

Czech University of Life Sciences Prague

Faculty of Economics and Management

Department of economics.



Diploma Thesis

Developmental trends in Russian foreign trade

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**Czech University of Life Sciences Prague
Faculty of Economics and Management**



DIPLOMA THESIS TOPIC

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Thesis title: **Developmental trends in Russian foreign trade**

Objectives of thesis: The main aim of the present Master thesis is to identify main developmental trends in Russian foreign trade. The Russian economy has undergone a number of significant influences, such as financial crisis, a long preparatory process of entering the WTO, recent events connected to Crimea and sanctions. In this light it becomes interesting to investigate what the most important turnarounds have occurred in the structure of Russian foreign trade, first, with regard to geography of main trade partners and second - commodity composition and traded volumes. Another research question is how certain macroeconomic indicators of foreign trade along with mentioned events (World financial crisis, entering the WTO, referendum in Crimea) are able to explain economic growth or recession in Russia.

Methodology: Descriptive analysis, theme-based synthesis and regression analysis along with comparative techniques will be applied in the present Master thesis.

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Keywords: Russia, Foreign trade, Export, Import, GDP, Regression analysis.

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Declaration

I declare that I have worked on my diploma thesis titled "Developmental trends in Russian foreign trade" by myself and I have used only the sources mentioned at the end of the thesis. As the author of the diploma thesis, I declare that the thesis does not break copyrights of any their person.

In Prague on 31.03.2020

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Developmental trends in Russian foreign trade

Abstract

This diploma thesis is a study of the developmental trends in Russian foreign trade. The main aim of this paper is to define what the most important turnarounds have occurred in the structure of Russian foreign trade due to historic events, such as Devaluation of 1998, Crisis of 2008, Russia's entering the WTO in 2012, Crimea event and sanctions of 2014 until the present times of 2018 year. Firstly, these changes are investigated with regard to geography of main trade partners and secondly, with the regard to commodity structure and traded volumes.

Another research question is how the mentioned above events impacted on economic growth or recession in Russia and how influenced its foreign trade.

This work is divided into practical and theoretical parts. The theoretical research is based on the literature overview of the main concepts of Foreign trade theories, economic indicators of foreign trade and international organizations influencing the trade. In the end of theoretical part, the role of international trade in economy is discussed.

The practical part includes the overview of certain historic events and selected macroeconomic indicators to reflect the state of Russian economic performance. In the end of practical part, the regression analysis along with comparative techniques examine the relationship between GDP growth, export of natural resources, the rest of the export, exchange rate and unemployment rate.

The results of this research can be used to discuss the opportunities of the Russian foreign trade development and its own economy growth.

Keywords: Russia, Foreign trade, Developmental Trends, Regression analysis, Import, Export, GDP, Crisis, Sanctions, WTO, Devaluation.

Vývojové trendy v zahraničním obchodu Ruské Federace

Abstrakt

Diplomová práce se zabývá studiem vývojových trendů v ruském zahraničním obchodu. Hlavním cílem této práce je definovat, jaké nejdůležitější změny se vyvíjeli ve struktuře ruského zahraničního obchodu v důsledku následujících historických událostí, jako Devalvace roku 1998, Krize roku 2008, vstup Ruska do WTO v roce 2012, událost v Krymu roku 2014 a následující sankce, až do současnosti 2018 roku. Zaprvé jsou tyto změny zkoumány s geografickým ohledem na hlavních obchodních partnerů, a zadruhé s ohledem na komoditní strukturu a objemy obchodů.

Další výzkumnou otázkou je, jak výše uvedené události ovlivnily ekonomický růst nebo recesi v Rusku a jak ovlivnily zahraniční obchod Ruska.

Tato práce je rozdělena na praktickou a teoretickou část. Teoretický výzkum je založen na literárním přehledu hlavních pojmů teorií zahraničního obchodu, ekonomických ukazatelů zahraničního obchodu a mezinárodních organizací ovlivňujících obchod. V závěru teoretické části je diskutována role mezinárodního obchodu v ekonomice.

Praktická část obsahuje přehled historických událostí a vybraných makroekonomických ukazatelů, které odrážejí stav ruské ekonomické výkonnosti. V závěru praktické části regresní analýza zkoumá vztah mezi růstem HDP, exportem přírodních zdrojů, zbytkem exportu, směnným kurzem a mírou nezaměstnanosti.

Výsledky této práce lze využít k diskusi o možnostech ruského zahraničního obchodu a růstu jeho ekonomiky výkonnosti.

Klíčová slova: Rusko, Zahraniční obchod, Vývojové trendy, Regresní analýza, Import, Export, HDP, Krize, Sankce, WTO, evalvace.

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List of abbreviations

APEC - Asia-Pacific Economic Cooperation

ASEAN - Association of Southeast Asian Nations

BRICS - Association of five major emerging national economies: Brazil, Russia, India, China and South Africa

BSEC - The Black Sea Economic Cooperation

CDO/CMO - Collateralized debt obligation/Collateralized mortgage obligation

CIS - The Commonwealth of Independent States

EAEU - The Eurasian Economic Union

EU - The European Union

GATT - The General Agreement on Tariffs and Trade

GDP - Gross domestic product

HSC - Health Security Committee

IBRD - The International Bank for Reconstruction and Development

ICSID - International Centre for Settlement of Investment Disputes

IDA - The International Development Association

IFC - International Finance Corporation

IMF - The International Monetary Fund

MIGA - The Multilateral Investment Guarantee Agency

NATO - The North Atlantic Treaty Organization

OECD - The Organisation for Economic Co-operation and Development

OLS - Ordinary Least Squares method

ROSSTAT - Russian Federal State Statistic Service

SCO - The Shanghai Cooperation Organisation

UN - The United Nations

UNCTAD - The United Nations Conference on Trade and Development

WIPO - World Intellectual Property Organization

WTO - The World Trade Organization

AFG – Afghanistan

ARE – United Arab Emirates

ARG - Argentina

ARM - Armenia

AUS – Australia

AUT – Austria
AZE – Azerbaijan
BEL - Belgium
BGR – Bulgaria
BLR – Belarus
BRA – Brazil
CAN – Canada
CHN – China
CUB – Cuba
CYP – Cyprus
CZE – Czech Republic
DEU – Germany
DNK – Denmark
DZA – Algeria
EGY – Egypt
ESP – Spain
FIN – Finland
FRA – France
GBR – Great Britain
GEO – Georgia
GRC – Greece
HKG – Hong Kong
HUN – Hungary
IND – India
IRL – Ireland
ISR – Israel
JPN - Japan
KAZ – Kazakhstan
KGZ – Kyrgyzstan
KOR – South Korea
MAR – Morocco
MDA - Moldova
MEX - Mexico

MNG – Mongolia
NEG - Niger
NLD – Netherlands
NOR – Norway
NZL – New Zealand
PAK – Pakistan
PAN – Panama
POL – Poland
PRK - People's Republic of Korea
ROU – Romania
SGP – Singapore
SVK – Slovakia
SWE - Sweden
SYR – Syria
THA - Thailand
TJK – Tajikistan
TKM – Turkmenistan
TUR – Turkey
TWN – Taiwan
UKR – Ukraine
USA – United States
UZB – Uzbekistan
VNM - Vietnam

1. Introduction

Foreign trade is crucially important area for international economic relations and development. It reflects the state and prospect of the movement of various commodity between transnational corporations that regard the world as a single economic space.

International trade theories have been developing starting from the 18 century by economists such as Adam Smith and David Ricardo and continuing to develop nowadays. These foreign trade theories are presented in the diploma thesis for the deeper investigation of the role of foreign trade.

Modern time is undoubtedly the period of the largest globalization and the opening of national economies. There are international organizations on almost all continents and one of their most important goals is to increase the goods turnover and gradually erase the borders between countries. Certainly, one of the most important institutions of such is the European Union, and in the same time of its foundation its main goal was the reduction of trade barriers. In addition to regional institutions of such (ASEAN, European Union, etc.), there are international organizations that are based on erasing boarders between continents, such as the WTO.

The topic of international trade is clearly very extensive and, in my diploma, work the main purpose is to define main developmental trends in Russian foreign trade. Due to crude oil reserves and natural resources Russia has a great potential in own economic growth and could have a leading position in international market competitiveness. Nevertheless, the current situation in Russian economy is far from succeed and progress. The present diploma thesis contributes to this discussion by analyzing the dynamics of selected macroeconomic parameters in Russia for the period 1998-2018. The selected indicators illustrate the GDP dynamics and inflation rate; unemployment rate and exchange rate.

During the last 20 years Russia has undergone certain historical events, which brought a significant impact on country's economy. The devaluation in 1998, financial crisis of 2008, entering the WTO in 2012, «Russia's Black Tuesday», Crimea's connection and sanctions in 2014 had influence the economy growth and development of foreign trade.

In this light it becomes interesting to investigate what the most important turnarounds have occurred in the structure of Russian foreign trade, first, with regard to geography of main trade partners and second - commodity composition and traded volumes. Using econometric methods, particularly the OLS (Ordinary Least Squares) method of regression analysis, this

study is examining the relation between between GDP growth, export of minerals, the rest of the export, exchange rate and unemployment. Using the dummy variables for historic event, this paper is analysing the impact of those event on Russian GDP. The technic of regression analysis, particularly the correlation matrix helps to understand the relation of indicators.

The results of this research can be used to discuss the opportunities of the Russian foreign trade development and its own economy growth.

2. Objectives and Methodology

2.1 Objectives

The main aim of the present Master thesis is to define main developmental trends in Russian foreign trade. The Russian economy has undergone the significant changes both in terms of a transition process/entering the WTO and recent events connected to Crimea and sanctions. In this light it becomes interesting to investigate what the most important turnarounds have occurred in the structure of Russian foreign trade, first, with regard to geography of main trade partners and second - commodity composition and traded volumes.

The main research question of the thesis is: how the certain historical events impacted on the Russian economy and its foreign trade development.

The main question includes the following sub-questions: how changed the structure of export and import and its volume; and how changed the main trade partners for the last 20 years.

The last objective is to examine the econometric relation between GDP growth, export of minerals, the rest of the export, exchange rate and unemployment rate, and also to analyze the influence of mentioned above events on Russian GDP.

2.2 Methodology

The present Diploma thesis consists of two main parts - theoretical and practical. In the beginning of the first part are defined basic terms which will be used in present diploma work. The following theoretical research is based on the literature overview of the main concepts of Foreign trade theories and economic indicators of international trade.

Afterwards, there is presented the overview of trade agreement and organisations which influence the international trade. The last part of the theoretical research is focused on the role of the foreign trade in economy.

In the beginning of practical part there is presented the overview of certain historical events, which had an impact on Russian economy and foreign trade over the last 20 years. Events of Devaluation in 1998, Crisis of 2008 year, entering the WTO, «Russia's Black Tuesday», Crimea's connection and sanctions are analysed in this part from the economic point of view. The next methodological step of the practical part is to present selected macroeconomic indicators. Particularly, GDP dynamic growth, unemployment rate and currency rate. To achieve this goal there is used the technique of the descriptive analysis.

The following methodological step is analyzing of the international trade of Russia with a focus on the commodities structure of export and import and the main trade partners according by the volume of turnover. In the end of practical part, the regression analysis along with comparative techniques examine the relationship between GDP growth, export of natural resources, the rest of the export, exchange rate and unemployment rate. For this purpose, the method of Ordinary Least Squares Regression is used

$$\hat{\beta} = (X^T X)^{-1} X^T y \quad (1).$$

Moreover, including dummy variables for certain historic events in regression model, the analyze of these events' influence on GDP is conducted.

The analyzed period in present diploma work is 1998-2018 years. The reason to choose this period is the numerous of historical events which influenced economic situation in Russian and its foreign trade development. The study is conducted on the basis of data available on the The Federal Service for State Statistics (Rosstat) and using statistics from website of Worldbank organization.

The thematic synthesis is applied to present a transparent link between statistical data and following conclusions to preserve principles of systematic reviewing. The statistical basis for the study are the data of GDP growth, unemployment rate, exchange rate and volume of export and import. All data used in the diploma work are in US dollars.

3. Literature Review

3.1 Definition of basic terms

International trade is a set of actions that aim to exchange capital, goods, and services between foreign countries across their international borders (Dictionary, n.d.).

Exports and imports are components of international trade.

Exports are the goods and services produced in one country and purchased by residents of another country (Liberty, 2020). The other component is imports. Imports are foreign goods and services bought by citizens, businesses, and the government of another country (Liberty, 2020).

Combined, export and import make up a country's trade balance.

The trade balance is the difference between funds received by a country when exporting merchandise and the funds paid for importing merchandise. A balance of trade surplus results if exports exceed imports, commonly termed a favourable balance of trade, and a balance of trade deficit exists if imports exceed exports, analogously termed an unfavourable balance of trade. The "favourable" and "unfavourable" normative connotations attached to the balance of trade rests with the presumption that a nation is "better off" when it exports more than it imports, which is not necessarily true (Liberty, 2020).

Trade barriers are restrictions, invariably by government, that prevent free trade among countries. The more popular trade restrictions are tariffs, import quotas, and assorted nontariff barriers. An occasional embargo will be even thrown into this mix. The primary use of trade barriers is to restrict imports from entering in country. By restring imports, domestic producers of the restricted goods are protected from competition and are even subsidized through higher prices (Liberty, 2020).

Exchange rate is the rate at which one currency will be exchanged for another. It is also regarded as the value of one country's currency in relation to another currency (O'Sullivan & Sheffrin, 2003, p. 458).

According to the international exchange rate regime there exists two types of exchange rate: fixed exchange rate - when the exchange rate between countries' currencies is fixed and the fluctuation of exchange rate is very small; and floating exchange rate - when monetary authorities of a country do not stipulate the official exchange rate of the country's currency against other currencies, nor does it have any upper or lower limit of exchange rate

fluctuations. The local currency is determined by the supply and demand relationship of the foreign exchange market, and it is free to rise and fall.

Inflation is a sustained increase in the general price level of goods and services in an economy over a period of time (Barro, 1997, p. 895).

Unemployment rate is the number of unemployed people as a percentage of the labour force of the unemployed plus those in paid or self-employment. Unemployed people are those who report that they are without work, that they are available for work and that they have taken active steps to find work in the last four weeks. When unemployment is high, some people become discouraged and stop looking for work; they are then excluded from the labour force. This implies that the unemployment rate may fall, or stop rising, even though there has been no underlying improvement in the labour market (OECD, 2020).

3.1.1 Theories of International Trade

The problem of the effectiveness of foreign trade relates to the fundamental problems of economic theory. The development of foreign trade is reflected in the evolution of theories, models, concepts that explain the driving forces of this process.

International trade is a system of international commodity-money relations, consisting from foreign trade of all countries in the world. International trade arose in the process of the emergence of the world market in the XVI-XVIII centuries.

The development of world trade is based on the benefits, which it brings to the participating countries. The Theory of International Trade gives an idea of what determines the direction of foreign trade flows. International trade is a tool through which countries developing their specialization and can increase the productivity of available resources. Thus, increasing the volume of goods and services they produce, countries increasing the level of well-being of the population (Bloomfield, 1994).

International trade was considered by many well-known economists. The main theories are The Mercantilist theory, the Theory of Absolute Advantages of A. Smith, the Theory of Comparative Advantages of D. Ricardo and D. S. Mill., Heckscher-Olin Theory, Product Life Cycle Theory, M. Porter Theory, as well as Samuelson and Stolper Theory.

The Theory of Mercantilism was based on the idea that the country's wealth depends on the amount of gold and silver. In this regard, mercantilists believed that in the field of foreign trade it is necessary to maintain an active trade balance and carry out state regulation of foreign trade in order to increase exports and reduce imports. Mercantilism -

a system of views of economists of the XV — XVII centuries, focused on the active intervention of the state in economic activity.

Mercantilist theories of International Trade have given rise to a direction of economic policy that lives even today - protectionism. The policy of protectionism is to actively protect the interests of the domestic economy by the state, as they are understood by one or another government. As a result of a mercantilist policy using protectionist instruments, there were created complex systems of customs duties, taxes, and barriers. That principles didn't meet the needs of the emerging capitalist economy. One example of protectionism was the restriction on the export of luxury goods, as it leads to the diversion of gold from the state. Moreover, the Theory of Mercantilism was based on the principle of enrichment of one country by reducing the welfare of other nations.

The next stage in the development of the Theory of International Trade is associated with the name of A. Smith - the creator of the Theory of Absolute Advantages. A. Smith believed that the task of the government is not to regulate the sphere of circulation, but to implement measures to develop production based on cooperation and division of labour, taking into account support for the free trade regime. The essence of the Theory of Absolute Advantages is that international trade is beneficial if two countries trade goods that each country produces at lower cost. This leads to an increase in the country's productivity as well as the qualification of the workforce. Also, the production of same products during long periods provides incentives for the development of more efficient working methods. The absolute advantages are represented by natural and obtained advantages. Natural advantages include climate, territory and resources. The obtained advantages are production technology, for instance, the ability to produce a variety of products (Bloomfield, 1994). The theory of absolute advantages is only part of the general economic study of A. Smith - the ideologist of economic liberalism. From this doctrine follows a policy of free trade that opposes protectionism (Bloomfield, 1994).

Modern economists see the strength of the Theory of Absolute Advantages in that it shows the clear advantages of the division of labour not only at the national level, but also internationally. The weakness of this theory is that it does not explain why countries trade even in the absence of absolute advantages. The answer to this question was found by another English economist D. Ricardo, who discovered the Theory of Comparative Advantage.

The Theory of comparative advantages by D. Ricardo and D. Mill was presented in the work "The Beginning of Political Economy and Taxation". Ricardo showed that the principle of Absolute Advantage is only a special case of the general rule and substantiated the Theory of Comparative Advantage. While analyzing the directions of development of foreign trade, two circumstances should be taken into account. Firstly, economic resources - natural, labour, etc. - are unevenly distributed between countries, and secondly, the effective production of various goods requires different technologies or combinations of resources. The advantages that countries have are not once and for all sources. Thus, countries with absolutely higher costs of production can benefit from trade exchanges. The interest of each country is to specialize in production in which it has the greatest advantage and least weakness and for which it is not absolute, but relative benefit is greatest (Gamdolfo, 2014, pp. 11-30).

According to Ricardo, the total output will be greatest when each product is produced by the country in which the imputed costs are lower. Thus, a relative advantage is a benefit based on lower imputed costs in the exporting country. Thereby, both countries participating in the exchange will benefit from specialization and trade (Gamdolfo, 2014, pp. 11-30).

The significance of The Theory of Comparative advantage is evidenced by the fact that for many decades it remained dominant in explaining the effectiveness of foreign trade turnover and had a strong impact on all economic science.

However, D. Ricardo left unanswered the question of the origin of comparative advantages, which form the necessary conditions for the development of international trade. In addition, the assumptions that were introduced by its author are limitations for this theory. There was only one factor of production taken into account - labour. Production costs were considered constant and the production factor was mobile inside the country and immobile outside, there were also no transportation costs (Gamdolfo, 2014, pp. 11-30).

During the XIX century The Labour Theory of Value (created by D. Ricardo and developed by K. Marx) lost its popularity when faced with the competition of other studies. At the same time, big changes took place in the system of the international division of labour and international trade. It was caused by a decrease in the role of natural differences and an increase in the importance of industrial production. As an answer to the challenge of those times, the Swedish neoclassical economists E. Heckscher and B. Olin created the theory, mathematical calculations for which were given by P. Samuelson.

