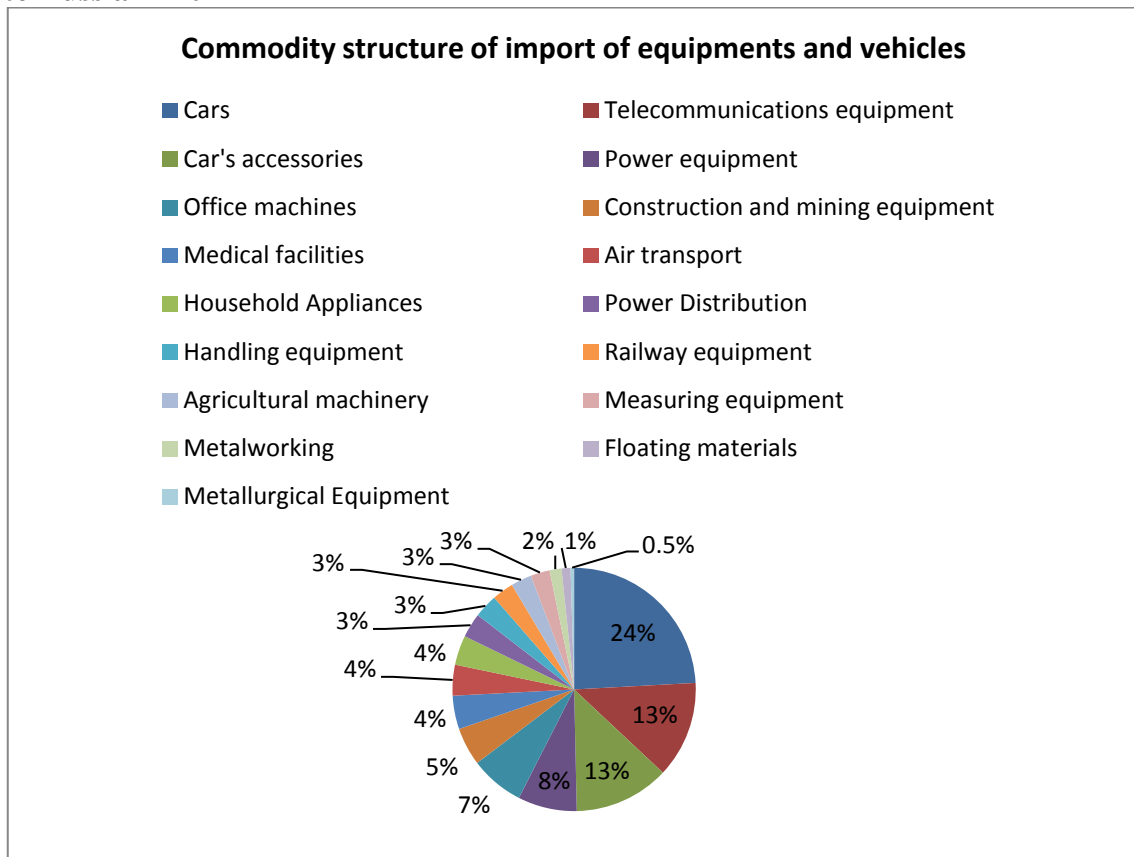
Equipments and vehicles	Income in billions US dollars
Cars	28,2
Telecommunications equipment	15,0
Car accessories	14,8
Power equipment	9,17
Office machines	8,39
Construction and mining equipment	5,90
Medical facilities	5,19
Air transport	4,78
Household Appliances	4,60
Power Distribution	3,79
Handling equipment	3,67
Railway equipment	3,34
Agricultural machinery	3,23
Measuring equipment	2,96
Metalworking	1,85
Floating materials	1,39
Metallurgical Equipment	0,55

Source: Federal State Statistic Service⁶⁰

The 24% took the cars import in vehicle importation. It is obvious because of low car's production. Next 2 places took the import of telecommunication and car's accessories- it is 13%. The smallest volume of import is observed in floating materials and metallurgical equipment.

⁶⁰ Available at: <http://cbsd.gks.ru/>

Graph No. 10 The commodity structure of import of equipments and vehicles to Russia in 2012



Source: the Federal Customs Service

4.3 Analysis of Russian foreign trade in 2015.

Year of 2015 became a really difficult for the Russian economy: the fall in oil prices, the devaluation of the ruble and the complications in the relations with some trade partners had a negative impact on all spheres of public life. Particularly strong decline showed foreign trade. The Federal Customs Service has summed up the year, considering the scale of the fall.

Table No. 7 Comparison of Russian foreign trade with CIS and other countries in 2014 and 2015

Year	CIS	Others
2014	96.79	687.71
2015	65.57	460.26

Source: Compiled by the author based on data Federal Customs Service ⁶¹

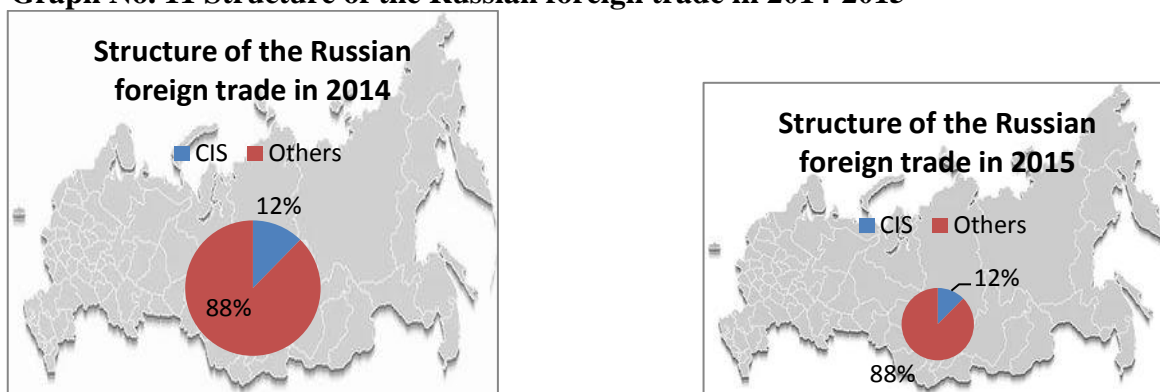
According to customs statistics, in January-December 2015 Russian foreign trade turnover amounted to 530.4 billion dollars and decreased by 33.2% compared with the previous

⁶¹ Available at: <http://cbsd.gks.ru/>

year. Exports of Russia amounted to 345.9 billion dollars, which was less than in 2014 by 31.1% and imports 184.5 billion dollars that had fallen by 36.7%.

Economic sanctions had contributed to a marked reduction in the volume of foreign trade turnover of Russia, which was for the 2014 785 billion US dollars and decreased by 7%.

Graph No. 11 Structure of the Russian foreign trade in 2014-2015



Source: Source: Compiled by the author based on Federal Customs Service

The structure of foreign trade by groups of countries for the year remained unchanged - 12% are CIS countries and 88% from non-CIS countries. Foreign trade turnover also declined equally - about 30%. Significantly reduction in trade with the CIS countries (30% of exports and 27% for imports) was depicted in the graph No.10.

4.3.2 Trade with CIS countries.

The leaders among the CIS countries were Belarus and Kazakhstan - as the member states of the Customs Union. Export and import with Ukraine remain high. However, foreign trade fell with all CIS countries. Trade with Belarus had fallen to 24% for exports and 30% for imports. Cost volume of mineral fuels, metals, chemical products exports reduced. Russia started to import less machinery and equipment, textiles and metals from Belarus. As for food products, after enactment of the product embargo, the export of Belarusian meat, milk, fruits and vegetables had decreased substantially.⁶² According to experts a reduction of trade with Belarus is due to, first of all, Russia's entry into the World Trade Organization (WTO), and secondly, with some "subsidence" of the Russian market. "Oil

⁶² BURKOVA, Ekaterina. The results of the Russian foreign trade in 2015: facts and figures [online]. [cit. 2016-02-23]. Available at <http://xn--b1ae2adf4f.xn--p1ai/analytics/research/32060-itogi-vneshney-topgovli-possii-v-2015-godu-tsifpy-i-fakty.html>

prices had fallen, and this impacted negatively on the Russian economy and, consequently, in the in the Belarusian export to this country", - said political analyst Valery Karbalevich.