The main statements of their theory were following: firstly, there is a tendency in countries to export those goods for the manufacture of which the factors of production available in the country, and, conversely, to import goods for the production of which relatively rare factors are needed; secondly, in international trade there is a tendency to equalize “factor prices”; thirdly, the export of goods can be replaced by the movement of factors of production beyond national borders (Gandolfo, 2014, pp. 63-100).

Heckscher-Olin concept explained the reasons for the development of trade between developed and developing countries. In exchange for raw materials coming to developed countries, machinery and equipment were imported into developing countries. However, not all the phenomena of international trade fit into the Theory of Heckscher-Olin, since today the international trade is gradually shifting to the mutual trade of "similar" goods between "similar" countries (Gandolfo, 2014, pp. 63-100).

In the middle of the XX century American economists P. Samuelson and V. Stolper improved the theory of Heckscher-Olin, creating Theory of Samuelson and Stolper. Their theory presenting that in the case of uniformity of production factors, identity of technology, perfect competition and complete mobility of goods, international exchange equalizes the price of production factors between countries. The authors base their concept on the Ricardo model with the additions of Heckscher and Olin and consider trade not only as a mutually beneficial exchange, but also as a way to reduce the gap in the level of development between countries. (Gandolfo, 2014, pp. 104-105)

In the middle of 20 century there was created a Theory of Product Life Cycle. It was put forward and substantiated by R. Verna, C. Kindelberger and L. Wels. In their opinion, the product from the moment of its appearance on the market and before leaving it goes through a cycle consisting of five stages. The first step is product development - the company finds and implements a new product idea. At this step, sales equals zero and costs are rising. The second step is bringing the product to the market. There is no profit due to high costs of marketing activities, however sales are slowly growing. Third step is rapid market conquest and increased profits. The next stage is a slowdown in sales, because most consumers are already attracted. The profit level remains unchanged or decreases due to an increase in the cost of marketing activities to protect the product from competition. The last stage is a decline in sales and reduced profits (Gandolfo, 2014, pp. 167-169).

The following significant theory is the Theory of M. Porter. His study introduces the concept of a country's competitiveness. According to Porter, it is national competitiveness,

that determines success or failure in specific industries and the place that a country occupies in the world economy. National competitiveness is determined by the ability of industry. The explanation of the country's competitive advantage is based on the role of the country in stimulating the production and innovations. Country's government takes measures to maintain competitiveness by: its impact on factor conditions; impact on demand conditions; impact on related and supporting industries; impact of government on the strategy, structure and rivalry of firms (Porter, 1990).

A serious incentive for success in the global market is sufficient competition in the domestic market. Artificial dominance of enterprises with the help of state support, according to Porter, is a negative decision leading to inefficient use of resources. The theories of M. Porter were the basis for developing recommendations at the state level on improving the competitiveness of foreign trade goods in Australia, New Zealand and the USA in the 90s of the 20 century (Porter, 1990).

3.1.2 Foreign trade indicators

World trade is formed on the basis of foreign trade carried out by different countries. The term "foreign trade" means trade with other countries, consisting of paid import and export of goods (Norman & Dixit, 2006, pp. 65-88). The main differences between foreign trade and domestic are following:

- goods and services at the global level are less mobile than in domestic market;
- during calculations, each country uses its own national currency, so the need to compare different currencies occurs;
- foreign trade is a subject to greater state control than domestic;
- there are more buyers and more competitors (Maximova, 2004).

Foreign trade of a particular country is characterized by the following indicators:

- the value of trade (the sum of exports and imports);
- foreign trade balance - the ratio of exports to imports. If export is more than import, the country has active trade balance, if import is more than export, passive trade balance. The difference between exports and imports forms net exports;
- export and import quota - the share of exports and imports in GDP. The share of imports and exports in the volume of national production shows the degree of involvement of the country in international trade, the degree of "openness" of the economy;

- export potential (export opportunities) - the share of products that can be sold by a given country without prejudice to its own economy;
- the structure of foreign trade - entities (with whom the country trades) and objects (what country trades) (Norman & Dixit, 2006, pp. 127-163).

The state of the country's foreign trade and the level of its development depend primarily on the competitiveness of manufactured goods, the level of which is affected by:

- provision of the country with resources (factors of production), including information and technology;
- capacity and requirements of the domestic market for product quality;
- the level of development of export industries and related industries;
- strategy of firms, their organizational structure, degree of development of competition in the domestic market (Maximova, 2004).

World trade is usually characterized in terms of its volume, growth rate, geographical (distribution of commodity flows between individual countries) and commodity (by type of product) structure.

A feature of modern world trade from the geographical point of view is the increase in mutual trade between developed countries: most of the world trade is trade between the United States, Western Europe and Japan. The share of the Asia-Pacific region is growing rapidly in world trade. Among individual countries, the largest turnover is accounted for by China the United States and Germany, followed by Japan and Nederland. Russia's positions are low (WTO, 2018).

Manufactures goods absolutely prevail in the structure of world trade (70%), 15% share has fuels and mining products, 10% agricultural and 5% others (WTO, 2018). It is interesting to notice, that in the first half of the 20th century, more than 60% of trade consisted from food, raw materials and fuel. The world exchange of communications, electronic equipment, computers, components and parts is growing fast.

Along with goods, world trade includes the exchange of transport, communications, tourism, construction, insurance, etc. Moreover, the exchange of services in the world market is growing faster as the exchange of goods (WTO, 2018).

Each year the WTO publishes key trade indicators of statistics from the International Trade Centre, WTO, UNCTAD and the World Bank. The database contains reviews of selected developing countries and countries with economies in transition. The annual publication describes global trends in trade policy and the development of economic institutions, as well

as changes in economic indicators. This report confirms the idea that countries with lower levels of trade barriers are characterized by more significant and stable indicators of trade growth, especially exports. Also, it ranks countries according to the state of their foreign trade performance.

3.1.3 Trade agreements and organizations

Russia is a member of international organizations and economic unions such as World Trade Organization(WTO), Council of Europe, BRICS, Shanghai Cooperation Organization (SCO), Eurasian Economic Union (EAEU), EAEU Customs Union, Commonwealth of Independent States (CIS), Asia Pacific Economic Cooperation (APEC), Organization of the Black Sea Economic Cooperation (BSEC), The Hague Conference on Private International Law, World Intellectual Property Organization (WIPO), International Maritime Organization, World Tourism Organization and International Organization for Standardization (Agency, 2018). In present diploma work the organizations of IMF, WTO, World Bank, BRICS and SCO are analyzed more deeply.

International Monetary Fund

International Monetary Fund was organized in July of 1944 year in Bretton Woods Conference (UN) to create an agenda for the post – Second World War: an economic order with purpose to avoid mistakes, which had led to world conflict like The Great Depression, The World War II. John Maynard Keynes (UK) and Harry Dexter White (USA) have represented a concept of global financial cooperation to the first 44 countries-members. They created “a system of exchange rates linked to the dollar to be supervised by the IMF, and they give the Fund three critical missions: promoting international monetary cooperation, supporting the expansion of trade and economic growth, and discouraging policies that would harm prosperity” (IMF, 2018). In 1947 year France has got first loan from IMF, in 1956 year four countries- the United Kingdom, France, Israel, Egypt- involved in Suez conflict were given first big loans. It was “an early test of IMF’s crisis management role” (IMF, 2018).

Concerning relationships IMF and Russia, it is needed to say that with the beginning of Cold War (1950s) The Soviet Union, Communist nations and China didn’t participate as members of IMF. But in 1990s the communist political system was collapsed, and the former communist countries have joined global financial system.

Starting in 1997 year the Asian crisis has been spreading to the Russian Federation in 1998. To help country's financial system and economy IMF lent \$ 22,6 billion.

In brief observation of IMF, there are important facts: the IMF includes 189 nations-members, financial capacity of the IMF is \$1 trillion for lending its members; for low-income countries is not loan's interest rate (0%); current sum for technical advice, different types of training and learning is \$303 million.

Below there is represented the current structure of the IMF's governance.

The Board of Governors from all member-countries makes all high decisions of the IMF and delegates its members to the Executive Board.

“The Executive Board approves quota increases, special drawing right (SDR) allocations, the admittance of new members, compulsory withdrawal of members, and amendments to the Articles of Agreement and By-Laws” (IMF, 2019).

Ministerial Committees consists from 24 members of groups from 189 countries. “The Committee issues a communiqué summarizing its views following each meeting, providing guidance for the IMF's work program. The IMFC operates by consensus and does not conduct formal votes” (IMF, 2019).

The Development Committee is an advising body of the Boards of Governors. It represents by 25 members and serves as a discussion field on monetary, economy, political issues.

“The IMF's Managing Director is both chairman of the IMF's Executive Board and head of IMF staff. The Managing Director is appointed by the Executive Board for a renewable term of five years and is assisted by a First Deputy Managing Director and three Deputy Managing Directors. The IMF's Governors and Executive Directors may nominate nationals of any of the Fund's member countries for the position of Managing Director” (IMF, 2019). The location of the two headquarters is situated in Washington, D.C.

The World trade organization

The World Trade Organization was established in 1995. Up to this time the world has been learning economy, financial and politics crises, such as crisis of 1929 year, The Second World War, Cold War and other. After the Second World War international trade was organized under rules of The GATT (General Agreement on Tariffs and Trade in 1947 year). The GATT had been successfully working for 47 year. To continue and develop international trade there was built a successor of GATT- The World Trade Organization (WTO), which “is the only international organization dealing with the global rules of trade. Its main function is to ensure that trade flows as smoothly, predictably and freely as possible” (WTO, 2018).

According to the general idea of the organization, the main rule of The WTO is stability and assurance, the main aim of the WTO is “to improve the welfare of the peoples of the WTO’s members” and “decisions are made by the entire membership” (WTO, 2018).

Structure of WTO: The WTO includes 164 countries-members with 98% of global trade (164 members since 29 July 2016): among them are 158 countries-members of UN, EU and partly recognized Taiwan, Hong Kong, Macau. It is needed to say that 11 countries – the former Soviet Republics – have membership of WTO, 22 countries are participants with negotiating membership.

The Russian Federation has become a member of The WTO on 22 August 2012 with the number 156. It was a long process of negotiations to join Russia The WTO - 18 years: from 1993 to 2011. In press-release (671 22 AUGUST 2012 PRESS RELEASE) the Director of The WTO Pascal Lamy said: “From the date of accession, the Russian Federation has committed to fully apply all WTO provisions, with recourse to very few transitional periods. On average, the Russian Federation will apply a final bound tariff for 7.8% for goods and has made specific commitments on 11 services sectors” (WTO, 2018).

Since 1995 year Roberto Azevêdo (Brasilia) is the sixth Director-General of the WTO. Roberto Azevedo has been serving from 2013 year and now he has is serving his second four-year term from February 2017.

The WTO Secretariat is presented by the current structure: Deputy Director-General Yonov Frederick Agah(Nigeria), Deputy Director-General Karl Brauner(Germany), Deputy Director-General Alan Wolf(USA), Deputy Director-General Xiaozhun YI(China). The WTO Secretariat, with its staff more than 600 people, is headed by a Director- General. The Secretariat is based in Switzerland, in Geneva, and it does not have functions to make decisions. All decisions are made by members of the WTO (WTO, 2018).

The World Bank

The World Bank was established in 1944 year in Washington. It has more than 100 representatives in 130 locations with 10 000 staff all over the world. 189 countries are members of The World Bank. “The World Bank Group is a unique global partnership: five institutions working for sustainable solutions that reduce poverty and build shared prosperity in developing countries” (WTO, 2019).

As it was mentioned, the World Bank includes five banks, which foster to reduce poverty and develop prosperity in low-income countries.

The five banks are: The International Bank for Reconstruction and Development (IBRD), The International Development Association (IDA), The International Finance Corporation (IFC), The Multilateral Investment Guarantee Agency (MIGA), The International Centre for Settlement of Investment Disputes (ICID).

1) The International Bank for Reconstruction and Development (IBRD) supports “the World Bank Group’s mission by providing loans, guarantees, risk management products, and advisory services to middle-income and creditworthy low-income countries, as well as by coordinating responses to regional and global challenges” (Bank, 2018).

2) The International Development Association (IDA) helps “countries deal with the challenges posed by climate change, gender inequality, and conflict situations” (Bank, 2018).

3) The International Finance Corporation (IFC) helps countries to establish small business and bridges “its \$30 billion of finance gap” (Bank, 2019).

4) The Multilateral Investment Guarantee Agency (MIGA) provides financing of 7 countries in Sub-Saharan Africa. MIGA spreads its support “on low income and fragile countries” (Bank, 2019).

5) The International Centre for Settlement of Investment Disputes (ICSID). ICSID comes into being “conciliation and arbitration of investment disputes between Contracting States and nationals of other Contracting States” (Bank, 2018).

The Administrative Council is the highest running body of The World Bank. Each country-member is represented by its Deputy. Annual Meeting of The World Bank Group holds a strategy-and planning-meeting.

The General Board is headed by The Administrative Council and operates by the General Board of 24 members: the five are from USA, Japan, German, France and UK; the rest are from their countries and one member is a general member from Sub-Saharan countries.

BRICS

It was the Russia’s idea to establish an informal and independent organization of four nations - Russia, China, India, Brazil - to improve international order and to find an outcome of the global financial crisis of 2008 year.

Initially the four countries had organized the group named BRIC- Brazil, Russia, India, China.

After Russia’s, China’s, Brazil’s and India’s foreign Ministers and respectively their Presidents two meetings in Yekaterinburg (2008) there was held the first summit of the four

countries in 2009 year. As a result of the summit a joined communique has come out to declare the general goal of the cooperation: active, pragmatic, transparency dialog between developing countries; building of stable global peace and financial prosperity, political and cultural development.

In 2010 The South Africa joined the organization; from this time the organization was named BRICS.

The BRICS's countries-members take part in United Nation (UN), The Group of 20 (G20), The Shanghai Cooperation Organization (SCO), The Eurasian Economic Union (EAEU), Asia-Pacific Economic Cooperation (APEC) (BRICS, 2015).

The Heads of BRICS are State Leaders: Jair Bolsonaro, Vladimir Putin, Narendra Modi, Xi Jiping, Cyril Ramaphosa. The structure of BRICS represented by State Finance Ministers, Central Bank, Governors (BRICS, 2015).

BRICS does not have any centralised head quarter, rather all the BRICS countries have offices dedicated to organization in their own nation.

Shanghai Cooperation Organization

On 26 April 1996 five countries – China, Russia, Kazakhstan, Kyrgyzstan, Tajikistan - organized the Shanghai Group of Five of security and military cooperation to defend their borders from drug traffic, to create mutual help and trust in military defense.

On 15 June 2001 the Shanghai Group of the Five had added Uzbekistan and named itself the Shanghai Group of Six.

In June 2002 The Shanghai Cooperation Organization Charter was approved and it came to life as the base document of the SCO in September 2003 (Saint-Petersburg).

On 8-9 June 2017 in Astana The Republic of India and The Islamic Republic of Pakistan were joined SCO as the full SCO members.

Besides to it, four states - the Islamic Republic of Afghanistan, the Republic of Belarus, the Islamic Republic of Iran and the Republic of Mongolia – have become observers.

Six countries - the Republic of Azerbaijan, the Republic of Armenia, the Kingdom of Cambodia, the Federal Democratic Republic of Nepal, the Republic of Turkey, and the Democratic Socialist Republic of Sri Lanka – have a status of dialogue countries.

So, as we may said, The SCO extended no only by number of its countries, but by the determination of the main goal. The SCO base aim was extended from military to economy, trade, energy, and wide range of other aspects of cooperation to gain peace and stability in

East region with its a half global population (3billion 40million) and covering on area 60% of Eurasia (34 ml km²).

As it said on the SCO official website ‘The SCO's main goals are as follows: strengthening mutual trust and neighborliness among the member states; promoting their effective cooperation in politics, trade, the economy, research, technology and culture, as well as in education, energy, transport, tourism, environmental protection, and other areas; making joint efforts to maintain and ensure peace, security and stability in the region; and moving towards the establishment of a democratic, fair and rational new international political and economic order’ (SCO, 2016).

The structure of The SCO has a complex body.

The Heads of State Council (HSC) are represented by Presidents of the countries-members. The Presidents meet once a year and take core decision.

The Heads of Government Council (HGC) are represented by the Prime-Ministers of countries-members, on annual meetings they discuss “multilateral cooperation strategy and priority areas, to resolve current important economic and other cooperation issues, and also to approve the organization's budget” (SCO, 2016).

The Heads of Foreign Ministers work out current questions, prepare and organize meetings of The Heads of State Council. In some special cases The Heads of Foreign Ministers may come out with Statements on behalf of the SCO.

The Head – quarters are founded in China, Beijing, Pekin. The Head of SCO (The Secretary General) from January 2019 to December 2021 is Vladimir Norov (SCO, 2016).

3.2 Role of foreign trade in economy

International trade is one of the advanced forms of building international economic relations. It is an important tool for shaping the world economy, which contributes to building ties between countries and enhancing their interdependence in the field of international exchange of goods, services, and products of intellectual labor (Batmanova & Tomilov, 2005).

Nowadays, international trade plays an important role in the development of both - the world economy and international economic relations in general, as well as individual subjects of the world economy. Foreign trade is a factor in economic growth and a factor in increasing the interdependence of countries. The dynamics and structure of foreign trade of individual countries are influenced by the following factors: the level of development of national production; provision of natural resources; goals and priorities of the state foreign trade

policy; competitiveness of domestic production; convertibility of the national currency; structure and volume of domestic demand; living standards and other factors (Batmanova & Tomilov, 2005).

Foreign trade is one of the priority areas that contribute to the formation and stabilization of the country's economy, as well as its growth of the national welfare. The development of the country's foreign trade directly depends on the effectiveness of state decisions, which in turn are based on the results of analytical studies conducted at the macroeconomic level.

It should be noted that it is impossible to analyze the processes in foreign trade without studying the history of the economy development within individual states, political processes in countries and the world as a whole, since "foreign trade obeys the action of general economic laws" (Bogomolov, 2009) and trends, and at the same time is a fact of development of the world community. Foreign trade is considered one of the first forms of international relations.

In the process of historical development, there are following factors influenced foreign trade: the country's natural and geographical features, the structure of the world economy, the level of development of national production, the standard of living of the population, the level of development of the scientific and technical process, the development of currencies, political processes, the emergence of international organizations and migration processes.

Considering the role of foreign trade, it should be noted that it is an important factor in the economic development of any state.

Initially, foreign trade contributed to the accumulation of capital, which continues in some developing countries till now. It means that foreign trade has still not lost its significance as a development factor.

Foreign trade is based on the international division of labor and contributes to the specialization of countries in the production of certain groups of goods and thereby strengthens economic ties between different states.

Also, international trade attracts the missing resources for domestic use due to its integration in all areas of economic activities.

It promotes industrialization and overcoming the economic backwardness of developing countries.

It contributes to the creation of a modern production structure due to the need to export competitive products. Also, it contributes to an increase in the standard of living of the population through the development of the country's production forces.

The foreign trade channels exploit the natural resources of developing countries by developed countries.

Globalization processes contributes to the expansion of foreign trade channels through which there is an exchange of advanced technologies between states and, accordingly, the development of national economies.

It is a source of additional profit through value added in foreign markets due to the advantage in the production of goods.

It contributes to cost savings through the import of goods that are economically disadvantageous to produce domestically.

It strengthens the role of investment activity and increases possible profits.

Basing on this, foreign trade is one of the main factors of the inclusion of national economies in the global process of international trade relations (Bogomolov, 2009). Foreign trade contributes to the economic development of the country as a whole by expanding the specialization of production, integrating into the global economic system (Batmanova & Tomilov, 2005).

The goals, methods and means of foreign trade are determined by the objectives of the state foreign trade policy, which is formed in accordance with the economic and political goals of the state.

Accordingly to the discussion in previous chapter, international organizations have very important role in the foreign trade. They solve problems of eliminating trade barriers, promote widespread exchange of goods between states and stabilize currencies. They find opportunities for each state to participate in international activities.

In the Russian Federation, foreign trade policy is based on a combination of the principles of free trade and protectionism, in connection with the sanctions of 2014. This allows to implement a strategy for the formation of export-oriented and import-substituting production. The detailed structure of foreign trade of the Russian Federation is analyzed in the practical part.

4. Practical Part

4.1 Overview of certain historical events and their impact on Russian economic situation and foreign trade

In the beginning of the practical part there is given a brief overview of the significant historic and economic events, which had happened in Russia during the observed period. The events of Devaluation of 1998 year, the Financial crisis of 2008 year, Russia's entering the WTO in 2012, Russia's "Black Tuesday" and the Crimea's event and the related sanctions are analyzed with the causes and consequences of those events.

4.1.1 Devaluation of 1998 year

Financial Crisis of 1998 year was determined by difficulties of post-Soviet time, when Russian Federation was struggling for new political and financial system. From 1992 year to 1998 year Russia had internal and external financial problems, which originated from economics aspects.

This chapter represents some of the important internal and external problems, which caused economic crisis of 1998.

Internal problems were following:

- tough money policy which included a high and narrow fixed exchange rate of ruble and foreign currencies (6 rubles per dollar), keeping inflation under control by rejection of emission; unpaid salaries and wages - "On average, real wages were less than half of what they were in 1991, and only about 40 percent of the work force was being paid in full and on time" (Chiodo A. & Owyang, 2002, p. 11).

- weak budget policy: unbalanced budget which has led to exhaustion (depletion) of real economy and public sectors; extremely low tax collection.

Besides to this, Russia had two negative external impacts:

- Asian financial crisis of 1997 year, which led to speculative attack on Russian rubles. The Central Bank of Russia had to defend the national currency, losing, by scientists' estimation, nearly \$6 billion of U.S. dollars in foreign-exchange reserves (Chiodo A. & Owyang, 2002, p. 12). This situation has caused fearful anticipations of ruble losing value and currencies began to flee from Russia.

- Following the Asian crisis, in December 1997, the world's oil and nonferrous metal prices had dropped. Taking into consideration the fact that energy resources trade is the main issue

of the national budget system, it is clear that the impact on the Russian economy and financial system by the dropping world's oil and metal prices was quite serious.

On 17th August 1998 The Government and the Central Bank of the Russian Federation have issued the Statement with explanations of the situation and undertaken measures to normalize financial and economy situation.

There was explained that: "As a result of deterioration of the foreign economic situation and an unsatisfactory budget revenue situation, the problem of the state debt management has worsened. Expenditures on redeeming the previously issued government securities and interest payments at the time of the low level of tax collections have become an excessive burden on the state budget" (Government, 1998).

In addition to that the deepening crisis in Asia and a new decline in the world oil prices made the economic situation even worse. So, the reduction of the country's foreign exchange reserves continues, and the banking system has started experiencing difficulties.

Therefore, the Russian Government and the Central Bank had to undertake a complex of measures to normalize the financial and fiscal policies. According by the "Statement of the Government of the Russian Federation and the Central Bank of the Russian Federation" they were following:

The central bank switched to implement floating exchange rate policies within the new boundaries of the "exchange band" set at the level of 6 to 9.5 rubles per US dollar.

There were introduced temporary restrictions on capital account foreign exchange operations by the residents of the Russian Federation and a prohibition for nonresidents of the Russian Federation to invest in ruble assets with maturities of 1 year or less.

The government submitted legislative initiative to the Federal Assembly to tighten control over the outflow of foreign exchange resources abroad.

The Government of the Russian Federation once again call on the State Duma with a proposal to hold an emergency session before the end of August, and to adopt the key draft laws which will ensure the timely payment of pensions and wages to the budgetary employees, develop legislative procedures for rehabilitation of banks, and strengthen the system of foreign exchange regulations and foreign exchange control (Government, 1998).

The financial situation dramatically unfolded by such events: from 17th August to 21th September the Russian ruble was floated from 6.43 to 21 ruble-dollar rate. As a result, inflation reached 84 percent, many banks such as Inkombank, Oneximbank, Tokobank were

closed due to crisis. International banks, incorporated in Russia, were hit by major losses and were rescued by the Deutsche Bank with its 10 billion dollars (Bank, 1998).

At the same time as a consequence of financial and economy weakness a political crisis came to the Russian political life. The Russian President Boris Yeltsin began chaotically to dismiss and nominate key Government positions such as the Prime Minister, the Head of the State Tax Service, the Head of the Central Bank of the Russian Federation, the Chief of the Federal Security Service. Finally, when Foreign Minister Evgeniy Primakov was nominated and appointed as the Prime Minister on 11th September, stability and recovery came to Russian life.

It needs to say that Russia recovered from crisis hit surprisingly rapidly. It has some explanation: world oil prices increased quickly, domestic agriculture and industries were benefited from devaluation. Besides to it, barter system, which occurred Russian industries, had not suffered a lot from financial collapse.

In some aspects, the crisis had positive impact, for example, Russian banks have learned how to diversify and protect their assets.

A political crisis came to a head in March when Russian president Boris Yeltsin suddenly dismissed Prime Minister Viktor Chernomyrdin and his entire cabinet on 23 March 1998. Yeltsin named Energy Minister Sergei Kiriyenko, then 35 years old, as acting prime minister.

On 29 May 1998, Yeltsin appointed Boris Fyodorov as Head of the State Tax Service.

In an effort to prop up the currency and stem the flight of capital, in June 1998 Kiriyenko hiked interest rates to 150%.

The economic crisis was the collapse of the macroeconomic policy of the Russian authorities in 1992-1998. The Russian economy received a severe blow, as a result of which the Russian ruble devalued several times. There was a significant decline in production and living standards, a sharp increase in inflation. The post-crisis recession in Russia was short-term and soon gave way to a large-scale economic growth. A significant role in this growth made the changes in the macroeconomic policy of the Russian authorities that occurred after the change in the composition of the government and the leadership of the Central Bank (Milov, 2008).

In particular, the use of an overvalued ruble as an anti-inflationary measure was recognized as ineffective. Therefore, the ruble was formed by the market. Although this led to a short-term surge in prices, the rest of the measure had a positive effect on the Russian economy.

Russian enterprises basing costs on rubles have become more competitive both in the global and domestic markets. In addition, the free formation of the ruble exchange rate facilitated the accumulation of foreign exchange reserves of the Central Bank of the Russian Federation, which increased the stability of the country's financial system (Milov, 2008).

The crisis in Russia had a significant impact on the economic situation in a number of countries, primarily through a reduction in the export of these countries to Russia.

The devaluation of national currencies happened in Belarus and Kazakhstan. Economic growth slowed down in countries such as Ukraine, Moldova, Georgia, Lithuania, Latvia, Estonia.

4.1.2 Financial crisis of 2008 year

There is began the world financial and economic crisis in 2008. It manifested in the form of a sharp decline in the main economic indicators in most countries with developed economies, which later grew into a global economic recession.

The emergence of the crisis is associated with a number of following factors: the general cyclical nature of economic development; overheating of the credit market and the resulting mortgage crisis; overheating of the stock market, high prices for raw commodities (including oil).

The forerunner of the 2008 financial crisis was the US mortgage crisis.

The first half of the 2000s in the United States was associated with a large increase in demand for residential real estate, and along with it - for mortgage loans. Willing to meet the needs of Americans and earn more from them, banking organizations and specialized mortgage agencies began to give out unreliable loans - in the amount of up to 130% of the value of real estate. Borrowers took the amount that allowed not only to buy a house, but also to furnish it or make expensive repairs (Holt, 2009).

American lenders expected that if the client did not pay the mortgage loan, the debtor could be evicted, and it would be profitable to sell the mortgaged house, as residential property prices were rising. However, obviously insolvent loaners also hoped to resell the property more expensive, repay the loan ahead and stay with profit.

Nevertheless, the real estate market soon turned out to be oversaturated and there is began a decrease of prices for the real estate property. When houses began to get cheaper and mortgages went bankrupt, lenders could not return the money even by selling it. Thus, came the mortgage crisis - the massive bankruptcy of mortgage agencies and banks.

By the mid of 2008, real estate on average fell by 20% compared with the pre-crisis level, by 2011 - by 26%. Real estate investment trusts lost nearly half of their capitalization by 2009 (Holt, 2009).

The next reason for the crisis development was the collapse of stock markets. A huge "bubble of bonds" secured by loans (car loans, mortgages, leasing assets) appeared in the stock market. Their issuers were lending banks, and buyers were investment banks. These papers are called "collateralized debt obligations"(CDO). A mortgage type of secured debt is called a "collateralized mortgage obligation" (CMO).

While most borrowers regularly paid their loans, mortgage companies also paid on bonds. When the mortgages stopped paying, the CDO / CMO bubble burst. Generally, these papers are new in US history - they appeared in the market only in the first half of the 1980s. In the middle of 2000s, their issuers divided them into three types: reliable, risky and high-risk, where income changed accordingly. Then, under the current credit policy, they all were insolvent.

There is everything interconnected in the economy and the collapse of the lending market in real estate was followed by the collapse of the market for mortgage securities and derivatives. The standard stock index also fell, then the other markets fell - the global financial crisis of 2008 has begun.

The development of the crisis continued with the collapse of investment banks. The previously successful American banks left the market, completely went bankrupt, or abolished their previous activities:

- Lehman Brothers - the largest credit and financial institution in the United States with a history of 150 years, was not able to pay its customers a credit swap - insurance against default of basic borrowers on mortgage derivatives after their total depreciation (Mathiason, 2008);
- Bear Stearns - was the fifth largest bank in the United States lost a huge share of money of depositors (Amadeo, 2019);
- Merrill Lynch - was the owner of one of the largest packages of "problematic" CDO / CMO and other papers that pulled it to the bottom. It was bought by Bank of America (Inman, 2008);
- Goldman Sachs and Morgan Stanley - were forced to abandon investment activities, after which the Federal Reserve Board covered their losses (White, 2008).

Immediately after the United States, the European economy was hit hard by the financial crisis.

Iceland was on the verge of bankruptcy. The largest three banks in Iceland crashed - Kaupthing, Landsbanki and Glitnir. The country's authorities were forced to nationalize these banks, as well as seek financial assistance from the International Monetary Fund (IMF). As a result, Iceland became the first Western country since 1976 to receive an IMF loan (\$ 2.1 billion). Because of mass protests, the government was forced to resign. The country's economy has slipped into recession (Amadeo, 2019).

In the UK, the first step toward the nationalization of large banks was made when the government intervened around £50 billion to recapitalize the banks.

The Royal Bank of Scotland and Lloyds and HBOS were recapitalized in exchange for large blocks of bank shares. There were also nationalized two small banks - Northern Rock and Bradford & Bingley (Porter, 2008). By the beginning of 2009, half of the country's banking system was already under government control.

In Germany, Hypo Real Estate, the leading German bank operating in the real estate market was on the verge of bankruptcy as a result of the global financial crisis. Initially, the bank was allocated assistance of 35 billion euros under state guarantees, but this amount was not enough to prevent the bankruptcy (Kennedy, 2008).

The German government has adopted an anti-crisis package of about 500 billion euros.

The French government to support the country's banking system in the context of the global financial crisis allocated 10.5 billion euros to the six largest banks in the country. Among the banks that received the loan were Credit Agricole, BNP Paribas and Societe Generale (Howarth, 2013).

Due to globalization, the crisis has spread to all regions of the world.

In the end of 2008, the Bank of Canada recognized that the country's economy had entered a recession. The Government of Canada has created a special fund of \$ 3 billion to stimulate the economy in times of crisis (OECD, 2009).

In Japan, at the end of 2008, the government statistics agency recorded a recession officially. Over the year, the country's economic growth rate decreased by 1.8%. (Hoshi, 2010)

State emergency assistance to banking sector companies in some EU countries subsequently became one of the causes of the sovereign debt crisis that swept the euro zone in 2010.

In Russia, the first victims of the crisis among Russian banks were KIT Finance and Svyaz-Bank. To repay debt to counterparties, Gazprombank issued a loan of 22.5 billion rubles to

KIT Finance. Svyaz-Bank sold 98% of its shares to Vnesheconombank. VTB Bank, along with other Russian banks, received state support. In the midst of the crisis, a 10-year subordinated loan of 200 billion rubles was given by State Investment Bank. Later on, bank VTB placed an issue, which the state bought for almost 180 billion rubles.

The crisis quickly spread to the real sector of the economy. The capitalization of Russian companies decreased in the end 2008 by three quarters; foreign exchange reserves decreased by 25%. The financial crisis has reduced public confidence in banks and led to an outflow of deposits. Balances on accounts of individuals in the 50 largest Russian banks decreased by 54 billion rubles, which amounted to 1.2% of the total. The decrease of depositors from the banking system reduced the financial stability of banks, which led to the bankruptcy of several large investment and commercial banks (Hanin, 2009).

In the pre-bankrupt state were many companies. There is began the dismissal of workers, sending them on administrative leave, reducing wage rates.

Also, the financial crisis caused a drop in oil prices. There were problems with investing in this sector, and the implementation of projects to increase production and the construction of energy pipelines were slowed down. Also, state projects in the field of infrastructure and construction were reduced.

There was a decrease in the growth rate of the Russian economy. For example, with the economy growing in 2007 by 8.5%, slowed down to 5,2% in 2008 and decreased by 7.8% in 2009.

4.1.3 Russia's entering the WTO

In August 22 of 2012, Russia became the 156th member of the World Trade Organization. Negotiations on Russia's accession to the WTO lasted 18 years (1993 - 2012).

“Ratification of the protocol on Russia's accession to the Marrakesh agreement establishing the WTO” was signed by President Vladimir Putin on 21 of July 2012. Russia became an official member of the WTO 30 days after the WTO secretariat was notified the ratification (WTO, 2012).

The history of Russia's accession to the WTO began in 1946, when the USSR rejected the application for accession to the General Agreement on Tariffs and Trade (GATT) and became the founder of the Council for Mutual Economic Assistance (CMEA) in 1949 (VAVT, 2003). CMEA was declared as an intergovernmental integration organization of the socialist countries. The goal of creating CMEA was to promote the economic development

of the participating countries, increase the level of industrialization, living standards, labour productivity and so on.

In 1986 at the Uruguay round of negotiations, the USSR submitted an application for observer status with a view to subsequent joining the GATT. However, the USA rejected this application, explaining that the USSR is a country with a planned economy, which is incompatible with the principles of free trade. After the transition from a planned economy to a market economy, in 1990 the USSR was able to obtain GATT observer status (VAVT, 2003).

In 1993, Russia submitted an official application for accession to the GATT (WTO, 1993). Nevertheless, the negotiations began in 1995 on Russia's accession to the successor of the GATT - WTO (WTO, 1995).

In 1998, Russia submitted initial proposals on access to the market for goods and proposals on the support for agriculture, after which negotiations moved forward.

Since 2000, negotiations over Russia's accession to the WTO have significantly developed. As a part of the process of entering the WTO, the Russian delegation held talks in four main areas: on tariff issues; on agricultural issues; on access to the market for services; on legislative issues - that Russia should get in the field of legislation and fulfill certain obligations as a future WTO member.

The largest opponents of Russia's accession to the WTO were the United States, the European Union, Georgia and China. The main disagreements concerned issues of financial markets, the supply of agricultural products to the Russian Federation and the protection of intellectual property rights. Those difficulties were overcome on November 20 of 2006, as part of the Asia-Pacific Forum in Hanoi, Vietnam, when Russia and the United States signed a protocol on Russia's accession to the WTO (Cooper, 2012).

Russia's accession to the WTO was postponed because Russia was not ready to enter the WTO. Moreover, the financial crisis of 2008 postponed Russia's accession even more, because it made many countries think not about the free trade, but about the regulating their economies through the introduction of protectionist measures (Cooper, 2012).

In June 2009, at the meeting of the The Eurasian Economic Community's Interstate Council in Moscow, Russian Prime Minister V.V. Putin made the official statement, that in the negotiations on joining the WTO from January 2010, Russia will participate as a Customs Union of Russia, Belarus and Kazakhstan (According to the Marrakesh agreement on the

creation of the WTO, countries can enter both independently, within the framework of one country, and also as customs territories.) (Cooper, 2012).

On the 7 of December in 2010, the Russia - EU Summit was held in Brussels. The head of the Ministry of Economic Development of the Russian Federation Elvira Nabiullina and the EU Trade Commissioner Karel de Gucht signed a memorandum on the completion of negotiations on Russia's entry into the WTO. The document notes that the parties have resolved all issues of concern (Cooper, 2012).

On 10th of November of 2011 was held the meeting of the working group, during which were prepared a final report and all the documents for Russia's entering the WTO (Cooper, 2012).

The benefits of Russia's joining the WTO was justified by the following reasons:

- acceleration of the processes of integration of Russia into the world economy;
- access to the world market;
- opening of the Russian economy to foreign investment;
- legitimate access to the international legal and economic space;
- protection against discriminatory domestic taxes, excises and customs duties;
- freedom of transit of Russian goods;
- protection against discriminatory use of technical, sanitary and phytosanitary barriers (VAVT, 2003).

It is also important to mention, that accession to the WTO for Russia is not only a technical issue of foreign trade cooperation, but also a matter of national choice and determining the development strategy of the country and society as a whole.

In spite of that, opponents of Russia's accession to the WTO suggested the following negative consequences:

- a sharp decline in production in the light and food industries;
- the disappearance of the agricultural sector;
- a sharp increase in unemployment due to a reduction in production;
- the ruin of single-industry towns, due to their dependence on one factory or production;
- loss of food security (according to WTO Agreements, imported goods are regarded as similar);
- absorption of domestic financial institutions (for example, the Russian banking and insurance sectors are less competitive compared to European ones);

- loss of political sovereignty of Russia (due to a reduction in export duties on energy resources);
- the weakening of the legislative framework in the field of environmental safety (the WTO does not recognize international agreements for the protection of the environment, that is, international standards have no legal force) (VAVT, 2003).

Ratification of the Protocol provided that Russia, as a member state of the WTO, accept all obligations under the Marrakesh Agreement. Transition periods for liberalizing market access are 2-3 years, for the most sensitive products - 5-7 years. Sensitive industries in which certain economic and financial difficulties may arise due to new conditions include the automotive industry, agriculture, agricultural machinery, and light industry (WTO, 2011).

According to the signed normative acts, Russia has accepted the following obligations:

1. Access to the goods market: Russia, upon entering the WTO, entered into about 57 bilateral agreements on access to the goods market. According to the signed agreements, Russia is obliged to reduce the average rate of import duties from 10% to 7.8% for all products: for agricultural products from 13.2% to 10.8; for industrial goods from 9.5% to 7.3%. The Russian Federation also committed to reduce tariffs for a sufficiently high assortment of goods.
2. Access to the market for services: Russian Federation, while entering the WTO, entered into about 30 bilateral agreements on access to the market for services.
3. Export obligations: Russian Federation has limited export duties on more than 700 commodity items. These are significant concessions from Russia.
4. Tariffs for the railway transportation of transit goods from July 1, 2013 are charged according to the rules of the WTO.