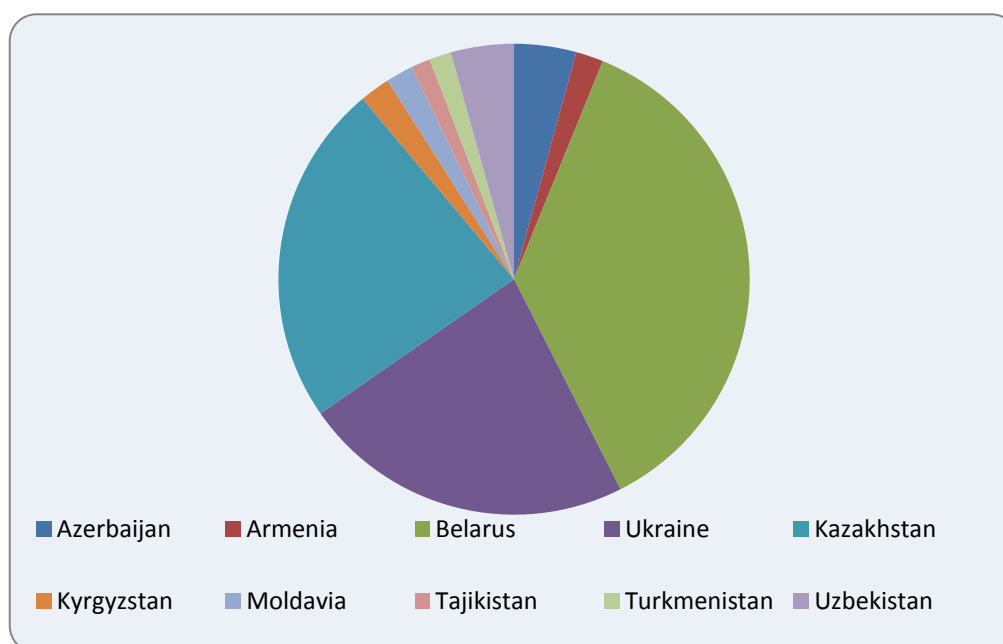
Table No. 8 Foreign trade turnover with the CIS countries in 2015 in billions US dollars

Azerbaijan	Armenia	Belarus	Ukraine	Kazakhstan	Kyrgyzstan	Moldavia	Tajikistan	Turkmenistan	Uzbekistan
2,8	1,24	23,87	14,97	15,45	1,37	1,22	0,87	0,99	2,84

Source: Federal Customers Service ⁶³

Trade with Kazakhstan decreased by 24% for export and 35% import and recession also touched deliveries of machines and equipment, mineral products and metals. Amazing dynamics shows Tajikistan. Imports from the country increased by 39.9% to 52.2 million - due to the supply of agricultural products, electricity.⁶⁴

Graph No. 12 Structure of Russian foreign partners in 2015 (CIS countries)



Source: Compiled by the author based on Federal Customers Service

⁶³ Available at:

http://www.customs.ru/index2.php?option=com_content&view=article&id=22575&Itemid=1977

⁶⁴ Export-import of essential goods in January-July 2015. (translated) *The Federal Customers Service* [online], 2015 [cit. 2016-02-28]. Available at:

http://www.customs.ru/index.php?option=com_content&view=article&id=21621:-2015-&

Ukraine.