After joining the WTO, Russian Federation is obliged to apply the General System of Preferences of the Customs Union (GSP CU) for developing countries.

As part of its participation in trade negotiations, Russia is obliged to revise the norms of the WTO Agreement so that there are no discrepancies between the norms, such as:

1. Government Agreement on Public Procurement: this area will be governed by the Agreement on Government Procurement (TPRM - Trade Policy Review Mechanism).
2. Sanitary and phytosanitary measures and technical regulation: Russia's obligations are aimed at ensuring compliance of the sanitary, veterinary and phytosanitary regulation system, as well as technical regulation with WTO rules.
3. Protection of intellectual property rights.

4. Industrial and agricultural subsidies.
5. Russia is forbidden to directly subsidize exporters, as well as provide subsidies that can only be obtained if domestic goods are used.
6. Transparency: Russian Federation is obliged to ensure the necessary level of transparency of legislation and practice of regulating foreign trade in Russia. All normative acts of general application governing trade should be published in official sources and enter into force until their official publication (WTO, 2011).

In general, it can be noted that Russia's accession to the WTO is neither positive nor negative, but mostly neutral. Along with the integration of Russia into the world economy, Russian Federation received a number of problems for its own production, as well as a decrease in government revenues from duties on imported goods.

4.1.4 “Russia’s Black Tuesday”

Black Tuesday of 2014 is the day of December 16, when Russian ruble collapsed against the US dollar and the euro. This day is related to financial, economic and currency crisis in Russia (Gutkin, 2014).

The currency crisis was caused by the rapid decline in world oil prices, the export of which influence on the revenue side of the Russian budget. Also, the introduction of economic sanctions against Russia in connection with the events in Ukraine contributed to the crisis (Gutkin, 2014). These factors caused a significant depreciation of the ruble against foreign currencies, and then led to an increase in inflation, a decrease in consumer demand, an economic downturn, an increase in poverty and a decrease in real incomes of the population (Golodec, 2016).

At the beginning of 2014, the US dollar costed 32.66 rubles, and the euro - 45.06 (TASS, 2014).

On December 15-16 of 2014, an emergency occurred on the foreign exchange market resulting from several negative events (a statement by the OPEC on maintaining oil quotas despite a possible reduction in oil prices to \$ 40 per barrel, as well as an opaque transaction with Rosneft bonds). These events provoked a panic in the foreign exchange market and the rate of ruble depreciated sharply (Akidonova, 2015).

On Monday, December 15, there was a sharp collapse of the ruble by more than 8%. The rates at the close of trading were 64.45 and 78.87 rubles per dollar and euro (Rosbalt, 2014). This fall was a record since January 1999, and the media called this day “Black Monday”.

The next day, on Tuesday, December 16, there was an even larger fall of the ruble: the dollar and euro reached 80,1 and 100,74 rubles (Gutkin, 2014). By analogy with “Black Monday”, this day was called “Black Tuesday”. On Black Tuesday, bank branches in a number of regions significantly overestimated the currency sale rate at a relatively low exchange rate for buying currency from the population: they sold the dollar for more than 80 rubles, and the euro reached 150 rubles (Interfax, 2014). In some banks, there was a shortage of cash dollars and euros.

A sharp increase in the Central Bank's key rate (up to 17%) and instruction by President Putin to exporters to stop holding the currency, helped to stabilize the foreign exchange market. However, at the same time, the cost of resources increased. For banks and their customers, this meant a decrease in the availability of loans, but at the same time increased the attractiveness of deposits, which helped limit the scale of deposit withdrawals and reduce the risk of a banking crisis. Nevertheless, the Bank of Russia had to use refinancing tools to maintain liquidity in the system and provide assistance to individual banks. Subsequently, the key rate was first reduced to 15%, and then to 14% by the March of 2015 (Akidonova, 2015).

After a sharp collapse, the ruble partially regained its position, ending the year with 56.24 and 68.37 rubles per dollar and euro (Lenta, 2014).

As it was mentioned before - one of the main reasons for the preceding currency crisis was the fall in oil prices. Looking back to 2012 - 2014 years the oil price was in the range of \$ 100 - \$ 115 (Overchenko, 2014), then by the end of December 2014 it had fallen to \$ 56.5, reaching the lowest levels since 2009 (Gordeev, 2014). In 2016, oil prices continued to fall, reaching \$ 27.5 for barrel. (Interfax, 2016)

The fall in oil prices was caused by an excess of supply over demand which was caused by: a slowdown in oil demand; an increase in oil and gas in the US domestic market as a result of the shale production (Plumer, 2015). Thus, according to the estimate of the former Minister of Economic Development and Trade of the Russian Federation G. Gref, a drop in price by \$ 10 per barrel leads to a decrease in Russia's GDP by 2% (Makeev, 2016).

The next reason for the fall of the ruble were sanctions used against Russia.

The most significant negative impact on the state of the Russian economy was caused by sanctions associated with restrictions on attracting financial resources. They make it difficult for enterprises and banks to access the external debt market, preventing them from fully refinancing external debt. The closure of foreign capital markets and the increase in the cost

of borrowed funds of enterprises negatively affected the investment climate of the country (Akidonova, 2015). That led to a reduction in the volume of investments by companies in market sectors and intensified the negative trend of reducing investment in assets in the economy as a whole.

The government of the Russian Federation during 2014-2015 took measures to stabilize the economic situation.

In 2014 the Central Bank of Russia raised the key rate several times. In the beginning of the year it was 5.5% and then after the increase on December 16, it was 17%. Due to the fact that in 2015 there was some economic stabilization, by the middle of the year, the Central Bank lowered the key rate to 11% (Bank, 2020).

In addition, the Central Bank conducted currency interventions to maintain the ruble exchange rate, spending \$ 76.13 billion and 5.41 billion euros in 2014 (RiaNews, 2015).

The weakening of the ruble has become one of the main factors in increasing inflation. As a result, it contributed to a decrease in real disposable incomes of the population and to a decrease of the consumer demand. Inflation began to increase since August 2014, after Russia introduced counter-sanctions to limit food imports and in 2014 amounted 11.4%. The surge in inflation at the end of 2014 led to a change in consumer behavior - “running away” from inflation, the population preferred to spend money on durable goods rather than save (Akidonova, 2015).

The currency crises also led to a distrust of the Russian currency. If in November 2014, 52.1% of the Russian population kept savings in ruble deposits, then in August 2015 - only 49.8%. The share of foreign currency deposits increased (from 9.5% to 10.6%, respectively). The share of savings in cash currency also increased (from 5.5% to 6.3%), while in cash rubles it decreased (from 16.6% to 13%). There were also more people wishing to transfer their savings into securities (from 9.5% to 10.6%) (HSE, 2015).

4.1.5 Crimea’s connection and sanctions

On March 18, the President of Russia, the leadership of Crimea and the mayor of Sevastopol signed an agreement on the incorporation of the Republic of Crimea and Sevastopol into Russia. The document entered into force from the date of signing. Two days earlier, there was held a referendum in Crimea, where more than 96% of the participants voted in favour of joining the region to Russia (Guzhva & Korotkov, 2016). This event was preceded by

many months of anti-presidential and anti-government actions in Ukraine (Euromaidan), which ended in February 2014 with the removal of Viktor Yanukovich from the post of president of the country. This event was perceived as a coup by many people in the Crimea (Guzhva & Korotkov, 2016).

A number of actions of the new government and its supporters (the parliament vote to repeal the law on the foundations of state language policy, prepare a lustration law, radical statements by Euromaidan activists and political figures) led to the activation of Russian public organizations and the mobilization of a significant part of the ethnically Russian Crimeans against the new leadership of Ukraine. This was also facilitated by the information pressure and manipulation of public opinion by the Russian media (OBSE, 2014).

On March 1, the Federation Council of the Russian Federation approved the official appeal of President Putin on permission to use Russian forces in Ukraine, although by that time they had actually been used there (Guzhva & Korotkov, 2016). Russian forces, together with detachments of volunteers, blocked all objects and military units of the Armed Forces of Ukraine on the peninsula, whose command refused to obey the new government of Crimea. On March 16 there was held a referendum of the connection of Crimea to Russia. Although, the referendum was on contrary to the Ukrainian Constitution, on the basis of the results there was proclaimed independent Republic of Crimea on March 17 (iPress, 2014). On the next day there were signed a treaty with Russia, which formed entities of Russian Federation - the Republic of Crimea and the city of federal significance Sevastopol. However, Ukraine did not recognize the loss of its territory and began a stubborn diplomatic struggle for its return. By March 28, the Russian military was withdrawn from the peninsula (Guzhva & Korotkov, 2016).

Returning to history, it is important to mention the historical reason why the Russian state decided to annex Crimea. The Crimean region was transferred from the Soviet Russia to Soviet Ukraine in 1954, as a part of the celebration of the 300th anniversary of the reunification of Russia and Ukraine". In the year 1991, autonomy was returned to Crimea and the region was transformed into the Crimean Autonomous Soviet Socialist Republic. As a result of the collapse of the USSR, it turned out to an independent Ukrainian region, where the majority of the population are ethnical Russians (TASS, 2014). There are traditionally strong pro-Russian sentiments and the Russian Black Sea Fleet is deployed.

Ukraine and Western countries regard this event as annexation of Crimea by the Russian Federation, while from the Russian point of view, there took place reunification.

In UN documents and Ukrainian legislation, the territory of Crimea controlled by Russia is considered as temporarily occupied part of Ukraine (UN, 2014).

The UN adopted a resolution recognizing the referendum on joining Crimea to Russia as illegal. The resolution encourages for a peaceful settlement of the situation and the rejection of actions aimed at violating the territorial integrity of Ukraine. 100 countries voted for this resolution, 58 states abstained, and Russia and another 10 countries voted against. The position of Russia was supported by Armenia, Belarus, Bolivia, Cuba, North Korea, Nicaragua, Sudan, Syria, Venezuela and Zimbabwe (TASS, 2014).

After Russia annexed Crimea, the United States, the European Union, Ukraine and other countries imposed visa and economic sanctions against Russia. The first package of sanctions was introduced by the USA and the European Union, Australia, New Zealand and Canada. These measures included the freezing of assets and the introduction of visa restrictions for persons included in special lists. It was also forbidden to enterprises from countries that imposed sanctions to maintain business relations with persons and organizations included in the lists. It was also undertaken to curtail contacts and cooperation with Russian organizations in various fields (BBC, 2014).

The next expansion of sanctions was associated with an aggravation of the situation in eastern Ukraine. The organizers of the sanctions defendant Russia of actions aimed at undermining the territorial integrity of Ukraine, in particular, the supply of weapons to pro-Russian rebels (UN, 2014).

The next round of sanctions was associated with the Boeing 777 disaster in the Donetsk region on July 17, 2014. According to the leadership of several states, it was caused by the actions of rebels supported by Russia (Parshukova, 2014).

The following economic organizations also put forward sanctions:

North Atlantic Treaty Organization

- NATO Secretary General Anders Fogh Rasmussen during a visit to Kiev on the 7th of August, said that the organization is terminating cooperation with the Russian Federation (NATO, 2014).

European Union

- As it was mentioned above there were imposed sanctions against Russian and Crimean politicians and officials, in particular: banning them from entering the EU or transit, as well as freezing “all funds and economic resources, which are owned or controlled by these persons” (BBC, 2014). The list of these people was gradually expanded.

- It was canceled the EU-Russia summit, scheduled for June of 2014 (EU, 2017).
- It was forbidden for European embassies to issue all types of visas to Crimean residents (EU, 2017).
- The European Investment Bank, on the recommendation of the European Council, stopped new financing for projects in Russia (Concil, 2014).
- A ban was placed on investments in the infrastructure, transport, telecommunications and energy sectors, as well as the production of oil, gas and minerals. The supply of equipment for these sectors, as well as the provision of financial and insurance services for them, was prohibited. Moreover, it has been established on the purchase of more than 250 items of goods, including minerals and hydrocarbons (EU, 2014).
- On July 31, there were imposed sanctions against Sberbank of Russia, VTB Bank, Gazprombank, Vnesheconombank, and Rosselkhozbank. It was also introduced an embargo on the import and export of weapons to Russia; a ban on the export of goods and technologies for military use to Russia (CBS, 2014).
- In the December 2014 it was banned investment in the Crimea and Sevastopol (Council, 2014).
- For European and European Union-based companies, a ban has been imposed on the purchase of real estate and enterprises in Crimea, the financing of Crimean companies and the provision of related services, the provision of travel services in Crimea (Council, 2014).
- It also imposed a ban on the supply of goods to Crimea, in particular, technologies related to the transport, telecommunications and energy sectors, as well as exploration and production of gas, oil and mineral resources, and precious metals - gold, silver and platinum, and also semi-finished products from them (Council, 2014).
- In addition, it has banned the provision of technical assistance and the provision of construction and engineering services related to the infrastructure of the peninsula (Council, 2014).

G8

- On March 25th of 2014 G8 suspended the participation of Russia (Telegraph.co, 2014).

European Free Trade Association

- On the 14th of March 2014, EFTA suspended negotiations on concluding an agreement on a free trade zone with the Customs Union of Russia, Kazakhstan and Belarus (EFTA, 2014).

Council of Europe

- On the April 10th, the Council of Europe deprived the Russian delegation of the right to vote and forbade its representatives to occupy leadership positions in the Parliamentary Assembly of the Council of Europe (Assembly, 2014).

European Bank for Reconstruction and Development

- On the July 23rd of 2014 EBRD froze decision-making on new projects in Russia (d'Amora, 2014).

Moreover, sanctions against Russia were imposed by the following organizations: Nordic Council, International Association of Naval Cadets, North American Aerospace Defense Command Council of the Baltic Sea States, Financial Action Task Force on Money Laundering, European Organization for Air Navigation Security.

As well as the following individual countries: Australia, Albania, United Kingdom, Scotland, Germany, Georgia, Iceland, Canada, Latvia, Lithuania, Liechtenstein, Moldova, Netherlands, Norway, New Zealand, Poland, USA, Ukraine, France, Montenegro, Czech Republic, Estonia, Switzerland, Sweden, Japan, Kosovo (Riskadvisory, 2019).

In response to the sanctions measures, the Russian Foreign Ministry on March 20 published a list of sanctions against officials and members of the US Congress, which included nine people (RiaNews, 2014). They are prohibited from entering the territory of the Russian Federation.

Russia's next response to sanctions was the introduction of a food embargo.

On August 6th of 2014, by a decree of the President of Russia the import to Russia of “certain types” of agricultural products, raw materials and food, was prohibited from the countries which introduced sanctions (President, 2014). The embargo, in particular, included the countries of the European Union, the USA, Australia, Canada, and Norway. A specific list of goods with respect to which restrictions are introduced was determined by the government of the Russian Federation. The list includes meat and dairy products, fish, vegetables, fruits and nuts. The total annual volume of imports subject to sanctions is estimated at 9 billion US dollars (TASS, 2014).

Some experts argue that sanctions have become one of the causes of the financial crisis in Russia. According to other experts, the crisis was not caused by sanctions, but by lower oil prices.

According to Russian economist Sergei Guriev, sanctions “are not a catastrophic development of events, but a significant hit to the Russian economy.” In the long run, the

most negative consequences for Russia will have restrictions on the export of high technology to Russia and the access of Russian banks to credit resources (Guriev, 2014).

In the UN report “World Economic Situation and Prospects 2015. Update as of mid-2015”, sanctions were mentioned among the three main factors that negatively affect the growth potential of the total CIS (Commonwealth of Independent States) GDP in 2015-2016. (along with the armed conflict in eastern Ukraine and the fall in oil prices (UN, 2015).

According to the HSE (High School of Economy) one of the reasons for the devaluation of the ruble in 2014 was sanctions against the Russian Federation. HSE associates sanctions with accelerated inflation. Sanctions were one of the reasons that caused a massive outflow of capital from Russia (HSE, 2014).

In April 27 of 2015, Vladimir Putin at a meeting of the Council of Legislators in St. Petersburg said that the Russian economy due to sanctions did not receive \$ 160 billion (Interfax, 2015).

As of the recent years, the economic effect of the sanctions is minimal, estimates of the reduction in Russia's GDP growth according to Worldtrade statistics vary between -2.3% per year in 2015, $0,3\%$ in 2016, $1,6\%$ in 2017 and $2,2\%$ in 2018.

4.2 Present situation and development dynamics of selected macroeconomic indicators in Russia

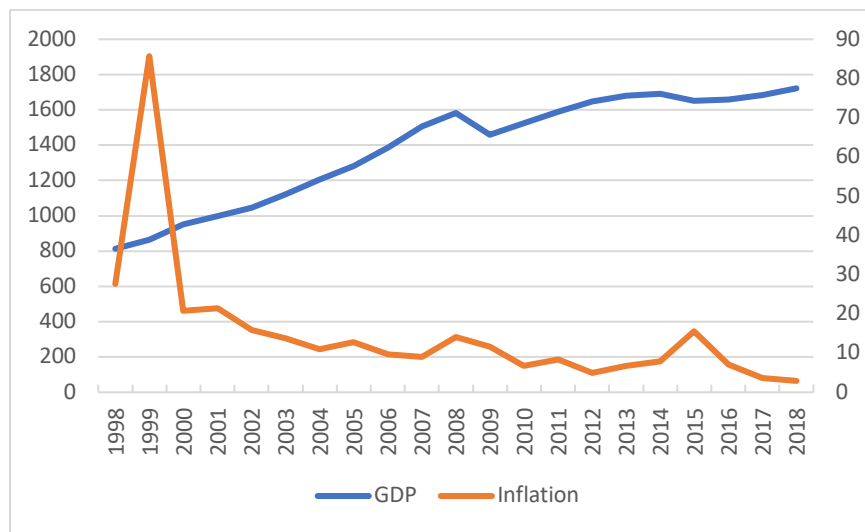
For the last 20 years, the state of the Russian economy and the relationship between economic factors and political decisions have been the subject of the numerous of speculations and superficial judgments. This “war of delusions” was one of the reasons that Russia missed years and several unique opportunities for an economic and technological development. Those delusions and superstitions led to the simplification of the view on the Russian economy by the society and the sources of political decisions both inside the country and abroad. The real picture is much more complicated, and it is possible to see it only by understanding the basic aspects of the Russian economic situation. For that purpose, I would like to analyse the main macroeconomic indicators to present the picture of economic state in Russia for the for 1998-2018 years.

4.2.1 Development dynamic of GDP in Russian Federation for 1998-2018 years

One of the most significant indicators in the economy are values of Gross Domestic Product. In the figure given below are presented the dynamic of real GDP for the chosen period in

billion US dollars. This measure reflects the value of all goods and services produced by an economy in specific period adjusted for inflation and expressed in base-year prices. Unlike nominal GDP, real GDP accounts for changes in price levels and provides a more accurate information of economic growth. To give more precise picture the values of average per year Inflation rate complement the figure.

Figure 1: Gross Domestic Product in constant prices in billion US dollars and Inflation rate in percentages on average per year (1998-2018)

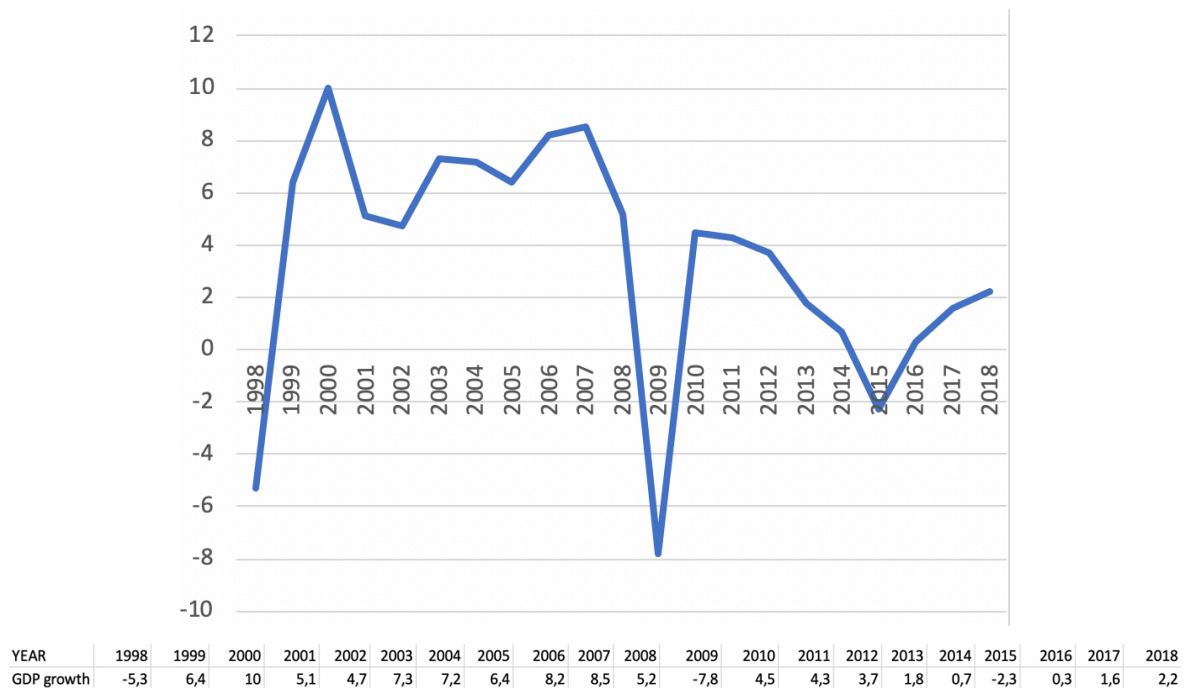


GDP	813	865	951	1000	1047	1124	1204	1282	1387	1505	1583	1459,2	1524,9	1591	1649	1679	1691	1652	1657	1684	1722,2
Inflation	27,7	85,7	20,8	21,5	15,8	13,7	10,9	12,7	9,7	9	14,1	11,6	6,8	8,4	5	6,7	7,8	15,5	7	3,67	2,9
YEAR	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018

Source: Own elaboration based on data taken from Worldbank website: <https://databank.worldbank.org/source/world-development-indicators#>

Taking into consideration GDP values – the upper line represents it dynamics and belongs to the left axis - we can observe generally increasing trend. Nevertheless, taking into account the trend of Inflation rate – the lower line belongs to the right axis values - we can conclude that the more precise look on economic performance, does not seem to be that stable and positive. In purpose to evaluate the real changes of GDP values it was considered to give an overview of the GDP growth as a percentage of the previous year. The figure below images that trend for the chosen period.

Figure 2: GDP growth as a percentage of the previous year for 1998-2018 years



Source: Own elaboration based on data taken from Worldbank website: <https://databank.worldbank.org/source/world-development-indicators#>

In the end of 2008, the global financial crisis reached Russia. However, there were achieved in a 5.2% GDP over this year. In 2009 for the first time since the 1998 crisis GDP fell immediately by 7.9%. In the next four years, Russian GDP has not returned to pre-crisis growth rates. On the contrary, after some recovery from the crisis, the growth rate began to decline year by year: in 2010 - growth of GDP of 4.5%, 2011 - 5.0%, 2012 - 3.7%, 2013 - 1.8%.

In 2014 GDP growth was only 0.7% which was a consequence of the currency crisis in Russia in 2014. Due to the sharp weakening of the Russian ruble and lower oil prices, Russia's GDP has declined significantly.

For the next years, economic growth did not rise above 2% and in some years there were even negative values, as in 2015 when the economy dipped by 2.5%.

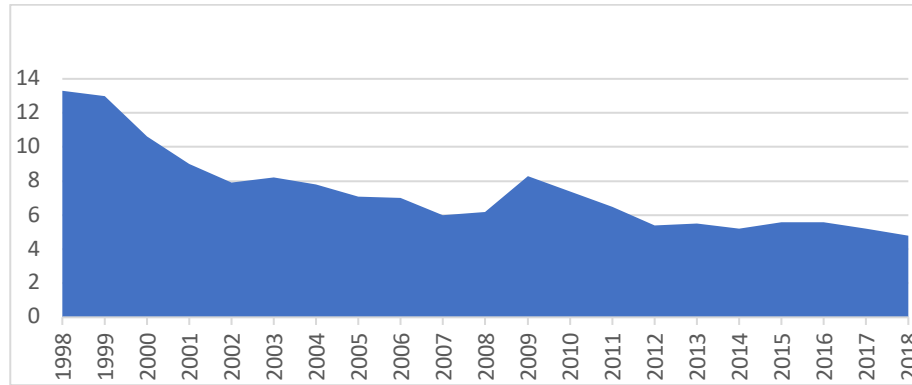
In 2018, the Russian economy grew by 2.3%, which was good news for Russia because the Russian economy has not shown such growth for a long time.

4.2.2 Unemployment rate

The unemployment rate is one of the most important characteristics to present the country's economy. The higher the unemployment rate is, the worse economic situation and the lower

standard of living of the population in the country. In the next figure there is given the overview of unemployment situation in Russia for 1998-2018 years. The unemployment rate is presented in percentages of total labour force (modeled ILO estimate).

Figure 3: Unemployment rate in percentages for 1998-2018 years



YEAR	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
UR	13,3	13	10,6	9	7,9	8,2	7,8	7,1	7	6	6,2	8,3	7,4	6,5	5,4	5,5	5,2	5,6	5,6	5,2	4,8

Source: Own elaboration based on data taken from Worldbank website: <https://databank.worldbank.org/source/world-development-indicators#>

In the end of the 90th the unemployment rate was higher considering to the present. The maximum level was 13.3% in 1998 year according Worldbank data. In the next years it started to slow down. In general, the whole economic situation in the country was improving and to the year 2005 the unemployment rate was 7.2%.

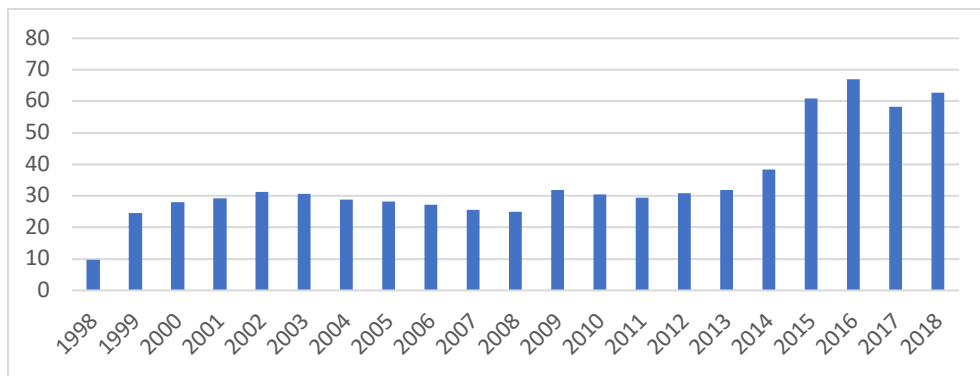
In 2010 year, Russian ex-president Dmitriy Medvedev called this year - the year of the fight against unemployment (Zajinev, 2010). There were organized public works for those who lost stable income. Employment services began lending to the unemployed to start their own business. There were also organized retraining courses for unemployed citizens. According to the statistics we can see that the unemployment rate went down. It was remaining on the same level of 5.5% in 2012 and 2014 years.

In 2014, the unemployment rate in Russia dropped to a record low of 5.2%. In 2015 it rose by 0.3%, due to the worsening economic situation. However, by 2017 it fell again to 5.2%. The unemployment rate in October 2015, according to IMT, amounted to 5.6% of the economically active population. In 2018 the unemployment rate in Russia was 5.5%. In general, we can conclude the decreasing trend of unemployment rate in Russia for the last 20 years.

4.2.3 Exchange rate

The ruble to foreign currency exchange rate is the value of one ruble expressed in units of that currency. The convertibility of the national currency and its exchange rate reflect the level of development and stability of the national economy. Nowadays, the Russian currency is unstable. According to the theories of currency exchange rate, instability of exchange rates exacerbates the possibility of crises.

Figure 4: Official exchange rate 1998-2018 (RUB per US\$, period average)



YEAR	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
ER	9,7	24,6	28,1	29,2	31,3	30,7	28,8	28,3	27,2	25,6	24,9	31,8	30,4	29,4	30,9	31,9	38,4	61	67	58,3	62,7

Source: Own elaboration based on data taken from Worldbank website: <https://databank.worldbank.org/source/world-development-indicators#>

At the beginning of the study period in 1998, a technical default was declared in Russia. At the same time, the government refused to maintain a fixed ruble exchange rate to the dollar and announced the transition to a floating rate. The average dollar value in 1998 year was 9,7 rubles. However, the consequences of default were reflected in subsequent years, and in 1999 year a dollar was worth 24.6 rubles, which is almost 2.6% more compared to the previous year.

The economic crisis and the depreciation of the Russian currency was caused by the artificial appreciation of the ruble in order to reduce inflation. Moreover, the crisis in Southeast Asia and the sharp drop in world energy prices, which made up a significant part of Russian exports, was also a significant reason for economic crisis and default in Russia (Hvalina, 2006).

The weakening of the ruble continued for four years after default. In 2002, the Central Bank of the Russian Federation valued the dollar for 31.34 rubles. Then the exchange rate began to decline and remained stable until 2008. In 2008, the dollar averaged 24.85 rubles. In 2008-

2009 the ruble has repeatedly fallen due to the global financial crisis. The growth of the Russian economy has slowed sharply. The weakening of the ruble contributed to the fall in world oil prices. In 2009, the average dollar exchange rate was 31.74 rubles.

At the end of 2014, there was the largest drop in the official ruble exchange rate against foreign currencies, accompanied by a fall in world oil prices. The average dollar value for 2014 was 38.38 rubles. However, the consequences of “Black Tuesday” affected the dollar on average for 2015 and amounted to 60.94 rubles.

The situation slightly levelled out by 2017, but neither the ruble exchange rate nor oil prices returned to effective levels. The average dollar exchange rate for 2018 was 62.67 rubles.

4.3 Main trade partners

Foreign trade is one of the most significant indicators impacts countries GDP and economic situation. Basing on the data from Federal Service of State Statistics of the Russian Federation there were elaborated tables of Russian foreign trade with selected countries from Europe, Asia, America, Australia and Oceania and former USSR states. In purpose to reflect the dynamics of trade turnover and to overlook the changes of main trade partners regarding to certain historical events mentioned above, these tables include data of 1998, 2008, 2012, 2014 and 2018 years. Tables bellow presents information for Russian export, import, the balance of trade and total turnover, which are given in current prices of millions US dollars. The overlook of main trade partners in presented dividing by continents. The share of most important partners of Russian foreign trade is given in percentages of the whole turnover.

4.3.1 Foreign trade turnover between Russian Federation and Europe

The table below describes the trade turnover of the Russian Federation and Europe for the observed years in millions U.S dollars. Due to the amount of the information there is a need to present the table vertically and using abbreviations. The abbreviations of export import and the trade balance are recorded as EX, IM, NX. The trade turnover is recorded as TO and the countries are presented as 3 letters abbreviation. There is an interpretation of the code of countries given in the list of abbreviations.

Table 1: Foreign trade turnover of the Russian Federation and Europe in millions of US dollars

	EUROPE	AUT	BEL	BGR	CZE	DNK	FIN	FRA	DEU	GRC	HUN	IRL	ITA	NLD	NOR	POL	ROU	SVK	ESP	SWE	CHE	GBR	TOTAL
1998	EX	594	635	595	1396	132	2071	1456	5719	365	1485	643	3219	3953	135	2180	566	1373	552	847	3118	2960	33984
	IM	510	673	165	531	510	1440	1595	5486	126	607	296	1819	914	164	1046	91.6	193	411	698	423	1220	18918,6
	NX	74	-38	430	865	-378	631	-139	233	239	878	347	1400	3039	-29	1134	474,4	1180	141	149	2695	1740	15065,4
2008	TO	1094	1308	760	1927	642	3511	3051	11205	491	2092	939	5038	4867	299	3226	657,6	1566	963	1545	3541	4180	52902,6
	EX	2303	4618	4892	7250	1852	15741	12201	33164	4306	9220	144	41999	56973	1183	20194	4166	6565	5061	4123	9557	14884	260396
	IM	3115	4062	640	3614	1829	6639	10015	34115	439	3885	914	11002	4817	1185	7060	1019	2995	4289	4533	2382	7616	115945
2012	NX	-812	556	4252	3636	23	9102	2186	-951	3867	5535	-770	30997	52156	-2	13134	3147	3570	792	-410	7175	7268	144451
	TO	5418	8690	5532	10864	3681	22380	22216	67279	4745	12905	1058	53001	61790	2368	27254	5185	9560	9330	8656	11939	22500	376341
	EX	1511	6799	4344	5235	1873	12009	10527	35594	5949	6674	281	32428	76803	909	19878	1877	6165	5721	6175	10756	15028	266538
2014	IM	3393	4491	695	5363	2043	5002	13772	38300	632	3103	1366	13426	5979	1791	7475	1736	3715	4914	3940	2998	8192	132327
	NX	-1882	2308	3649	-129	-170	7006	-3245	-2707	5317	3571	-1085	19002	70824	-881	12403	141	2450	807	2236	7758	6837	134211
	TO	4904	11290	5040	10598	3916	17011	24298	73894	6581	9778	1647	45854	82782	2700	27353	3612	9880	10636	10115	13755	23220	398865
2018	EX	767	9226	1462	5161	2902	11380	7578	37132	3672	5181	332	35225	68040	935	15941	1461	5196	4579	4794	3667	11474	236105
	IM	3438	3576	655	4898	1605	4571	10630	32975	496	2740	1302	12729	5294	1151	7081	2210	2864	4343	3239	3260	7809	116866
	NX	-2671	5651	807	263	1297	6809	-3052	4157	3176	2441	-970	22496	62745	-215	8860	-749	2332	236	1555	407	3665	119239
2019	TO	4206	12802	2118	10059	4507	15951	18208	70108	4168	7921	1633	47953	73334	2086	23023	3671	8059	8921	8034	6927	19283	352972
	EX	3380	9210	2944	4896	3890	11372	7633	34096	4062	4801	677	16405	43470	1140	16540	3095	3790	2362	3140	4776	9705	171121
	IM	2413	2471	525	3775	999	3379	9558	25510	276	2163	1328	10580	3693	480	5141	1823	2192	3397	2222	2614	4037	82720
2018	NX	967	6739	2419	1121	2891	7993	-1925	8586	3786	2638	-651	5825	39777	660	11399	1272	1598	-1035	918	2162	5668	88401
	TO	5793	11681	3469	8671	4889	14751	17191	59606	4338	6964	2005	26985	47163	1620	21681	4918	5982	5759	5362	7390	13742	253841

Source: Own elaboration based on data taken from the The Federal Service for State Statistics website:
<https://www.gks.ru/folder/11193>

Europe is the most important trade partner for Russian Federation. According to turnover, the main trade partners of 1998 year were Germany with the share of 21% from the whole. The second most important partner for Russia in 1998 year was Italy with the share of 9,5%. On the third place in the same year were Netherlands with the share 9,2%. The next important partner in 1998 year for Russia was United Kingdom with the share of 7,9%. Switzerland

took the 5th place of the most important partners for Russia in 1998 year. Its share was 6,69%. The total trade turnover between Russian Federation and Europe was \$52 902,6mil.

Analysing the next crucial year in chosen period we can state that the total trade turnover in same geographical area was \$376 341mil., which increased more than in 7 times. The most important European partners for Russia in 2008 were Germany, Netherlands, Italy, Poland and United Kingdom. Germany had 17,9% of the whole trade turnover. The share of Netherlands was 16,4%. Italy had 14% and Poland 7%. The share of United Kingdom in trade turnover in 2008 was 5,9%.

The next important year for Russian foreign trade development was 2012 - a year of entering the WTO. The total trade turnover between Russia and Europe increased till \$398 865mil. A slow progress was caused by the financial of 2008. The main partners in that year for Russia was Netherlands (20,1% of total share), Germany (18,5%), Italy (11,5%), Poland (6,9%), France (6,1%).

In 2014 year happened important historical events for Russia, particularly, Crimea connection and sanctions, which significantly impacted Russian foreign trade. The whole turnover dropped to \$352 972mil. Main trade partners in 2014 year were Netherlands with share of 20,8%, Germany (19,9%), Italy (13,6%), Poland (6,5%) and United Kingdom (5,5%).

In 2018 year a sharp drop of foreign trade turnover was recorded. It estimated \$253 841mil. Significant Russian partners in 2018 were Germany with the share of 23,5%, Netherlands (18,6%), Italy (10,7%), Poland (8,5%), France (6,8%).

Summing up the changes of the chosen period, we can conclude, that there were not significant changes in Russian trade partners. In top three were always Netherlands, Germany and Italy. However, we can see the big changes of trade turnover, which were increasing until the 2014 and then dropped for 29% to 2018 year.

4.3.2 Foreign trade turnover between Russian Federation and Asia

Analogically to the table with trade of Russia and Europe, in this part is presented the table analysing the trade turnover between Russian Federation and Asian countries.

With the Asian Countries the total foreign trade turnover in 1998 year was \$15946,9mil. The most important trade partners for Russia were China with the share of 27%, Japan (18,8%), Turkey (15,4%), South Korea (9,6%) and Pakistan (7,8%). In 2008 year the total turnover

between Russia and Asia increased and estimated \$16 733,9mil. Among the most important partners of that year were China (33,7%), Turkey (20,4%), Japan (17,4%), South Korea (11,1%) and India (4,2%).