Separately, it should be said about Ukraine, which is still among the top three partners of Russia (among the CIS countries). Mutual trade of Russia and Ukraine for the year fell three times, according to calculations of the WTC Moscow prepared for RBC. The decline in trade turnover with Ukraine amounted to 64% and for some items trade had stopped completely.⁶⁵

The conflict over the annexation of Crimea to Russia and of hostilities in Donbas had led to serious economic consequences for the economies of the two states. Sanctions and non-tariff restrictions on the supply of certain types of goods had led to the fact that the foreign trade turnover between the countries had decreased. Finally, Moscow had suspended the free trade zone with Ukraine in the framework of the CIS and introduced the food embargo. Ukraine imposed a ban on food products, cigarettes, certain types of machinery products.

Export in January-April 2015 was \$ 2.964 billion versus \$ 8.123 billion in the same period in 2014. Imports - \$ 1.608 billion versus \$ 4.031 billion in January-April last year. Exports from Russia in all countries in January-April 2015 fell by 35.2% (\$ 110.4 billion versus \$ 170.4 billion). Exports to Ukraine fell by 63.5% over the same period.⁶⁶

The commodity structure of export with CIS countries.

In the commodity structure of export to the CIS countries the leading role is still occupied by the rubber and chemical products. Their share was 40% (in 2014 44%). The 29% of export was mineral products. Physical volume of the crude oil export decreased by 5.2%, oil products by 13.6%, natural gas by 15.2%. Value of machinery and equipment exports amounted to 7.35 billion dollars, a decline of 30%. Also, there is a reduction in metal and timber export. By supplying the other commodity groups also noticed a strong decline, the value of exports of engineering products decreased by 32.5%, including mechanical equipment by 27.7%, electrical equipment by 39.3%, and decreased volume of car exports. The reduction is due primarily to the decline in exports because of the falling demand in

⁶⁵ MICHAEL, Kachurin. RBK [online]. , Za god sankcij ceny vyrosli v chetyre raza bystree [cit. 2016-02-24]. ISSN 1818-2356. Available at: <http://money.rbc.ru/>

⁶⁶ *Exports and imports of main commodities Russia in 2015* [online]. 2015 [cit. 2016-02-24]. Available at: <http://www.logistics.ru/customs/news/eksport-i-import-rossii-vazhneyshih-tovarov-v-yanvare-sentyabre-2015-goda>

Kazakhstan (the increase of its own production), as well as the reduction of deliveries to Ukraine.⁶⁷

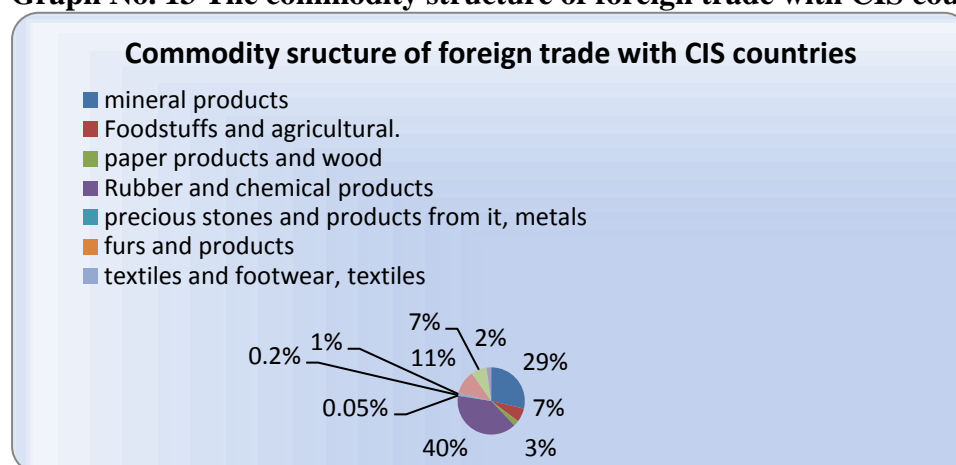
Table No. 8 The commodity structure of Russia's export with CIS countries in 2015

Billions of US dollars	
Export	64.12
Including:	
mineral products	18.38
foodstuffs and agricultural.	4.23
paper products and wood	1.71
rubber and chemical products	25.34
precious stones and products from it, metals	0.21
furs and products	0.05
textiles and footwear, textiles	0.61
equipment and vehicles	7.35
metals and products from them	4.81
others	1.43

Source: Federal Customs Service⁶⁸

However, Russia increased the supply of wheat; it rose by 32.3%. Analysts said this had happened due to a decrease in taxes on cereals. Low ruble made Russian products more attractive to foreign buyers. Another positive trend is the increase in the proportion of exports of food products. The quantity of fish export increased by 55%. The reason was natural - an increase in fish catches and therefore the increase of its production.