Table 2: Foreign trade turnover of Russian Federation and Asia in millions of US dollars

ASIA	AFG	CNX	CYP	HKG	IND	ISR	JPN	MNG	PRK	PAK	SGP	KOR	SYR	TWN	THA	TUR	ARE	IRN	VNM	TOTAL	
1998	EX	13,6	3169	380	145	585	487	2176	135	56,5	20,6	58,1	521	160	142	31,8	1935	353	517	266	11151,6
	IM	7,3	1160	27,0	8,6	668	145	819	50,0	8,5	14,1	106	1010	10,0	75,0	61,2	517	23,6	28,1	56,9	4795,3
	NX	6,3	2009	353	136,4	-83	342	1357	85	48	6,5	-47,9	-489	150	67	-29,4	1418	329,4	488,9	209,1	6356,3
2008	TO	20,9	4329	407	153,6	1253	632	2995	185	65	34,7	164,1	1531	170	217	93	2452	376,6	545,1	322,9	15946,9
	EX	172	21142	1254	365	5230	2034	10327	1100	96,8	462	1190	7789	1940	1036	1232	27655	805	3289	581	87700
	IM	15,1	34780	52,2	56,5	1707	736	18586	70,9	13,9	156	465	10594	39,0	1824	1497	6146	41,5	402	852	78034
2012	NX	156,9	-13638,0	1201,8	308,5	3523,0	1298,0	-8259,0	1029,1	82,9	306,0	725,0	-2805,0	1901,0	-788,0	-265,0	21509,0	763,5	2887,0	-271,0	9665,7
	TO	187,1	55922,0	1306,2	421,5	6937,0	2770,0	28913,0	1170,9	110,7	618,0	1655,0	18383,0	1979,0	2860,0	2729,0	33801,0	846,5	3691,0	1433,0	165733,9
	EX	938	35727	2067	1411	7916	1624	15590	1851	65,0	210	1589	13883	626	3330	1412	27439	1225	1902	1389	120194
2014	IM	11,2	51844	32,7	88,9	3041	1286	15676	64,2	11,1	332	414	10985	30,8	2011	1971	6839	262	429	2274	97602
	NX	927,2	-16116,7	2034,4	1321,6	4874,1	338,6	-85,5	1787,2	53,9	-122,1	1175,3	2898,4	594,7	1319,0	-559,6	20599,8	963,8	1473,6	-885,4	22592,1
	TO	949,7	87571,2	2099,8	1499,4	10957,0	2909,7	31266,3	1915,6	76,1	542,0	2003,4	24868,1	656,3	5340,1	3383,0	34278,1	1487,0	2330,6	3662,6	217796,3
2018	EX	953	37492	610	1246	6343	2291	19854	1461	82,2	147	5550	18278	587	3907	1750	24937	1738	1286	1452	129964
	IM	12,9	50773	48,6	203,8	3172	1142	10908	40,4	10,0	311	604	9030	7,1	1672	2231	6644	263,6	354	2295	89724
	NX	940,0	-13281,1	560,9	1042,1	3170,9	1149,6	8946,1	1420,9	72,1	-164,0	4946,0	9247,2	580,0	2234,8	-480,8	18293,3	1474,0	932,4	-843,5	40240,8
2018	TO	965,8	88265,7	658,1	1449,6	9515,6	3433,2	30761,8	1501,8	92,2	457,7	6153,8	27308,1	594,3	5579,4	3981,5	31580,9	2001,2	1640,2	3747,1	219687,9
	EX	118	56 065	786	732	7 752	1 954	12 453	1 606	32	418	2 789	17 832	397	4 501	753	21 345	1 483	1 207	2 457	126 928
	IM	3,9	52 217	11	237	3 224	764	8 819	43	1	313	869	7 008	4 240	2 144	1 855	4 215	205	533	3 624	76397,9
2018	NX	114	3848	775	495	4528	1190	3634	1563	31	105	1 913	10824	-3843	2357	-1102	17130	1278	674	-1167	50 530
	TO	122	108282	797	969	10976	2718	21272	1649	33	731	3658	24840	4637	6645	2 608	25560	1688	1740	6081	203 326

Source: Own elaboration based on data taken from the The Federal Service for State Statistics website: <https://www.gks.ru/folder/11193>

In the next observed years Asian trade partners remained the same, with approximately same share. However, the trade turnover increased till \$217 796,3mil. in 2012 and was estimated \$219 688mil. in the 2014 year. In 2018 yeas as well as with Europe the total turnover decreased for 7,5% and estimated \$203 326mil.

4.3.3 Foreign trade turnover between Russian Federation and Africa

From African countries the most important Russian trade partners over the last 20 years are Egypt, Algeria and Morocco. For the observed period the total turnover between Russia and Africa increased from \$750mil. in 1998 year to \$15 308mil. in the last observed year. The share of Egypt in 2018 was 50% with the turnover of \$766 300mil. Algerian share was equal 35% and Moroccan 9,6%.

Table 3: Foreign trade turnover of Russian Federation and Africa in millions of US dollars

		AFRICA	DZA	EGY	MAR	NEG	TOTAL
1998	EX	99,4	399	46,1	32,4		576,9
	IM	83,8	16,5	66,2	7,2		173,7
	NX	15,6	382,5	-20,1	25,2		403,2
	TO	183,2	415,5	112,3	39,6		750,6
2008	EX	1121	1856	891	282		4150
	IM	221	206	450	6,7		883,7
	NX	900	1650	441	275		3266
	TO	1342	2062	1341	289		5034
2012	EX	2782	3212	1307	198		7499
	IM	3,7	343	541	25,3		912,8
	NX	2777,8	2869,4	766,1	172,6		6586,0
	TO	2781,6	3212,2	1307,2	197,9		8411,6
2014	EX	875	4939	933	352		7098
	IM	10,2	540	608	16,5		1175,0
	NX	864,8	4399	325	335,0		5923,3
	TO	885,2	5478,7	1541,4	368,1		8273,4
2018	EX	5 393	7 137	929	733		14 192
	IM	11	526	546	33		1 116
	NX	5 383	6 611	383	700		13 077
	TO	5 404	7 663	1 475	766		15 308

Source: Own elaboration based on data taken from the The Federal Service for State Statistics website: <https://www.gks.ru/folder/11193>

4.3.4 Foreign trade turnover between Russian Federation and America

In 1998 year the total turnover between Russia and American continent was \$8 429mil.

Table 4: Foreign trade turnover of Russian Federation and America in millions of US dollars

		AMERICA	ARG	BRA	CAN	CUB	MEX	PAN	USA	TOTAL	
1998	EX	39,7	177	140	70,7	78,9	116	4315		4937,3	
	IM	151	654	212	430	77,5	3,6	4114		5642,1	
	NX	-111	-477	-72	-359,3	1,4	112,4	201		-704,8	
	TO	190,7	831	352	500,7	156,4	119,6	8429		10579,4	
2008	EX	740	2041	940	182	613	332	13357		18205	
	IM	1236	4672	1630	82,7	619	9,1	13790		22039	
	NX	-496	-2631	-690	99	-6	323	-433		-3834	
	TO	1976	6713	2570	265	1232	341	27147		40244	
2012	EX	307	2305	345	170	492	28,4	12961		16609	
	IM	1264	3359	2473	49,6	1094	4,2	15309		23554	
	NX	-957	-1054	-2128	120	-602	24	-2348		-6945	
	TO	1571	5663	2819	220	1587	33	28271		40163	
2014	EX	222	2366	697	101	1374	49,5	10583		15391	
	IM	1116	3969	1496	61,4	783	6,6	18496		25929	
	NX	-895	-1604	-799	40	591	43	-7914		-10538	
	TO	1338	6335	2193	163	2157	56	29079		41320	
2018	EX	394	2 584	580		372	2 004	21	12 505		17 880
	IM	851	2 469	745		15	938	2	12 515		17 535
	NX	-457	115	-165		357	1066	19	-10		345
	TO	1245	5053	1325		387	2942	23	25020		35 415

Source: Own elaboration based on data taken from the The Federal Service for State Statistics website: <https://www.gks.ru/folder/11193>

The most important partners were USA with the share of 80%, Brazil with the share of 7,9% and Cuba with the share of 4,7%. In the years of 2008-2014 main American partners were USA, Brazil and Canada, where USA were undoubtedly leading. In 2018 the main trade partners were USA with the share of 70,6%, Brazil (14,3%) and Mexico (8,3%). The total turnover estimated \$35 415mil., which also decreased from the 2014 for 14,3%.

4.3.5 Foreign trade turnover between Russian Federation and Australia and Oceania

With the countries of the Australia and Oceania Russia doesn't have a significant trade turnover. With Australia and New Zealand there is a negative trade balance, which means that Russia imports more than exports in these countries over the years 1998-2018.

Table 5: Foreign trade turnover of Russian Federation and Australia and Oceania in millions of US dollars.

AUST. AND OCEAN.		AUS	NZL	TOTAL
1998	EX	7,2	6,3	13,5
	IM	671	135	806
	NX	-664	-128,7	-792,5
	TO	678,2	141,3	819,5
2008	EX	82,0	5,2	87,2
	IM	1029	144	1173
	NX	-947,0	-138,8	-1085,8
	TO	1111,0	149,2	1260,2
2012	EX	106,7	8,7	115,4
	IM	899,5	211,6	1111,1
	NX	-792,8	-202,9	-995,7
	TO	1006,2	220,3	1226,6
2014	EX	126,7	423	550
	IM	673	241	913
	NX	-545,9	183	-363
	TO	799,2	664,1	1463,2
2018	EX	141	27	168
	IM	671	135	806
	NX	-530	-108	-638
	TO	812	162	974

Source: Own elaboration based on data taken from the The Federal Service for State Statistics website: <https://www.gks.ru/folder/11193>

The main products imported from Australia and Oceania are chemical industry products, food products and agricultural raw materials, machinery, equipment and vehicles.

4.3.6 Foreign trade turnover between Russian Federation and former USSR countries

The last and one of the most important group of Russian trade partners are former USSR countries. Over the observed period main trade partners were Belarus, Ukraine and Kazakhstan. In the years 2008 and 2012 Ukraine took the leading place with the share of total turnover 37,5%. However, in 2014 year the turnover between Russian Federation and Ukraine dropped almost in two times and in 2018 year it dropped more to \$14 983mil. with the share of 21,4%. The total turnover between Russian Federation and former USSR countries also sharply dropped after 2012 year, when it was \$120 191mil. In 2014 it estimated \$98 258mil. and \$70 174 in 2014 year.

Table 6: Foreign trade turnover of Russian Federation and former USSR countries in millions of US dollars

FORMER USSR COUNTRIES		AZE	ARM	BLR	GEO	KAZ	KGZ	MDA	TJK	TKM	UZB	UKR	TOTAL
1998	EX	149	128	4670	106	1893	132	325	77,4	95,1	563	5560	13699
	IM	173	39,2	4608	65,0	1884	132	512	60,2	44,7	528	3267	11313
	NX	-24	88,8	62	41	9	0	-187	17,2	50,4	35	2293	2385,4
	TO	322	167,2	9278	171	3777	264	837	137,6	139,8	1091	8827	25012
2008	EX	1966	692	23507	530	13299	1308	1147	794	808	2038	23567	69656
	IM	412	204	10552	49,1	6379	491	652	213	100	1300	16254	36606
	NX	1554	488	12955	481	6920	817	495	581	708	738	7313	33050
	TO	2378	896	34059	579	19678	1799	1799	1007	908	3338	39821	106262
2012	EX	2844	915	24566	401,8	15080	1634	1609	678	1251	2325	27204	78508
	IM	564	301	11866	39,8	8618	196	477	67,1	183	1391	17980	41682
	NX	2280	615	12700	362	6463	1438	1132	611	1068	934	9224	36826
	TO	3408	1216	36432	442	23698	1830	2086	745	1434	3715	45184	120191
2014	EX	3373	1094	19989	517	14277	1744	1480	890	1156	3121	17061	64703
	IM	636	314	12750	268	7445	74	315	37,3	90,9	875	10750	33555
	NX	2737	780	7239	249	6832	1670	1165	853	1065	2246	6311	31148
	TO	4009	1408	32739	785	21723	1818	1796	928	1247	3996	27811	98258
2018	EX	1 713	1 341	21 819	957	12 923	1 635	1 204	849	288	3 320	9 522	45 200
	IM	773	627	12 179	398	5 295	248	355	44	155	1 063	5 461	24917
	NX	940	714	9 640	559	7 628	1 387	849	805	133	2 257	4 061	20 283
	TO	1 946	1 968	33 998	1 355	18 218	1 883	1 559	893	443	4 383	14 983	70 117

Source: Own elaboration based on data taken from the The Federal Service for State Statistics website: <https://www.gks.ru/folder/11193>

4.3.7 Russian trade partners of 2018 year

In general, Russia's trade turnover in 2018 grew by 17.6%, relatively and amounted to more than \$ 688.1 billion according to Customs Service of the Russian Federation. In 2017 it valued more than \$ 585.3 billion. At the same time, in 2018, exports exceeded imports by 88.9%. Exports were more than \$ 449.96 billion, and imports - \$ 238.15 billion. Over the year exports grew by 25.8% and imports by 4.7%. The trade balance amounted positively to more than \$ 211.8 billion.

Table 7: Russia's main trade partners

1998		2008		2012		2014		2018	
Country	Total turnover	Country	Total turnover	Country	Total turnover	Country	Total turnover	Country	Total turnover
Germany	\$11 250 mil.	Germany	\$67 279 mil.	China	\$87 571 mil.	China	\$88 256,7 mil.	China	\$108 282 mil.
Belarus	\$9 278 mil.	Netherlands	\$61 790 mil.	Netherlands	\$82 782 mil.	Netherlands	\$73 334 mil.	Germany	\$59 606 mil.
Ukraine	\$8 827 mil.	China	\$55 922 mil.	Germany	\$73 894 mil.	Germany	\$70 108 mil.	Netherlands	\$47 163 mil.
USA	\$8 429 mil.	Italy	\$53 001 mil.	Italy	\$45 854 mil.	Italy	\$47 953 mil.	Belarus	\$33 998 mil.
Italy	\$5 038 mil.	Ukraine	\$39 821 mil.	Ukraine	\$45 184 mil.	Belarus	\$32 739 mil.	Italy	\$26 985 mil.
Netherlands	\$4 865 mil.	Belarus	\$34 059 mil.	Belarus	\$36 432 mil.	Turkey	\$31 580 mil.	Turkey	\$25 560 mil.
China	\$4 328 mil.	Turkey	\$33 801 mil.	Turkey	\$34 278 mil.	Japan	\$30 761 mil.	USA	\$25 020 mil.
UK	\$4 180 mil.	Japan	\$28 913 mil.	Japan	\$31 266 mil.	USA	\$29 079 mil.	Poland	\$21 681 mil.,
Kazachstan	\$3 777 mil.	Poland	\$27 254 mil.	USA	\$28 271 mil.	Ukraine	\$27 811 mil.	Japan	\$21 272 mil.
Switzerland	\$ 3541 mil.	USA	\$27 147 mil.	Poland	\$27 353 mil.	South Korea	\$27 308 mil.	Kazachstan	\$18 218 mil.

Source: Own elaboration based on data taken from the The Federal Service for State Statistics website: <https://www.gks.ru/folder/11193>

Most share of the turnover had the EU countries - more than \$ 294.16 billion (42.7%). In terms of trade volume, the top 10 countries included: China \$108 282mil., Germany \$59 606mil., Netherlands \$47 163mil., Belarus \$33 998mil., Italy \$26 985mil., Turkey \$25 560mil., USA \$25 020mil., Poland \$21 681mil., Japan \$21 272mil., Kazakhstan \$18 218mil. It should be noted that over the past years, trade with Ukraine has declined significantly (11th place among Russia's trading partners). With regard to exports and imports, Russia exports more than imports. The exception is the United States, where the small difference between exports and imports is \$ 12.5 and \$ 12.51 billion. And the countries of Australia and Oceania, where the trade balance is also negative. In general, after the regression of trade turnover in Russia after 2014, in recent years (2017 and 2018), trade turnover began to increase again.

To give the consistent picture of Russia's partners changes over the most important years in Russian economy, the table below reflects the overview of 10 most important partners and trade turnover for years 1998, 2008, 2012 and 2018.

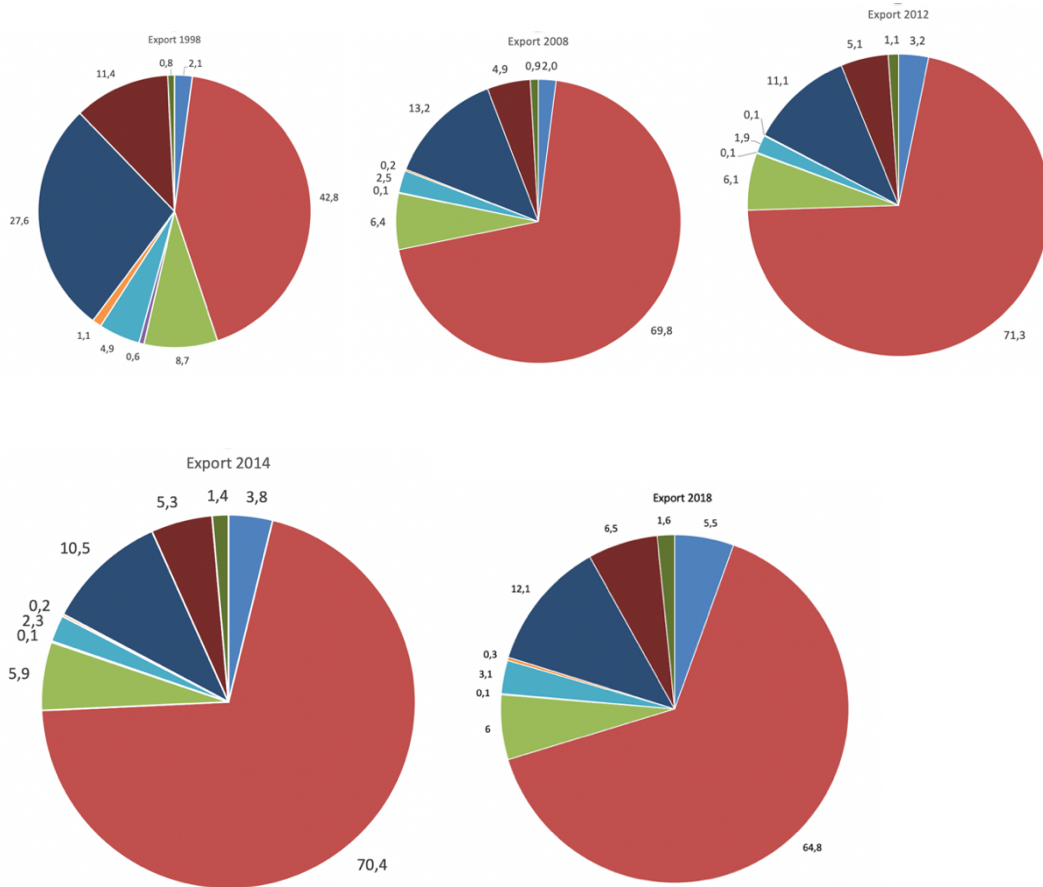
4.4 Commodities structure of export and import

To capture the changes in the commodity structure of Russian foreign trade in the chosen period, there would be compared the structure of the most important years for economic in Russian modern history, particularly of years 1998, 2008, 2012, 2014 and 2018. While describing the changes in the main commodity groups, there is followed the SITC classification and the division of the Federal Service of State Statistics of the Russian Federation. At the end of this section there will be discussed in more detail oil and gas, which are essential export items for Russia.

4.4.1 Commodities structure of export

The commodity structure of exports of the Russian Federation has not changed much in the last 21 years (see the pie-charts below).

Figure 5: Pie-charts of commodities structure of export in Russia for 1998-2018 years in %



- food products and agricultural raw materials (except textile)
- chemical products, rubber
- wood and pulp and paper products
- metals, precious stones and products from them
- other goods
- mineral products
- leather raw materials, furs and products from them
- textiles, textile products and shoes
- machinery, equipment and vehicles

Source: Own elaboration based on data taken from the The Federal Service for State Statistics website: <https://www.gks.ru/folder/11193>

In the start of 2000s, mineral products were the largest group in exports (almost 43% of total Russian exports in 1998). Their significance increased all the time and in 2018 this group reached roughly 65% share of all the export. The other important group for Russian exports is metals, precious stones and its products. They accounted for about 28% of the Russian Federation's exports in 1998. Over the observed period, their weight dropped more than for 15%.

There are other two formerly represented groups decreased the share - production of the chemical industry and rubber; machinery, equipment and vehicles. For the production of the chemical industry and rubber the share dropped for 2,7% from the 1998 to 2018 year. For the machinery, equipment and vehicles the share dropped for 4,9%. The importance of the other groups in total exports from the Russian Federation rather decreased. The only one group increased its share from 1998 is food products and agricultural raw materials (except textile), which grew in share for 3,4% to 2018 year.

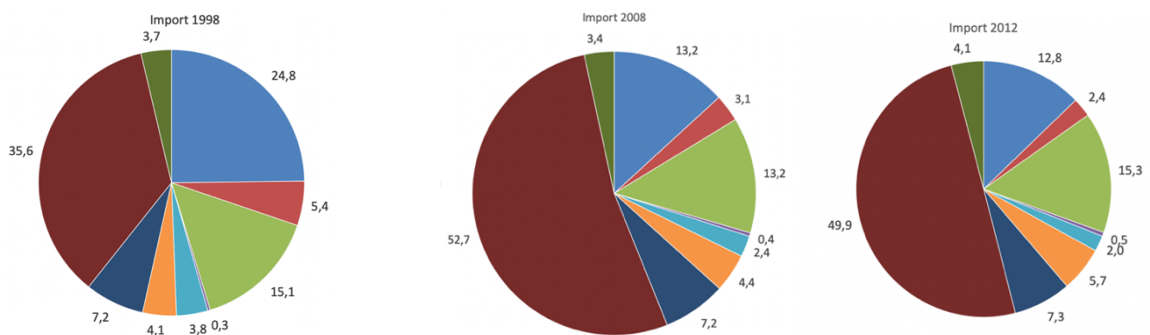
A more detailed analysing of the exported commodities of 2018 reveals the main export items. These are crude oil, petroleum products, natural gas, diesel, ferrous metals and machinery and equipment. Russia is further focusing mainly on the export of its natural resources.

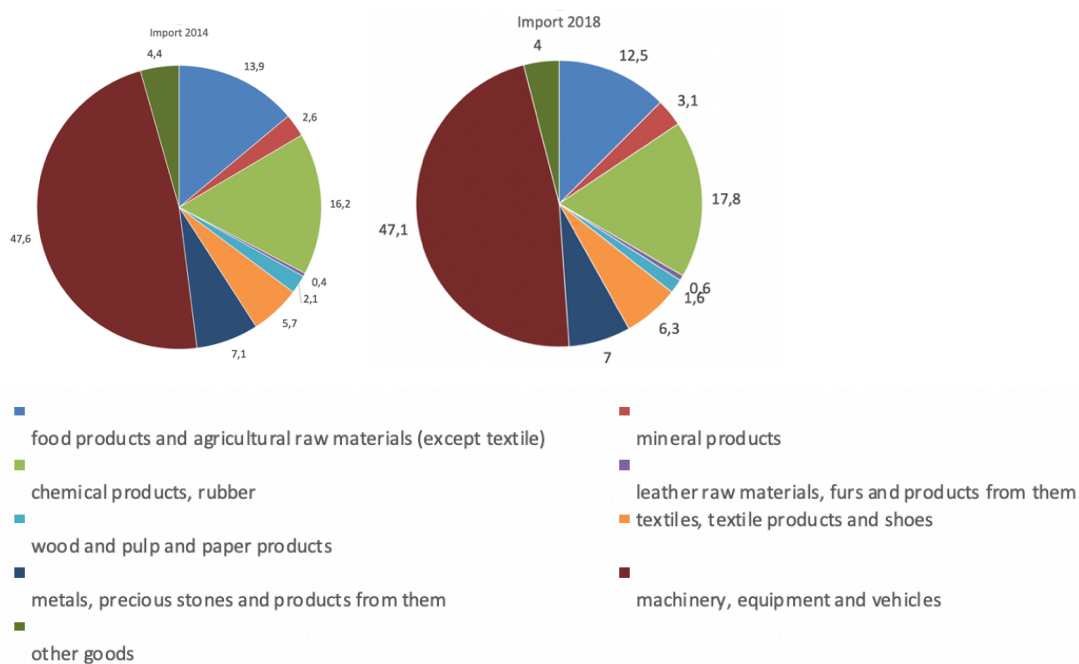
In appendix there is given a consistent table, including the information about the export structure in real prices and in percentages.

4.4.2 Commodities structure of import

Representing the commodities structure of import over the observed period, there are given pie-charts reflecting the percentages of share. In appendix, there is given a table with detailed information about commodities structure with real prices and percentages of share to total export.

Figure 6: Pie-charts of commodities structure of import in Russia for 1998-2018 years in %.





Source: Own elaboration based on data taken from the The Federal Service for State Statistics website: <https://www.gks.ru/folder/11193>

The commodity structure of imports also did not undergo any breakthrough changes over this period, as shown in the table above. The most important group of Russian import remained machinery, equipment and vehicles. Its share increased for 11,5% and estimated 47,1% of the total share in 2018 year. The next leading place took the group of chemical products and rubber, the share of which slowly increased to 17,8% from the 15,1% of the total export in 1998 year.

Food products and agricultural raw materials move to the third place from the second and its share sharply departed almost in two times. The group comprising metals, precious stones and their products remained unchanged in the long term (around 7% share in imports into the Russian Federation). The mineral products group decreased from 5,4% in 1998 to 3,1 % of the total export in 2018. On the contrary, the group of textiles, textile products and shoes increased its share in the observed period for 2,2%.

4.4.3 Oil and natural gas

Analyzing the exported commodities in 2018 in more detail, the primary role has oil and gas in Russian exports. Russian Federation is the second world's largest exporter of oil and the world's largest exporter of natural gas. The fuel-energy complex represents half of the state budget revenue (Katasonov, 2019). Mining of these raw materials has been increasing since the end of 1990s and reached the highest rates in 2011-2013 (Katasonov, 2019). The

European Union is Russia's main trading partner for energy raw materials. The EU ranks first among consumers of Russian energy sources, while Russia is also its main supplier of energy raw materials. The main consumers of Russian mineral products in Europe are the countries of Great Britain, Ireland, Germany, France, Italy, Spain, Ukraine, Belarus, Turkey (BP, 2018).

Russian energy sources are also important for non-European countries. Increasing interest have in them the United States (i-RU.CZ, 2006). China and India are also increasing their demand for oil and gas due to their dynamically developing economies. In addition, some traditional deposits are slowly depleted (except for the North Sea, for example, deposits in Indonesia) (i-RU.CZ, 2006). This means that world demand for oil and gas is increasing and Russian stocks are a good asset.

Nevertheless, the Russian economy is highly dependent on these sectors. Even the government acknowledge that the share of oil and gas revenues in the federal budget of 2018 was about 45% (Katasonov, 2019). If the price changes of this segment on the world market it quite strongly affects the level of Russian GDP. Thus, there is a need for a constant stable position of the price of oil or a tendency to increase it. This need arose due to the geopolitical situation in 2014 since the connection of Crimea to Russia and the imposition of sanctions on the Russian economy.

In the 1998 year, the export of crude oil from the country amounted to 144.4 million tons, and by the end of 2018, it grew to 260.6 million tons. Export of petroleum products for 1998–2018 years increased from 62.6 million to 150.3 million tons (Katasonov, 2019).

Over the same period, natural gas deliveries abroad increased from 193.9 billion to 220.6 billion cubic meters. It should also take into account the export of liquefied gas. In 1998 it was not at all. And in 2018 it already amounted to 36.7 billion cubic meters (Katasonov, 2019).

After the introduction of sanctions by the world community against the Russian Federation, gas exports decreased. If in 2013 the exported volume was 196.4 billion cubic meters, then in 2014 it decreased to 174.3 billion cubic meters. Moreover, its price fell, which in 2014 was equal to \$ 313.81 per 1 thousand cubic meters, and by 2016 fell two times to \$ 156.95 (CBR, 2017).

The volume of oil exports due to sanctions has not fallen, it continues to grow slowly, however, the average export price per barrel has fallen by more than two times. Most

expensive oil costed \$ 103.14 per barrel in 2012. The cheapest oil, as a gas was also in 2016 - \$ 39.56 per barrel (CBR, 2017).

As for petroleum products, the volume of its export also felt. Before sanctions in 2014 year it estimated 165,3 billion ton with the price of \$700,72 for a ton. In 2016 year, the export of petroleum products estimates 156,6 billion ton with a price for 1 town of \$295,02, which dropped twice for two years (CBR, 2017).

Radical changes in the oil market are expected in the next 5-10 years. Due to shale oil production in the USA, production methods are changing worldwide. Shale oil production today is a more expensive and complex method, but in the future, these technologies are perspective.

The economy of the Russian Federation is undergoing global changes. Refusing to cooperate with the countries of Europe and America, Russia will reorient its economic capacities to the SCO (The Shanghai Cooperation Organization) and BRICS countries. In particular, cooperation with China will increase the export of petrochemical industry and black scrap. To transport gas to the countries of the Asia-Pacific region there was opened a gas pipeline "Power of Siberia" in Yakutia in December 2019. The main positive point in the petrochemical partnership between Russia and China will be the absence of barriers in the transportation of petroleum products, as there will be no states between the countries acting as oil and gas transit. This will reduce transportation costs, as well as increase its reliability. It follows that at this stage, the effect of the imposed European sanctions on the economy of the Russian Federation will be not only negative, but also may motivate for the development of trade with other countries. The Russian Federation will continue to play a large role in the supply of oil and gas; however, its position may be endangered in the future. According to British Petroleum, the Russian 26.6% of the world's natural gas reserves and 6.2% of oil reserves are located in the territory (i-RU.CZ, 2006). At the end of 2018, Prime Minister D.A. Medvedev with his signature, approved the Strategy (Decree of the Government of the Russian Federation of December 22, 2018 No. 2914-r) (Government, 2018). It follows that old, still Soviet deposits are rapidly depleting, and new deposits with easy and cheap oil to extract are still not found. The document diplomatically states that the current levels of oil production in Russia "are not adequately provided with reserves of the developed fields" (Government, 2018). The peak value of the production indicator is expected in the year 2021 - 570 million tons. Starting from 2025, the oil production resource base will cease to cope with the load, and a sharp decline in production will begin.

According to calculations by the Ministry of Energy, production due to the narrowing of the resource base may decrease from 555.8 million tons in 2018 per year (11.4 million barrels per day), to 310 million tons (6.3 million barrels per day) in 2035 year (Government, 2018). Thus, there is expected a collapse.

Taking into account the fact above, it becomes clear that oil and gas production is already declining, which could lead to even greater economic stagnation. This means that Russia needs to find other fields for oil production or make serious economic upheavals and build the economy not only on the export of the natural resources. However, at the moment, the Russian state does not set such goals.

4.5 Regression analysis

One of the research questions in present diploma thesis is how certain macroeconomic indicators of foreign trade along with mentioned events (World financial crisis, entering the WTO, referendum in Crimea) are able to explain economic growth or recession in Russia. For this purpose, the technique of OLS is used:

$$\hat{\beta} = (X^T X)^{-1} X^T y \quad (1).$$

There is an attempt to build a multi variable regression model to examine the relation between year to year change in the level of real GDP, representing the economic growth or recession and macroeconomic indicators such as export of minerals, the rest of the export, the exchange rate and the unemployment rate, on one hand; and the impact of historic events such as Crisis of 2008, entering the WTO, Crimea connection and sanctions on economic development on the other hand. There is used the successive difference for GDP variable, depicting economic recession or growth expressed in percentages.

Since we can't do a direct comparison of successive difference of GDP, export of minerals, the rest of export, unemployment rate and the variable of exchange rate, as they are expressed in different measure units, we have to convert linear to ln.

Logarithmically transforming variables in a regression model is a very common way to handle situations where a non-linear relationship exists between the independent and dependent variables. Using the natural logarithm of one or more variables instead of the unlogged form makes the effective relationship non-linear, while still preserving the linear model. Natural logarithmic transformations are also a convenient means of transforming a highly skewed variable into one that is more approximately normal (Benoit, 2011).

In our model there are introduced dummy variables to examine the impact of certain historic events on Russian economic performance. In general, dummy variables are a flexible tool that can handle a variety of interesting problems. In our model, introducing the first dummy variable of entering the WTO, we put 0 for 1998-2011 years and 1 for the 2012-2018 years. The second dummy variable reflects the consequences of Crimea event, which is inserted in the model as 0 for 1998-2013 years and 1 for the rest of the period. The third dummy represents the Crisis event and is introduced in the model giving 1 for 2008-2009 years. The data for the analysis is taken from the Worldbank Organization website – for exchange rate and unemployment rate; and from the Russian Federal State Statistic Service for GDP, export of minerals and the rest of the export. The initial data for GDP and export of the minerals are given in billions U.S. dollars. The initial data for exchange rate is given as amount of rubles to U.S. dollar average for a year and the initial data for unemployment rate is given in percentages. The statistical data set in form of natural logarithm, which was used for calculations is given in attachment. The calculations for the regression are made using Gretl program.

The economic model for the regression analysis is presented following as following:

- $GDP = f(\text{export of minerals, the rest of export, unemployment rate, real exchange rate, entering the WTO, Crimea connection and sanctions, of Crisis of 2008});$ (2).

- $dLnRelGDP = f(LnMinEx, LnRestEx, LnUR, LnER, WTO, Cr, Crs);$ (3).

Thus, the econometric model is:

$$1. \quad \frac{dlnY}{ln X8t} = \gamma_1 + \gamma_2 \ln X2t + \gamma_3 \ln X3t + \gamma_4 \ln X4t + \gamma_5 \ln X5t + \gamma_6 \ln X6t + \gamma_7 \ln X7t + \gamma_8 \ln X8t + U_t \quad (4).$$

- Y 1t – year to year change in the level of real GDP
- X 1t - constant term
- X 2t – export of minerals
- X3t – the rest of the export
- X 4t – the unemployment rate
- X5t – real effective exchange rate index (2010 = 100)
- X 6t – dummy variable of entering the WTO
- X 7t – dummy variable of Crimea event

- X_{8t} – dummy variable of Crisis event
- U_t – random error, $\sim \text{nid}(0, \sigma^2)$

Table 8: Correlation matrix

Correlation coefficients, using the observations 1998 - 2018
 5% critical value (two-tailed) = 0.4329 for $n = 21$

	<i>dLnRealGDP</i>	<i>LnExMin</i>	<i>LnEXrest</i>	<i>LnUR</i>	<i>LnER</i>	<i>WTO</i>	<i>Cr</i>	<i>Crs</i>
<i>dLnRealGDP</i>	1							
<i>LnExMin</i>	-0,385	1						
<i>LnEXrest</i>	-0,398	0,978	1					
<i>LnUR</i>	0,357	-0,844	-0,887	1				
<i>LnER</i>	-0,537	0,267	0,405	-0,598	1			
<i>WTO</i>	-0,482	0,498	0,593	-0,746	0,782	1		
<i>Cr</i>	-0,470	0,293	0,433	-0,609	0,922	0,787	1	
<i>Crs</i>	-0,442	0,199	0,141	0,0566	-0,202	-0,244	-0,192	1

Source: Gretl calculation based on data taken from the dataset in the attachment.

The correlation coefficient accurately reflects the strength of the linear relationship between variables. From the table above, we can conclude, that the variable of *LnExMin* have the strong linear relationship with the variable of *LnEXrest* (0,98%) and the variable of *LnUR* (84%), that points on the interconnection between the export of minerals and the rest of the export, and the export of minerals and the unemployment rate. Also, there is a strong interconnection of the variable of the rest of the export with the variable of unemployment rate (89%). The variable of exchange rate has a strong relationship with the variable of *WTO* (78%) and *Crimea events* (92%), which means that these events and the exchange rate are interconnected. Likewise, the variables of the *WTO* and *Crisis event* are strongly interdependent having a high correlation coefficient (78%).

Table 9: OLS model, using observations 1998-2018 (T = 21)
Dependent variable: $dLnRealGDP$

<i>Regression Statistics</i>	
Multiple R	0,881
R Square	0,777
Adjusted R Square	0,646
Standard Error	0,024
Observations	20

	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>
Regression	7	0,025	0,0035	5,964	0,00363922
Residual	12	0,007	0,0006		
Total	19	0,0318			

	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95%</i>	<i>Upper 95%</i>	<i>Lower 95,0%</i>	<i>Upper 95,0%</i>
Intercept	0,588	0,310	1,892	0,083	-0,089	1,265	-0,089	1,265
LnExMin	-0,124	0,054	-2,298	0,040	-0,241	-0,006	-0,242	-0,006
LnEXrest	0,162	0,086	1,869	0,086	-0,027	0,350	-0,027	0,348
LnUR	-0,117	0,064	-1,838	0,090	-0,256	0,022	-0,256	0,022
LnER	-0,117	0,048	-2,438	0,031	-0,229	-0,012	-0,221	-0,012
WTO	-0,035	0,023	-1,524	0,153	-0,086	0,015	-0,086	0,015
Cr	0,003	0,035	0,092	0,928	-0,074	0,080	-0,074	0,080
Crs	-0,065	0,021	-3,073	0,010	-0,111	-0,019	-0,111	-0,019

Source: Gretl calculation based on data taken from the dataset in the attachment.

Basing on the OLS calculations, the estimated model of the regression is:

$$dLnRealGDP = 0,588 - Ln\ 0,124MinEx + Ln\ 0,162RestEx - Ln\ 0,117UR - Ln\ 0,117ER - 0,035WTO + 0,003Cr - 0,065Crs + Ut \quad (5).$$

Interpreting the estimated model, we can state, that in case of the export of minerals increases by 1% - ceteris paribus - the year to year change of GDP decreases by 0.124%. Thus, we can conclude, that exporting crude oil and natural gas, Russia cannot ensure any economic growth in real terms. Indeed, it is important to say that in real situation, while Russia is increasing the volume of mineral's export, the GDP growth has a declining trend as it was shown in the Figure 2. However, the model shows, that if the rest of the export increases by 1% - ceteris paribus - the year to year economic growth is 0.162%. In this case, it is important for Russia to increase the export of other industries, which will have positive impact on industries' production development and contribute to economic growth. On condition of the exchange rate depreciates by 1% - ceteris paribus – the economic recession is 0.117%. Therefore, weak exchange rate is not favorable for Russian economy and the strong national currency is important for the economic growth. Also, the model shows, that if the unemployment rate increases by 1% - ceteris paribus – the economic decline is 0.117%,

which means that decreasing of unemployment rate positively effects GDP growth. As for observed historic events, the model shows, that after Russia's entering the WTO - *ceteris paribus* – the economic growth is 0.035%. After Crimea event - *ceteris paribus* – economy grows by 0.003%. In fact, after Crimea's event there was a decline in GDP growth in 2014 and 2015 years, however, after that it started to increase. Taking into account that after the introduction of embargo Russia started to substitute imported commodities by the commodities produced in the country, it is clear, that own production factors were stimulated. So, there was stimulated the consumption of goods produced inside the country. Therefore, the GDP growth is increasing by the increasing of the consumption by the population. After Crisis 2008 - *ceteris paribus* – the economic recession is 0.065%. In consequence, we can observe that there was a significant decline in GDP growth in 2008 and 2009 years (see the Figure 2).