Graph No. 13 The commodity structure of foreign trade with CIS countries in 2015



Source: Compiled by the author based on data Federal Customs Service

⁶⁷ Export-import of essential goods in January-July 2015. (translated) The Federal Customers Service [online], 2015 [cit. 2016-02-28]. Available at: http://www.customs.ru/index.php?option=com_content&view=article&id=21621:-2015-

⁶⁸ Available at: http://www.customs.ru/index2.php?option=com_content&view=article&id=22575&Itemid=1977

Import from the CIS countries

As for imports from the CIS countries, the small changes took place. Purchase of machinery and equipment decreased by 5% and fell to 81.8 billion. The main decline is in the fall of the cars. The physical volume of shipments fell by 58.6%. The main reason for the decline in imports of machinery was the low purchasing power of the population caused by the fall of the ruble against the euro and the dollar.⁶⁹

4.3.3 Trade relations with the other countries in 2015.

Trade relations with foreign countries in 2015 had their own problems. The imposition of sanctions and the current food embargo had essentially affected on foreign trade. Also, an important role played reducing in China's demand of raw materials. Well, definitely not the last role played the war in Syria and the changes in the Russian-Turkish relations.

In 2015, exports to non-CIS countries fell by 31% and imports by 36.3%. The fall of national currency had impact on the dynamics of foreign trade volumes. In 1st quarter of 2015 Russian foreign trade turnover amounted, according to the Bank of Russia, to 134.5 billion US dollars (68.8% in I quarter of 2014.), including export - 89.1 billion dollars (72.4 %), import - 45.4 billion dollars (62.7%). The trade balance remained positive, 43.6 billion US dollars (in I quarter 2014 -50.5 billion dollars). According to the report "The state of foreign trade in the first quarter 2015", which was presented in the Rosstat web, author had calculated the changes in the foreign trade turnover with main Russian partners. The foreign trade turnover with China in the 1st quarter of 2015 fell by 29% with Germany by 34% with the Netherlands by 39% and with Italy by 27%. The decline is observed with all countries included in the top ten trading partners.⁷⁰

Many domestic manufacturers had relied on foreign trade; the reason was the desire to make a profit in foreign currency. It should be noted that the CIS countries did not become the key sales market. Falling currency led to an increase in domestic demand for products abroad. And it is obvious; prices for Russian products in the world market have become quite attractive. As a result we can see an interesting trend: the fall in revenue from the sale of goods and the simultaneous increase in the number of goods sold. For instance the crude

⁶⁹ BURKOVA, Ekaterina. The results of the Russian foreign trade in 2015: facts and figures [online]. [cit. 2016-02-23]. Available at <http://xn--b1ae2adf4f.xn--p1ai/analytics/research/32060-itogi-vneshney-topgovli-possii-v-2015-godu-tsifpy-i-fakty.html>

⁷⁰ Report on foreign trade in the I quarter of 2015. Federal State Statistic Service [online]. <http://www.gks.ru> [cit. 2016-02-24]. Available at: http://www.gks.ru/bgd/free/B04_03/IssWWW.exe/Stg/d05/106.htm

oil export revenues in 2015 from sales had become one of the smallest in the past 10 anniversary, but deliveries abroad increased by 11.2% in physical terms. The same thing happened with the export of natural gas, metals and kerosene.⁷¹

The commodity structure of Russia's export with other countries.