As for statistical verification of the model, the coefficient of determination $R^2 = 0,64649$, which means that 65% of the model is explained. Verifying the parameters, we assume:

- H_0 : the model is not statistically significant;
- H_a : the model is statistically significant.

The level of significance $\alpha = 0.05 < F\text{-test is } 0,00363922$, so we reject H_0 . That means, that this model is statistically significant. Basing on level of significance $\alpha = 0.1$, we can conclude that the p-value of all the variables, except of WTO and Crimea event variable, are statistically significant, as their coefficients are lower than 0.1. The variables of entering the WTO and Crimea event are not statistically significant, as their p-value are higher, than 0.1.

5. Results and Discussion

5.1 Developmental trends in Russian foreign trade

First of all, it is necessary to note the general important trend in the development of international trade. The world economy is becoming more integral, unified, connected and interdependent. There is undergoing the formation of a single legal, cultural, informational and economic spaces, where ideas, capital, goods and services are freely distributed and spread all over the world. There are creating new opportunities for operational management of huge financial and industrial empires, parts of which are scattered around the world. According to many researchers, it is facilitated by the following factors (Krasnov, 2002, pp. 28-41):

Scale - the growth of production volumes, concentration and centralization of capital. As a result, there is emerging organizational forms which activities to go beyond national borders and therefore acquiring an international character, which contributes to the formation of a single world market.

Organizational and technological - a qualitatively new level of transport and communication, ensuring the rapid distribution of goods and services, resources and ideas with their application in the most favourable conditions. Also, a radical change in the means of business communication, accelerating the exchange of economic and financial information, creating opportunities for operational and effective solution of production, scientific, technical and commercial problems at the international level.

Scientific and technological - determined by the economic benefits of using advanced scientific, technical, and qualification levels of leading specialists for the accelerated implementation of new solutions at relatively low costs.

Sociological - determined by overcoming national limitations, weakening the role of habits and traditions, social ties and customs, which increases the mobility of people in territorial, spiritual and psychological relations, contributing to international migration.

Political - expressed in the weakening of the rigidity of state borders, facilitating the freedom of movement of citizens, goods and services, capital, as well as in strengthening the "political unity" of the world due to the connection with the unification of countries into economic and trade organizations (Dolgov, 2002, p. 271).

All these trends are also manifested in the development of Russia's foreign trade.

Firstly, there takes place liberalizing, which is expressed in reducing obstacles to the free movement of goods and services.

Secondly, the process of international integration is developing, manifesting in the creation and connection to international trade and economic unions, such as IMF, WTO, World Bank, BRICS, SCO, etc.

Thirdly, there is a developing of the international division of labour and international specialization.

Moreover, the ongoing processes of universalization, unification, standardization apply to all economic and political life. Production and consumption standards, value systems and legislative norms, scientific and technological progress, ultimately will lead to the formation of a single zone. A zone with a single legal, cultural and informational field.

5.1.1 Changes in Russian foreign trade with regard to main trade partners

Observing the analysis of Russia's main trade partners, there is highlighted five most important partners. In 1998 year – they were Germany, Belarus, Ukraine, USA and Italy. In 2008 year – there are observed changes. Germany's position remains the same, however the second Russia's important partner is becoming Netherlands, which keeps its position until the 2014 year and move to the third place in 2018. The third most important partner is becoming China, which has been taking a forward place till nowadays. Italy moves to the fourth place and have this place also in 2012 and 2014, it moves to the fifth place of Russia's most important trade partners in 2018. Ukraine is the fifth Russian important partner in 2008 and 2012 years, However, it lost its position in 2014 due to the Crimea event and political instability and in 2018 year it is not seen even in top 10 Russia's trade partners. In 2012, how it was mentioned above, top 5 Russia's partner were – China, Netherlands, Germany, Italy and Ukraine. They remained in the same order in 2014, except Ukraine, which were replaces other former USSR country – Belarus.

In last observed year – 2018, the most important partners were China, Germany, Belarus and Italy.

Summing up the results, the observation has recorded, that in terms of trade partners there were no significant changes. The most important Russian partners are China, Netherlands, Germany and Italy, which change their positions, but remains in top 5. USA was more important Russia's partner in 1998, however until now it remains in top 10 list. As for

Ukraine, after Crimea's event, it is not anymore one of the most important Russian trade partners, however its place has been taken over by Belarus.

5.1.2 Changes in commodity composition and traded volumes

Regarding to changes in commodity structure of export, it is important to notice, that in the modern history, Russian main group to export is mineral products. Over the observed period it takes the first place and its share in commodity structure increased from 1998 to 2018 for 22%. As for trade volumes, in 1998 the export of minerals was estimated for \$30508 mil., while in 2018 for \$291535 mil. Nevertheless, it is important to understand, that increasing the export of minerals, doesn't lead to economic growth in real terms, as it was proves by the OLS model and reflects the real situation.

The second important group - metals, precious stones and its products remained the second largest, however its share in structure dropped for 15,5%. In 1998 its export estimated \$19650 mil. and in 2018 - \$54564mil, so the volume of export has increased.

The other two groups dropped in share of export structure are production of the chemical industry and rubber and machinery, equipment and vehicles. Production of chemical industry dropped for 2,7, however its volume increased. In value of money its export estimated for \$6105 mil in 1998 and \$27383 mil. in 2018.

Rubber and machinery, equipment and vehicles decreased its share for 4,9%, but increased in volume from \$8151mil. to \$29059mil.

Summing up this information, we can conclude, that the commodity structure of export did not changed much for the observed period. The most important groups of export are - mineral products; metals, precious stones and its products and machinery, equipment and vehicles. The share of mineral products in export structure has increased, while the share of other groups in structure has decreased. Nevertheless, the trade volumes of all type of the products had significantly increased. Taking into consideration the results of regression analysis, we conclude, that increasing the export of non-mineral industries leads to economic growth.

Regarding the structure of import, the similar situation was recorded. The commodity composition did not change much, and the most important groups of import remained machinery, equipment and vehicles; chemical products and rubber; food products and agricultural raw materials. The share of machinery, equipment and vehicles group has increased for 11,5% from 1998 to 2018 year. However, the other two groups changed their positions. In 1998 year, the group of food products had share of 24,8% in commodity

structure and it dropped to the 12,5% in 2018. On the other hand, the second place took group of chemical products and rubber increasing its share in import structure for 0,7%. In terms of traded volumes, there is an obviously increasing trend for all types of the products. The group of machinery, equipment and vehicles was estimated for \$15500mil. in 1998 and for \$112641 mil. in 2018. In 1998 year, the group of food products costed \$10820mil. and in 2018 - \$29631mil. The group chemical products and rubber was estimated for \$6579mil. in 1998 and for \$42554mil. in 2018.

5.2 Impact of historical events on Russian economy and its foreign trade development

Regarding consequences of the 1998 Crisis, they were manifested in increase of inflation, a decrease in the real income of the population and sharp decrease in purchasing power, an increase in socio-economic differentiation and an increase of the poverty.

However, the country was able to quickly recover from the crisis. The shock experienced by the economy, as well as changes in the economic policies of the government and the Central Bank that followed after a change in the leadership, had a positive impact on its development. In particular, the economic efficiency of exports has increased, that is, export-oriented enterprises have gained additional competitive advantages in the foreign market. Enterprises producing products for the domestic market have increased their competitiveness due to the fact that foreign products have risen sharply in price. Many structural changes in the economy have occurred.

The crisis was short-term and gave way to a very large-scale recovery. However, the trust of the people and investors in the state and the banking system has been undermined for many years. Many banks and enterprises went bankrupt, and the population lost all their savings. As for the consequences of Crisis 2008, there is a need to say, that good macroeconomic conditions in Russia, a balanced fiscal policy, and the absence of the impact of the US mortgage crisis partially protected the Russian economy and limited the impact of the global financial crisis. Due to the budget surplus, the presence of one of the world's largest gold and foreign exchange reserves; favourable ratings by rating agencies, foreign investors up to mid-2008 believed that Russia was sufficiently protected from deteriorating financial conditions around the world. However, the global crisis still negatively affected Russia in the form of four interrelated phenomena:

- after the disruption of the functioning of the world economy in 2008, the inflow of foreign capital to Russian enterprises and banks has significantly decreased;
- the global credit system crisis has affected the banking system of Russia, which had problems with liquidity during the repayment period of short-term external debts;
- the Russian stock market crashed (this largely reflects the loss of investor confidence around the world and the expectation of a sharp drop in oil prices).

The measures taken by the government avoided shock for the population. However, if in 2006-2007 GDP growth exceeded 8 percent, then in 2008 it amounted to 5.2 percent, and in 2009 the decrease was almost 8 percent. According to regression analysis, the Crisis of 2008 was statistically significant for Russian GDP.

Considering the impact of entering the WTO, the consequences are minimal: neither big pros, nor big cons. It is also proved by the OLS model above, that entering the WTO is not significant for the Russian economic growth.

Indeed, accession to the WTO has given advantages in the form of lower export duties, for example, for metals, precious stones and products from them, which make up about 10% of Russian exports.

On the other hand, Russian lost was agricultural production because it entered the WTO on very unfavourable conditions.

Nevertheless, it should be understood that for Russia as an exporter of minerals, the WTO problem is secondary. It is more important for countries that sell something tangible to the foreign market - engineering products, machinery or metals. It is difficult to state other negative consequences of joining the organization, since all the reasons for the current state of the Russian economy are inside, and the WTO does not have a significant effect on them. As for the Crisis of 2014, the main cause of the financial crisis was a drop in oil prices. The next significant impact had anti-Russian sanctions, which negatively effected on Russian corporate debt and caused a significant outflow of capital.

In 2014, there was a slowdown in all significant economic indicators. GDP growth rate decreased to almost zero. All these factors caused a significant depreciation of the ruble against foreign currencies, and then led to higher inflation, lower consumer demand and real incomes of the population, economic recession, and increased poverty.

The imposition of sanctions had positive and negative consequences for the Russian economy. Import substitution programs have begun not so efficiently, but nevertheless it allowed some sectors of the economy to gain an impulse for development. The main problem

was restrictions on the export of equipment and technologies to Russia. Thus, sanctions have the most long-term and painful impact on the energy sector, as the most dependent sector on the imported technologies and equipment. Due to sanctions, Russian companies are not able to increase oil production and to explore new reserves. Moreover, the United States has blocked the construction of new pipelines from Russia to Europe (Reuters, 2019).

In spite of that, the slowdown in economy growth was not long and after 2016 year the increasing trend of GDP growth was recorded. Considering the event of Crimea's connection and the related consequences, there were some positive outcomes, effected the Russian economic performance. In particular, Russian contra sanctions, aimed on the products substitution, stimulated the consumption of own products and the development of own production factors. Thus, the country has reduced its dependence on Western goods and technologies. Also, facing a partial economic blockage in Europe, Russia changed the its foreign policy, turning to the East, where China became the main partner in both the diplomatic and political spheres. In 2015 became the largest oil supplier to China (Interfax, 2015).

In general, we can conclude, that Crimea event did not have a significant impact on Russian economy and already in 2017, according to Government estimates, Russian Federation officially emerged from the crisis (Interfax, 2018). At the end of the year, the economy grew by 1.6% and in 2018, Russia's GDP growth increased to 2.2%.

6. Conclusion

The main research question of the thesis was how the certain historical events impacted on the Russian economy and its foreign trade development. In present paper, the causes and consequences of several historical events that have affected the Russian economy in the last two decades were investigated, and the current economic situation was considered.

The study of various materials devoted to the modern history of Russia allows us to draw the following conclusions.

The Crisis of 1998 was local in nature, it was a transitional moment of the 90s, when the planned economy in Russia had not completely ceased to exist, and the market economy had not yet worked. Government policy led to an unprecedented event in world history when the state defaulted on domestic debt in national currency. The country experienced a shock. This crisis was remembered as the hardest hit on the population. However, thanks to measures taken by the new Government, the economy quickly entered the stage of growth.

The global Crisis of 2008 was a reminder for Russia that the economy depended on oil prices is not enough stable. However, the decline of the Russian economy for the population was relatively painless, due to measures taken by the government in the financial and manufacturing sectors. Nevertheless, the crisis still had a significant impact on GDP growth. In 2014, structural problems in the economy were imposed by the sanctions introduced due to events in Ukraine and the fall in oil prices. All this led to the fact that in December a real currency crisis arose, when the ruble at some point devalued more than twice. As a result of the titanic efforts of the government and the Central Bank, the situation with the course was somehow corrected and stabilized. The Crimea related sanctions did not have significant impact on Russian economic well-being and after two years the GDP growth showed the increasing trend.

Nowadays, the Russian economy is still rigidly tied to oil and gas exports, which is the basis for the formation of its revenue base. Russia has not been able to change the existing export-minerals economic model, and this in the near future could turn into serious problems. In addition, the new sanctions are no longer targeted, but are aimed at ousting Russian companies from world markets. However, it is worth to notice, that over the years that the country's economy has been under sanctions by the US and the EU, it has implemented some positive outcomes. The country had to maximize the use of domestic resources, so the economy became more balanced.

In modern time, the main risk factors for the economy are following: worsening geopolitical situation; the possible refusal of OPEC countries to agree to limit of oil production, which will lead to a sharp decrease in prices (and affect the decrease in domestic budget revenues), as well as the absence of structural reforms in the economy.

Regarding Russia's foreign trade, it will be difficult to rid of one-sided export dependence on its natural wealth. As for territorial structure of exports, it is likely that Russia will continue to trade the most with China, Germany and Netherlands and will also strengthen supplies to European and CIS countries. The Russian import will probably continue to be dominated by machinery, equipment and vehicles, but there might be a gradual increase in imports of sophisticated products for which this trend can already be observed. However, the import of food and agricultural raw products is likely to decrease due to import substitution for these products in Russia.

Learning the Russian modern history in the international trade system and analyzing recent events, there is a need to say, that Russian Federation being a powerful country with a huge resource potential, had to relive long years of economic instability and suffering of its nation. There is a big hope that Russia will find its own way to develop strong economy, national prosperity, dignity and reliable law system. From this point of history, Russia will have huge peaceful impact on international trade, the global economy and the World banking system.

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8. Appendix

Table 12. Commodities structure of export in Russian Federation in real prices in millions of US dollars

	1998		2008		2012		2014		2018	
	In millions of US dollars	In percentages of total export	In millions of US dollars	In percentages of total	In millions of US dollars	In percentages of total	In millions of US dollars	In percentages of total	In millions of US dollars	In percentages of total
Export in total,	71314	100	467581	100	524735	100	497359	100	449964	100
including:										
food products and agricultural raw materials (except textile)	1462	2,1	9278	2,0	16769	3,2	18982	3,8	24885	5,5
mineral products	30508	42,8	326314	69,8	373998	71,3	350266	70,4	291535	64,8
chemical products, rubber	6150	8,7	30234	6,4	32129	6,1	29246	5,9	27383	6
leather raw materials, furs and products from them	389	0,6	354	0,1	518	0,1	417	0,1	255	0,1
wood and pulp and paper products	3533	4,9	11560	2,5	10191	1,9	11583	2,3	13944	3,1
textiles, textile products and shoes	843	1,1	870	0,2	770	0,1	1101	0,2	1202	0,3
metals, precious stones and	19650	27,6	61751	13,2	58257	11,1	52275	10,5	54564	12,1
machinery, equipment and	8151	11,4	22764	4,9	26553	5,1	26495	5,3	29059	6,5
other goods	628	0,8	4458	0,9	5551	1,1	6996	1,4	7137	1,6

Source: Own elaboration based on data taken from the The Federal Service for State Statistics website: <https://www.gks.ru/folder/11193>

Table 13: Commodities structure of import in Russian Federation in real prices

	1998		2008		2012		2014		2018	
	In millions of US dollars	In percentages of total export	In millions of US dollars	In percentages of total export	In millions of US dollars	In percentages of total export	In millions of US dollars	In percentages of total export	In millions of US dollars	In percentages of total export
Import in total,	43580	100	267101	100	317263	100	287063	100	238411	100
including:										
food products and agricultural raw materials (except textile)	10820	24,8	35189	13,2	40655	12,8	39957	13,9	29631	12,5
mineral products	2324	5,4	8279	3,1	7531	2,4	7334	2,6	7238	3,1
chemical products, rubber	6579	15,1	35209	13,2	48611	15,3	46480	16,2	42554	17,8
leather raw materials, furs and products from them	125	0,3	1038	0,4	1663	0,5	1282	0,4	1269	0,6
wood and pulp and paper products	1675	3,8	6504	2,4	6241	2,0	5899	2,1	3908	1,6
textiles, textile products and shoes	1790	4,1	11658	4,4	18047	5,7	16318	5,7	14824	6,3
metals, precious stones and products from them	3165	7,2	19337	7,2	23259	7,3	20558	7,1	16816	7
machinery, equipment and vehicles	15500	35,6	140759	52,7	158318	49,9	136580	47,6	112641	47,1
other goods	1601	3,7	9127	3,4	12939	4,1	12655	4,4	9530	4

Source: Own elaboration based on data taken from the The Federal Service for State Statistics website: <https://www.gks.ru/folder/11193>

Table 14: Dataset for regression

dLnGDPreal	LnExMin	LnEXrest	LnUR	LnER	WTO	Cr	Crs
0,06199839738	3,487375078	3,693866996	2,564949357	3,203559121	0	0	0
0,0954152715	4,016383021	3,860729711	2,360854001	3,336801073	0	0	0
0,04971049555	4,000033883	3,815512105	2,19477714	3,373106501	0	0	0
0,04592444331	4,075841091	3,867025639	2,063693185	3,445150469	0	0	0
0,07042437433	4,338597077	4,044804117	2,105352923	3,424002034	0	0	0
0,06953270498	4,65396035	4,338597077	2,049368857	3,36086138	0	0	0
0,0620497492	5,052416828	4,443827036	1,963469365	3,342296274	0	0	0
0,0788234407	5,291292752	4,629862799	1,953736585	3,302886036	0	0	0
0,08160590956	5,431098478	4,817050545	1,792092747	3,241849888	0	0	0
0,05067163227	5,787817204	4,95088529	1,825355419	3,21297847	0	0	1
-0,08124390902	5,315174484	4,588024027	2,116375989	3,457577715	0	0	1
0,0440404938	5,605434352	4,829113417	1,997254871	3,413389422	0	0	0
0,04211959807	5,90699539	5,004617222	1,877248855	3,380382242	0	0	0
0,03630252326	5,924255797	5,015291106	1,693098682	3,428812549	1	0	0
0,01784742262	5,929057087	5,011967739	1,697027456	3,460629135	1	0	0
0,007003411615	5,85878993	4,988389685	1,640955959	3,647484379	1	1	0
-0,02333618732	5,389984555	4,826712456	1,717556621	4,109856954	1	1	0
0,003263778197	5,130490256	4,761318868	1,715382258	4,205528091	1	1	0
0,01616129302	5,376203905	4,954417614	1,651021217	4,066339386	1	1	0
0,02231186967	5,675040006	5,065754593	1,578132987	4,137850951	1	1	0

Own elaboration based on data taken from the Worldbank website and The Federal Service for State Statistics website: <https://databank.worldbank.org/source/world-development-indicators#>

<https://www.gks.ru/folder/11193>