The basis of Russian exports in January-September 2015, non-CIS countries amounted to fuel and energy goods 68.0% (in January-September 2014 - 74.8%).⁷²

Table No. 9 Commodity structures of Russian export with other countries in 2015 in billions US dollars

	2015
Billions of US dollars	
Export	304.65
Including:	
mineral products	200.78
Foodstuffs and agricultural.	11.95
paper products and wood	8.12
Rubber and chemical products	25.34
precious stones and products from it, metals	7.67
furs and products	0.26
textiles and footwear, textiles	0.24
equipment and vehicles	18.04
metals and products from them	28.20
Others	4.05

Source: *Federal Customs Service*⁷³

Cost volume of energy products decreased by 37.5%, and the physical volume- increased by 6.6%. Among the products of the fuel and energy complex increased volume of exports of crude oil by 9.6%, electricity - by 11.7%, natural gas - by 5.8%, oil products - by 7.8%, including: kerosene - on 31.6%, diesel fuel - by 7.4%, liquid fuels - by 9.2%.⁷⁴

The total value of exports to non-CIS countries the share of metals and products from them amounted to 9.7% in January-September 2015 (in January-September 2014 - 7.8%). The value of exports of goods decreased by 14%, and the physical - increased by 7.6% compared to 2014. The physical volume of supplied ferrous metals and products thereof increased by 6.5%. Exports of chemical industry fell by 1.5% in January-September 2015

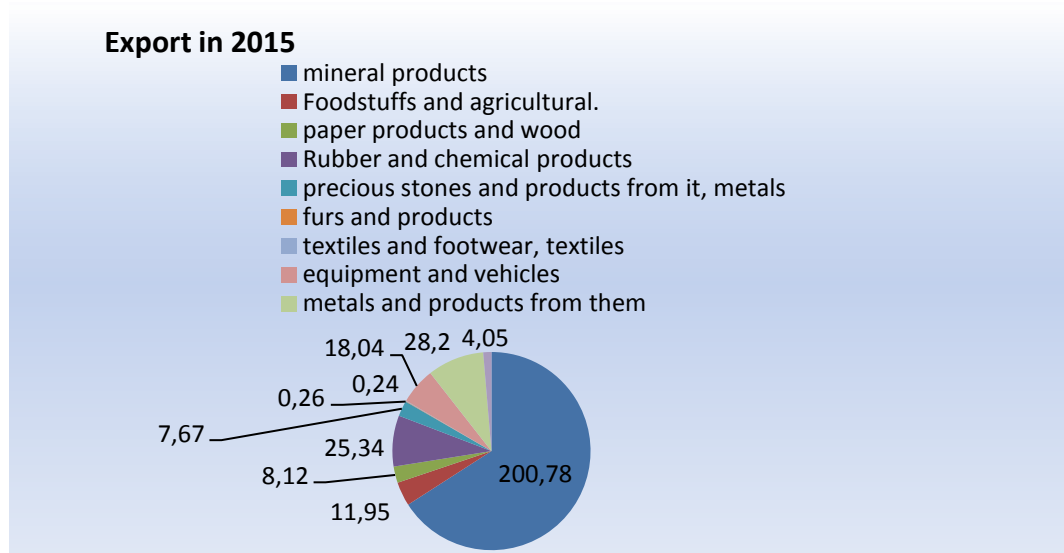
71 BURKOVA, Ekaterina. The results of the Russian foreign trade in 2015: facts and figures [online]. [cit. 2016-02-23]. Available at: <http://xn--b1ae2adf4f.xn--p1ai/analytics/research/32060-itogi-vneshney-topgovli-possii-v-2015-godu-tsify-i-fakty.html>

73 Available at: http://www.customs.ru/index2.php?option=com_content&view=article&id=22573&Itemid=1977

74 BURKOVA, Ekaterina. The results of the Russian foreign trade in 2015: facts and figures [online]. [cit. 2016-02-23]. Available at: <http://xn--b1ae2adf4f.xn--p1ai/analytics/research/32060-itogi-vneshney-topgovli-possii-v-2015-godu-tsify-i-fakty.html>

compared to 2014. The value of exports of goods decreased by 9.5%, and physical - have increased by 6.8% compared to January-September, 2014.⁷⁵

Graph No. 14 Russian export to other countries in 2015



Source: Compiled by the author based on data Federal Customs Service

Import to other countries.

Imports from non-CIS countries fell in value and volume terms. The fall of the national currency led to the low purchasing power and consequently reduced Russian companies' demand for raw materials and finished products. Commodity structure of imports from foreign countries is fundamentally different from export: first place took the machinery and equipment import, chemical products and rubber import and food products import.

⁷⁵ Export-import of essential goods in January-July 2015. (translated) The Federal Customers Service [online], 2015 [cit. 2016-02-28]. Available at: [http://www.customs.ru/index.php?option=com_content&view=article&id=21621:-2015-&](http://www.customs.ru/index.php?option=com_content&view=article&id=21621:-2015-)

Table No. 10 Import to other countries in 2015

	2015
Billions of US dollars	
Import	
Including:	
mineral products	4,96
foodstuffs and agricultural.	26,46
paper products and wood	3,62
rubber and chemical products	25,34
precious stones and products from it, metals	0,60
furs and products	0,82
textiles and footwear, textiles	10,83
equipment and vehicles	81,80
metals and products from them	11,72
others	7,65

Source: Federal Customs Service ⁷⁶

According to the Federal Statistics Service of Russia the share of machinery and equipment in January 2015 accounted to 47% in the commodity structure of imports from non-CIS countries. Value of imports of these products decreased in comparison with January 2014 by 45.0%, physical - 34.5%.

In addition, Seat, Opel and some models of Chevrolet in Russia are no longer available due to the unfavorable economic situation. More than fifty brands of cars went over in 2015 from the Russian market.

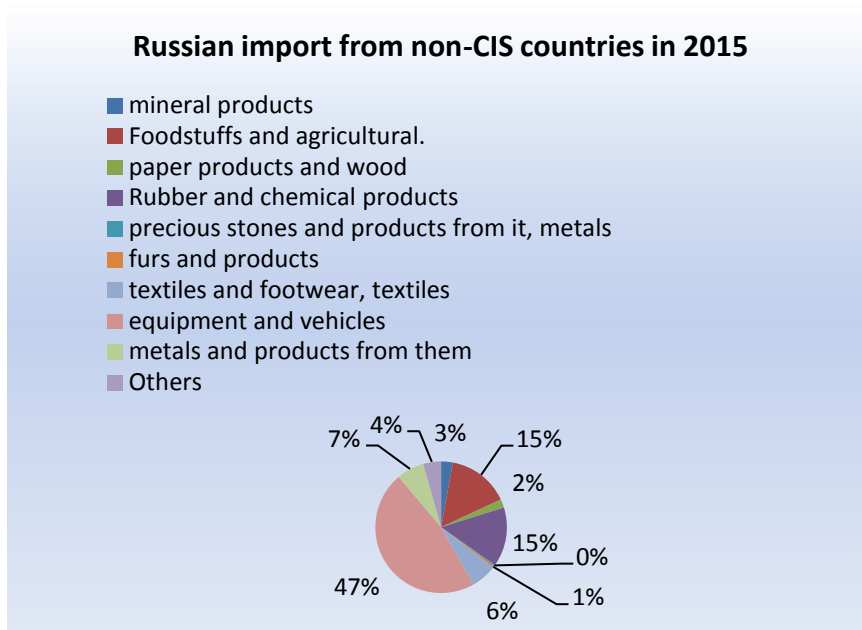
The share of imports of foodstuff and raw materials amounted to 15% in January 2015. Cost and volume of foodstuff decreased in comparison with January-December 2014 - by 35.0% and 20.5% respectively. The reason for this was the introduction of the embargo in addition to grocery purchase prices.⁷⁷

The value of chemical products decreased by 27.6%, while the physical volume decreased by 15%. The share of chemical products amounted to 15% in the structure of imports in January 2015. (According Federal Customers Service)

⁷⁶ Available at: http://www.customs.ru/index2.php?option=com_content&view=article&id=22573&Itemid

⁷⁷ Export-import of essential goods in January-July 2015. (translated) The Federal Customers Service [online], 2015 [cit. 2016-02-28]. Available at: http://www.customs.ru/index.php?option=com_content&view=article&id=21621:-2015-&

Graph No. 15 Russian import from non-CIS countries in 2015



Source: Compiled by the author based on The Federal Customers Service

Russia's foreign trade in 2015 with each month decreased more and more, and it was not able to reach the level of last year. However, the devaluation of the ruble made Russian goods cheaper, which together with the absence of the possibility of purchasing the country's population has made possible a slight increase in non-commodity exports from Russia.

Conclusion

The buying and selling of goods and services across national borders is known as international trade. According to the economical theories such as comparative advantage theory and absolute advantage theory, Heckscher-Ohlin theory and others, foreign trade is definitely beneficial. The international trade accounts for a big part of country's gross domestic product. It is as well one of the most important sources of revenue for countries.

To summarize the consequences of economic progress since the collapse of USSR there have been a lot of important changes in political and geopolitical relations of Russia and it has had a huge impact on the state financial system. The collapse of the Soviet Union had very painful effect on the economy of precipitated countries. This is explained by the break of economic ties, which was due to the emergence of the state borders and barriers.

Analyse of Russian GDP over the past 25 years, can show that the economy is not stable enough. In the graph No.2 there are many ups and downs in GDP and the same tendency was for the inflation in Russia. The average inflation rate has been 8 percent over the past 10 years that had affected the country's economy and foreign trade. Analysing Russian foreign trade for the period from 2005 to 2010, the author had made several conclusions. First of all, Russian export consists mainly from export of mineral resources. Mainly raw materials, raw metals and concentrates come on the foreign market. The share of downstream products is not more than 10%, which significantly reduces the efficiency of export and turns Russia in the feedstock appendage of the industrially developed countries of the world. Russian economy is highly dependent from oil export while national currency is dependent from oil prices. And as a consequence the revenues from international trade are strongly dependent on external factors. The most imported goods over the past 10 years have been vehicles and equipment due to the lack of development of this branch in Russia. In 2015 there have not been any changes in the structure of foreign trade. The main partners of Russia among the CIS countries were Belarus and Ukraine, and among the non-CIS countries were Germany, Italy, China, and Netherlands, but the turnover with these countries had decreased.

In the commodity structure of export to the CIS countries the leading role was occupied by the rubber and chemical products. Their share was 40% (in 2014 – 44%). The 29% of export was mineral products. Physical volume of the crude oil exports had decreased by 5.2%, oil products by 13.6%, natural gas by 15.2%. As for import from the CIS countries,

only the small changes took place. Purchase of machinery and equipment decreased by 5% and fell to 81.8 billion.

In 2015, exports to non-CIS countries fell by 31% and import by 36.3%. The value of export of goods decreased by 14% and the physical value increased by 7.6% compared to 2014. It was caused by the fact that crude oil price fell by 30%.

Imports from non-CIS countries fell in value and volume terms. The fall of the national currency led to the low purchasing power and consequently reduced Russian companies' demand for raw materials and finished products.

Finally, Russia is a huge country with great potential and resources. As it was said by M. Porter “The key factors for the competitiveness of the nation are not inherited, but are created” and the author of the work strongly agree with this theory. Based on this it is possible to achieve a good performance in the foreign trade, but only by increasing the production base and reducing dependence of Russia from raw materials exports that makes the economy unstable.

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List of abbreviations

1. WTO - The World Trade Organization
2. GATT- The General Agreement on Tariffs and Trade
3. GATS- General Agreement on Trade in Services
4. IMF - International Monetary Fund
5. GDP- The Gross Domestic Product
6. FSSS-Federal State Statistic Service
7. USSR-The Union of Soviet Socialist Republics
8. Rosstat-Russian statistics
9. FCS-Federal Customs Service
10. WTC- The World Trade Center
11. RBK- Russian Business Consulting
12. CIS- The Commonwealth of Independent States
13. EU- The European Union